IFRS 17

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On May 2017, the International Accounting Standards Board (IASB) issued International Financial Reporting Standard 17 (IFRS 17) to deal specifically with insurance contracts. It is touted as the first truly international standard for insurance contracts. It replaced IFRS 4 Phase II which was issued in 2004. IFRS 4 was originally intended as a mere interim Standard. IFRS 4 did not really push for harmonization but, in fact, allowed the continued use of national standards. The Chairman of the IASB, Hans Hoogervorst, described the need for IFRS 17: “Insurance is one of the last parts of the economy where we do not have an international standard. There is no high-quality accounting information in many cases - there is no way that investors can have a good view of what is going on.”

IFRS 17 was more than a decade in the making. IFRS 17 will be effective starting January 1, 2021 but may be implemented earlier subject to local regulation. The long lead time is a reflection of the complexity in its implementation. It has been described as “a complex standard that includes some fundamental differences to current accounting for liability measurement and profit recognition.”

IFRS will no doubt introduce radical change in insurance accounting. According to Lars Nielsen, Hong Kong insurance lead at PwC, “The standard is the biggest change for the industry since IFRS first came in.” “The new one introduces a lot of changes - about the way you look at products, it might have an impact on dividends, an impact on systems. The big impact is not just on core accounting,” he adds.

IFRS standard will apply to all insurance and reinsurance contracts as well as investment contracts. It will solve the comparison problem under the IFRS 4 by “requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies.” Indeed, its ultimate objective is consistency and comparability. It requires the measurement of “current, explicit and unbiased estimates of future cash flows” and “discount rates that reflect the characteristics of the contracts’ cash flows”.

The International Actuarial Association (IAA) has also issued International Standard of Actuarial Practice 4 (ISAP 4) to guide actuaries in the use of IFRS 17.

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