Technical Accounting Alert

IASB releases new insurance standard

Introduction

After twenty (20) years of development, the International Accounting Standards Board (IASB) has finally published IFRS 17 *Insurance Contracts* replacing IFRS 4 *Insurance Contracts* which was issued in 2004.

IFRS 4 was designed to be an interim standard and therefore allowed entities issuing insurance contracts to carry on accounting for them using policies that had been developed under their previous local accounting standards. This meant that companies continued to use a multitude of different approaches for accounting for insurance contracts, making it difficult to compare and contrast the financial performance of otherwise similar companies.

The new approach

IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values instead of historical cost, ending the practice of using data from when a policy was taken out.

The standard introduces insurance contract measurement principles requiring:

- current, explicit and unbiased estimates of future cash flows
- discount rates that reflect the characteristics of the contracts' cash flows
- explicit adjustment for non-financial risk.

Day one profits should be deferred as contractual service margin and allocated systematically to profit or loss as entities provide coverage and are released from risk.

Revenue is no longer equal to written premiums but to the change in the contract liability covered by consideration.

A separate measurement model applies to reinsurance contracts held. Modifications are allowed for qualifying short-term contracts and participating contracts.

Increased disclosure requirements apply.

For more guidance on IFRS 17, refer to our more detailed publication *Get ready for IFRS 17 – A fundamental change to the reporting for insurance contracts*.

Effective date and transition

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021. Early application is permitted.

As we reported in TA 2016-11, the IASB made narrow scope amendments to IFRS 4 *Insurance Contracts* in 2016 in order to provide temporary accounting solutions for the practical challenges of implementing IFRS 9 *Financial Instruments* before IFRS 17.

Grant Thornton Comment

IFRS 17 rewrites the rulebook for insurance reporting and will transform data, people, technology solutions and investor relations. Implementation costs are likely to be substantial however the standard will bring benefits in terms of improved transparency, consistency and comparability across the insurance markets.

Over the next three (3) years, we expect key areas for entities to be:

- understanding the financial and operational impacts on transition and for new business
- implementing efficient data collection and storage solutions, and streamlining production processes and IT systems
- developing and explaining new performance measurement and business steering metrics.

A strategic approach to IFRS 17 transition can give CFOs powerful insight on risk and performance drivers and create an agent for change that will harness the resources of entities and the talent of their people.

Australian context

In the Australian context, the equivalent standard to be issued by the Australian Accounting Standards Board (AASB) in due course is expected to replace:

- AASB 4 *Insurance Contracts*
- AASB 1023 *General Insurance Contracts*
- AASB 1038 *Life Insurance Contracts*

Further information

For further information on any of the information included in this Technical Accounting Alert, please get in touch with your local Grant Thornton Australia contact or a member of the National Audit Support Team at nationalaudit.support@au.gt.com.