ST. KITTS BRANCH
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IFRS 17 *Insurance Contracts*

What is IFRS?

International Financial Reporting Standards (IFRS) are common rules established to bring consistency, transparency and comparability to accounting standards and practices around the world. They address record keeping, account reporting and other aspects of financial reporting. These standards are set by the IFRS Foundation's standard setting body, the International Accounting Standards Board (IASB).

IFRS 17 - At a glance

IFRS 17 is the first comprehensive and international IFRS Standard, establishing the accounting for insurance contracts. IFRS 17 supersedes IFRS 4 which was introduced in 2004 as an interim standard for insurance contracts. IFRS 4 was meant to limit changes to existing insurance accounting practices. It has allowed insurers to account for insurance contracts differently across jurisdictions and in some cases, differently within the same company.

IFRS 17 provides consistent principles for all aspects of accounting for insurance contracts. It removes existing inconsistencies and enables investors, analysts and others to meaningfully compare companies, contracts and industries. It also provides updated information about the obligations, risks and performance of insurance contacts.

Who ?

IFRS 17 applies to insurance contracts and affects any company that issues insurance contracts.

When?

IFRS 17 is effective from January 2023 but early application is permitted if IFRS 9 is also applied.

Key Terms

Insurance Contract: an agreement under which an insurer accepts significant insurance risk from a policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policy holder.

Insurance Risk: risk, other than financial risk, transferred from the policyholder to the insurer (for examples, risk of death).

Insurer: any entity that issues an insurance contract as a licensed insurer, whether or not the issuer is regarded as an insurer for legal or supervisory purposes.

Policyholder: a party that has a right to compensation under an insurance contract if an insured event occurs.

IFRS 4 vs IFRS 17 - What Changes?

IFRS 17 requires a company to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. This requirement will provide transparent reporting about a company's financial position and risk.

IFRS 17 also requires a company to recognize profits as it delivers insurance services (rather than when it receives premiums) and to provide information about the insurance contract profits the company expects to recognize in the future. This information will provide metrics that can be used to evaluate the performance of insurers and how that performance changes over time.

IFRS 4 - a lack of comparability	IFRS 17 - a consistent framework
Comparability among companies across countries	
Accounting for insurance contracts varies significantly between companies operating in different countries	Companies will apply consistent accounting for all insurance contracts.
Comparability among insurance contracts	
Some multinational companies consolidate their subsidiaries using different accounting policies for the same type of insurance contracts written in different countries.	A multinational company will measure insurance contracts consistently within the group, making it easier to compare results by product and geographical area.
Comparability among industries	
Some companies present cash or deposits received as revenue. This differs from the accounting practice in other industries, in particular, banking and investment management.	Revenue will reflect the insurance coverage provided, excluding deposit components, as it would in any other industry.

IFRS 4 - little transparent or useful information	IFRS 17 - more transparent and useful information
Information about the value of insurance obligations	
Some companies measure insurance contracts using out-of-date information.	Companies will measure insurance contracts at current value of the policy.
Some companies do not consider the time value of money when measuring liabilities for claims.	Companies will reflect the time value of money in estimated payments to settle incurred claims.
Some companies measure insurance contracts based on the value of their investment portfolios.	Companies will measure their insurance contracts based only on the obligations created by these contracts.
Information about profitability	
Some companies do not provide consistent information about the source of profit recognized from insurance contracts.	Companies will provide consistent information about components of current and future profits from Insurance contracts.
Many companies provide alternative performance measures - non-GAAP measures - to supplement IFRS 4 information, such as embedded value information.	Companies and users of financial statements will use fewer non-GAAP measures; supplementary information will enable more meaningful comparisons

Reference: www.ifrs.org

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