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IFRS 17 Implementation
The Nigeria Insurance Industry Experience

January 2024

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Background

In May 2017, the International Accounting Standard Board (IASB) issued the International Financial Reporting Standard (IFRS) 17 and amended it in June 2020. IFRS 17 with its incorporated the amendments became effective from annual reporting periods beginning on or after 1 January 2023.

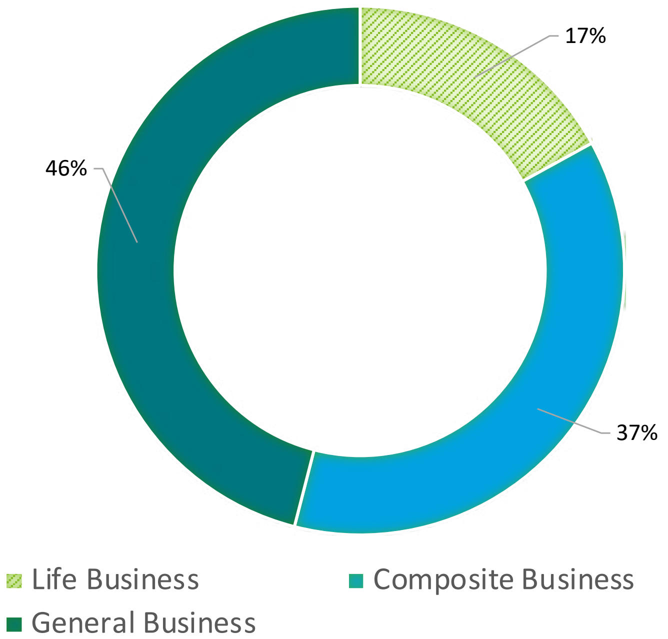
This standard replaces the interim standard, IFRS 4, which has for the past decade provided guidance for insurance accounting. IASB had initially granted to all insurance entities the option to defer the implementation of IFRS 9 on Financial instruments: Recognition & Measurement. This decision had paired the effective dates of these two major accounting reforms, making 2023 an unprecedented milestones for changes in corporate reporting for the insurance sector.

With IFRS 17, the IASB aims to establish one set of principles for the recognition, measurement, presentation and disclosures of insurance contracts. To achieve this goal it will take a great deal of effort for the standard to be universally interpreted and adopted. Efforts to comply are driving substantial changes across many parts of insurer's businesses – from product development and operations to technology, actuarial and finance.

This survey aims to provide an overview of how Nigeria insurers are reacting to and preparing for the adoption of the standard. It assesses the industry's views on the scale and complexity of the implementation challenge
Our report is based on a survey of over 80 Nigeria insurance finance leaders in November 2023. The survey focuses mainly on the participant's perception of the challenges of IFRS 17 Implementation.

Category of Insurance business

46% of our survey respondents are in the General Business line, 17% are in Life Business, While 37% of the respondents are in a composite insurance business.

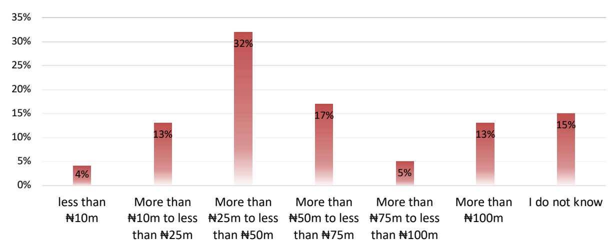


- IFRS 17 applies to insurance contracts. Consequently, the standard impacts on any entity that issue contracts that meets the definition of an insurance contract even if such entity is not an insurance entity. IASB however, expects that IFRS 17 will primarily affect companies in the insurance industry. This is because;
  a. most insurance contracts are issued by insurance companies;
  b. although insurance companies can continue to apply the accounting requirements for insurance contracts to financial guarantees that they issue, all other companies are expected to continue to apply the accounting requirements for financial instruments to them; and
  c. although some fixed-fee service contracts meet the definition of an insurance contract (for example, automobile roadside assistance), IFRS 17 provides an option to use IFRS 15 to account for them in the same way as other contracts with customers are accounted for.

- The insurance industry in Nigeria is made up of a variety of players, including insurance companies, reinsurers, brokers, agents, regulators, technology providers, and other intermediaries.
- Leading insurance companies in Nigeria have all established retail offerings and these businesses centre around the life, composite, and General business.

Estimated total budget to meet the new IFRS 17 regulations

The cost to implement IFRS 17 is a function of people resource, systems, processes, age and volume of the insurance entity contracts, complexity of transactions, policy options etc. The survey shows that about 50% of respondents estimated that their firm had spent over NGN50m for internal resources, new solutions and consultants professional fee to become compliant.

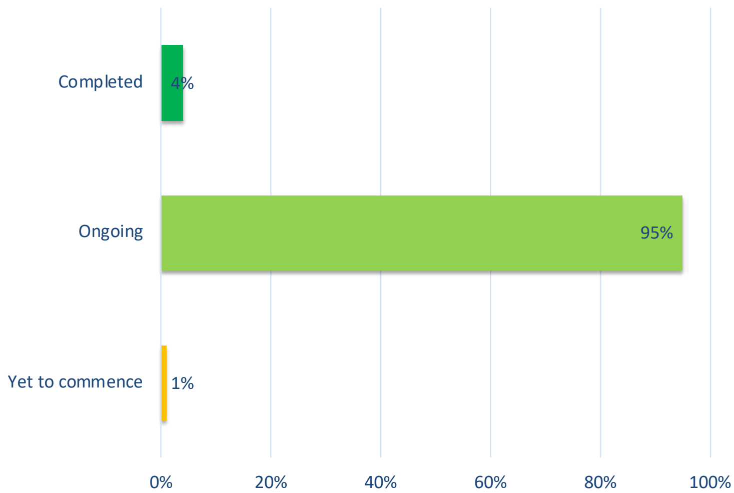


Moving from IFRS 4 to 17 encompasses various rigorous procedures, such as capacity building; upgrading or changing models and systems; consultancy programme management cost, audit cost etc. Complying with IFRS 17 has cost the industry hundreds of Millions of Naira in technology and operational improvements while on this journey towards full accounting change. The race to ensure compliance with IFRS 17 has seen insurers spend significantly on technology transformation.

Status of IFRS 17 Implementation

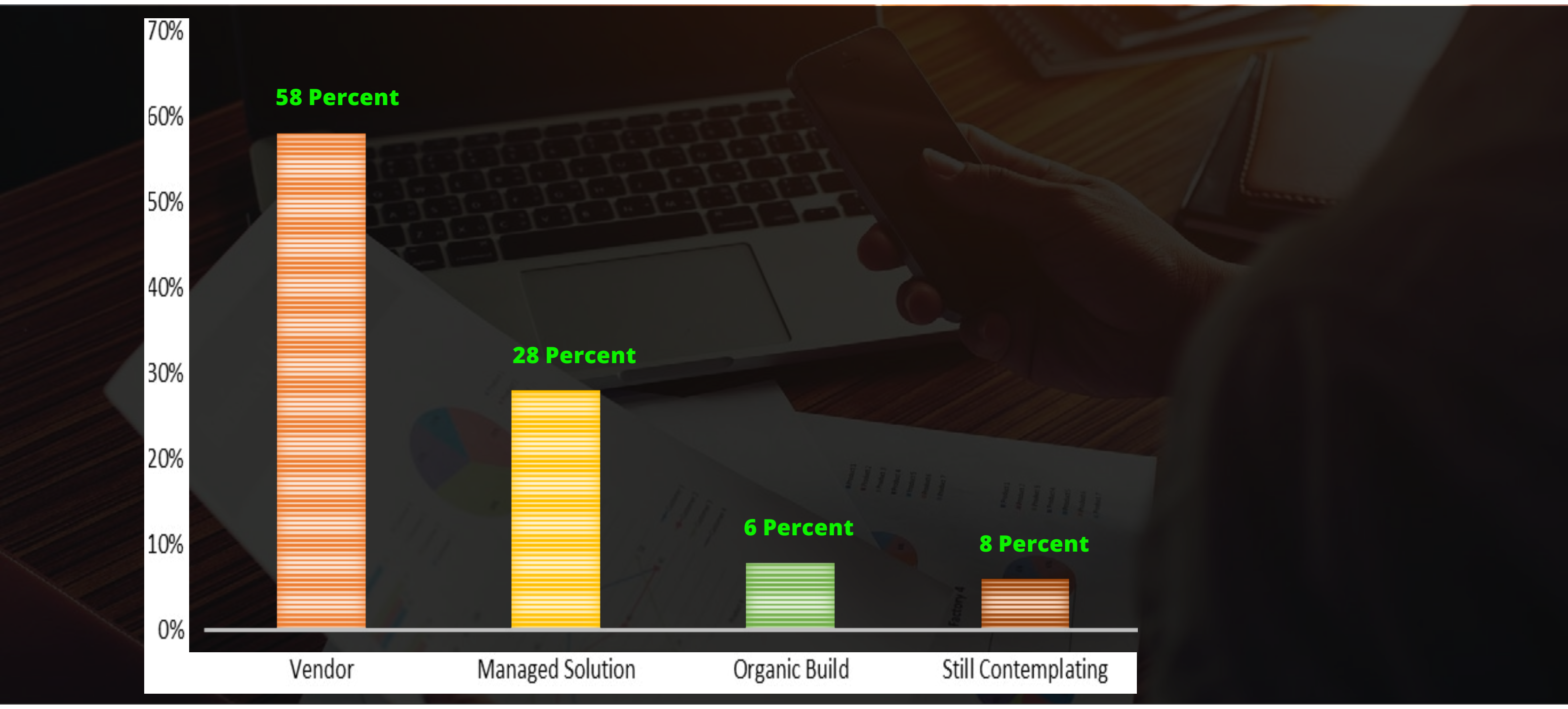
According to the survey respondents, most insurers have begun with their IFRS 17 compliance project with only 4% of insurers reporting completion and 95% are currently undergoing implementation. In comparison, Just 1% are yet to commence

- The implementation of IFRS 17 will require insurance companies to gather new information and make changes to their financial systems. These implementation activities are likely to require significant time, effort and cost for many insurance companies.
- The implementation of IFRS 17 is expected to be carried out by project teams comprising individuals with accounting, actuarial and systems knowledge and experience.
- The extent of available resources is expected to affect implementation time for companies.
- Furthermore, Implementation activities may involve significant time and effort if a company chooses to run parallel systems and processes to understand detailed differences between IFRS 17 and IFRS 4 data and perform consistency checks for a few years.



Decision on IFRS 17 System

Adhering to IFRS 17 is both complex and costly. Entities must decide on the systems to implement the standard effectively. They can opt for vendor-provided systems, outsource the responsibility via managed solution, or develop the system in-house. According to the survey, 58% of respondents opted for a vendor solution, 28% preferred a managed solution, 8% favored an organic build, and 6% are still contemplating.

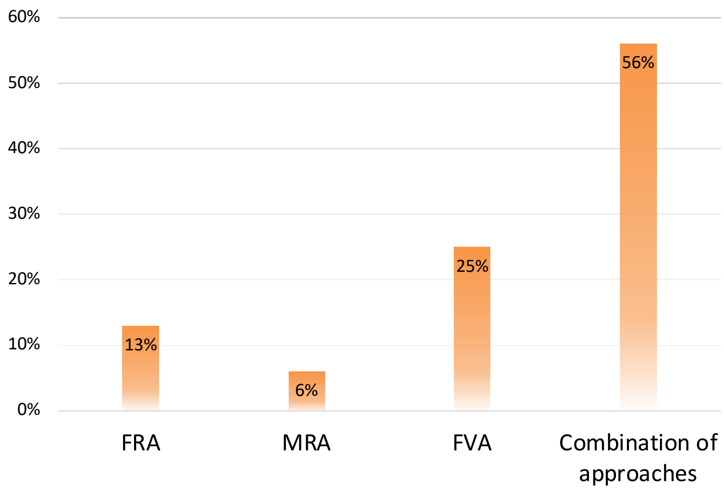


- The IASB expects that companies will require systems to obtain, store and analyze the information needed to apply IFRS 17. To apply IFRS 17, it is expected that entities need to set up systems to:

  a. analyze data with sufficient granularity to identify and maintain consistent groups of contracts (see Section 2—Overview of IFRS 17 requirements);
  b. track information about inception dates and the coverage period of those groups of contracts;
  c. determine the contractual service margin, accrete interest on the contractual service margin and recognize the contractual service margin for each group of contracts in profit or loss; and
  d. store information about historical, current and future cash flows, about discount rates and about risk adjustments for each group of contracts.

IFRS 17 transition method being adopted

An entity is required to account for its insurance and reinsurance contracts as if IFRS 17 had always been applied unless this is impracticable. According to the survey respondent 13% of the participants choose to adopt FRA, 6% and 25% choose MRA and FVA respectively, while 56% choose to combine the approaches.



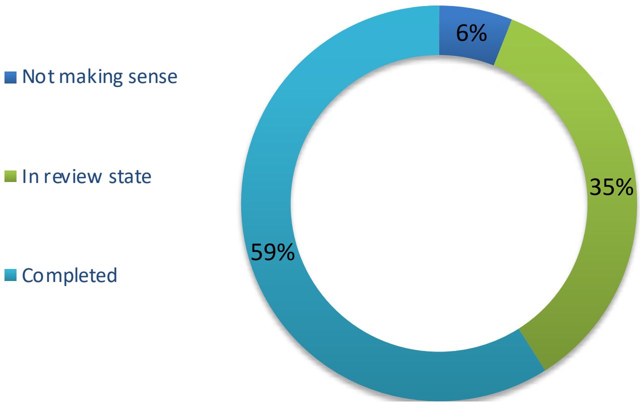
Essentially, there are three approaches to transitioning to IFRS 17.

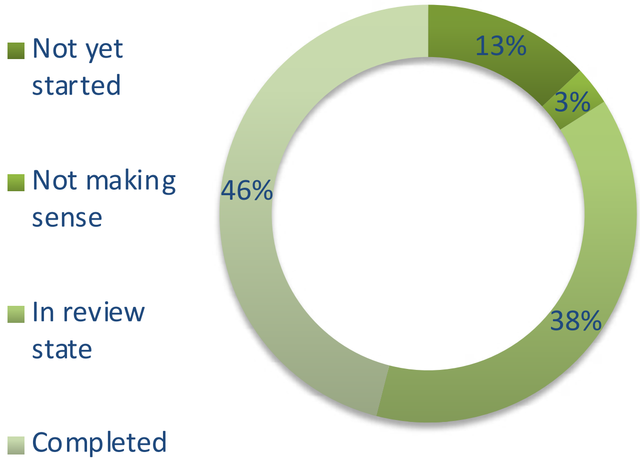
- Full Retrospective Approach (FRA)
- Modified Retrospective Approach (MRA)
- Fair Value Approach (FVA)

Unless it is impracticable (undue costs and efforts) to do so, an entity shall apply IFRS 17 retrospectively i.e. Full Retrospective Approach. Where it is impracticable for an entity to apply full retrospective approach, it has an accounting policy choice to apply either the Modified Retrospective Approach or Fair Value Approach.

Status of IFRS 17 Opening Balance Result and Restated 2022 Financial statement

According to the survey respondent, 6% are not comfortable with their opening balance result, 35% are in the review state and 59% have completed the result of their opening balance. Also, the survey results shows that only 46% have completed the 2022 IFRS 17 restated Financial statement.



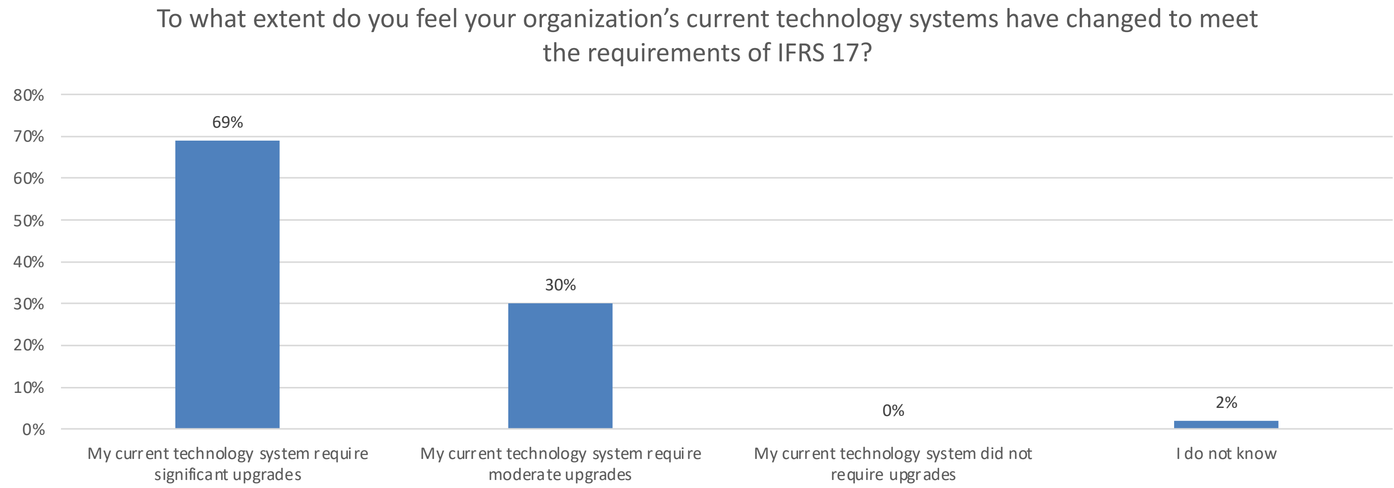


Insurers are required to disclose the impact on the balance sheet of transitioning to IFRS 17 in their first sets of financial statements. The impact is calculated at the transition Date, which is the beginning of the annual reporting period immediately preceding the date of initial application. This is to enable companies to provide at least one year's comparative information in their first sets of accounts. Therefore, for a company applying IFRS 17 from 1 January 2023, the Transition Date is 1 January 2022.

As this transition date has now passed, insurance companies are expected to be well underway with their transition calculations. As per NAICOM (the regulator) guidance insurance companies are required to have submitted their 2022 report using the IFRS 17 reporting model.

Extent to which organization's current technology systems have changed to meet the requirements of IFRS 17

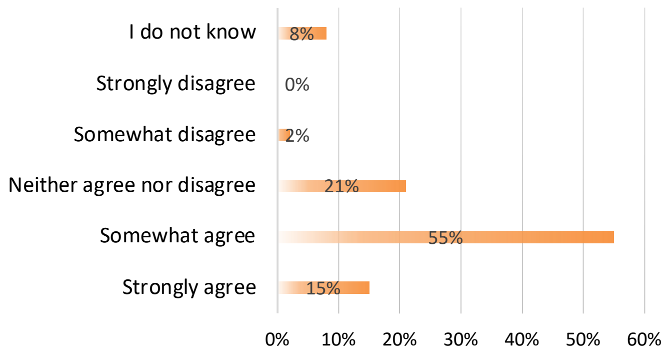
Based on the survey conducted, the majority of the respondents (69%) believe their current technology system requires significant upgrades, while 30% expect their current technology system to require moderate upgrades. Additionally, 2% of the participants are unsure about if their technology system requires upgrades



To comply with IFRS 17, entities must establish systems tailored to their approach and resources. This involves a complete overhaul of insurance systems for some, upgrades for others, and no changes or upgrades for some.

The benefits of adopting IFRS 17 will outweigh the expected costs

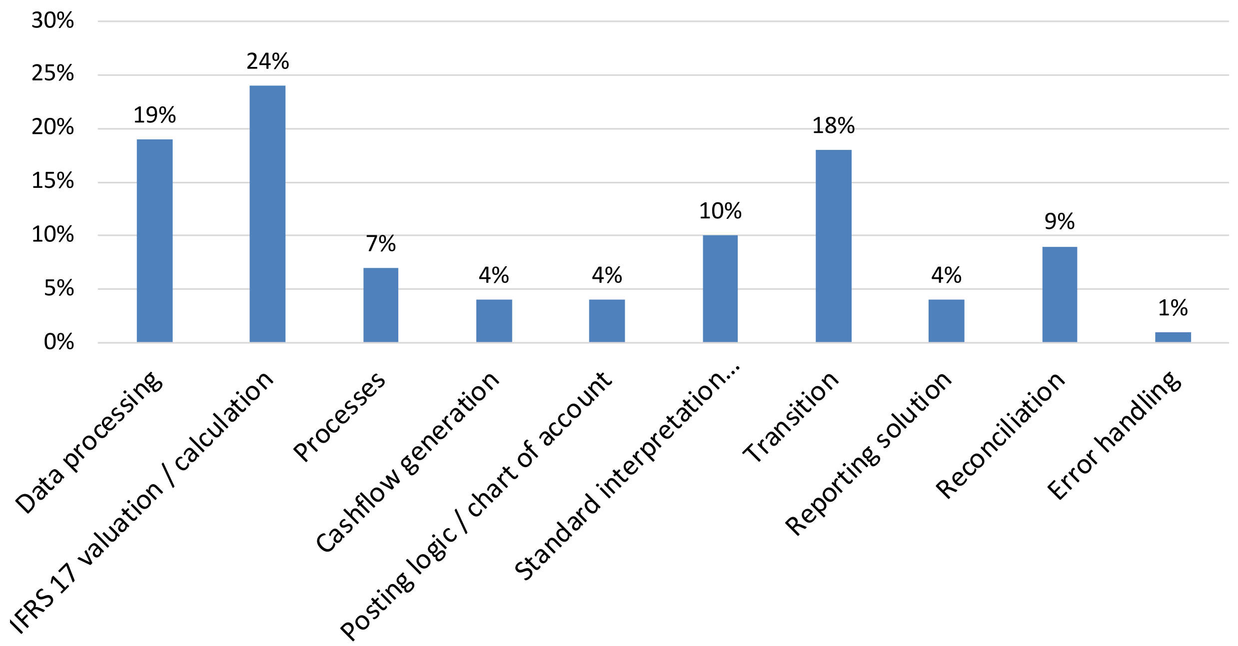
The implementation of IFRS17 is both demanding and costly, yet with its own advantages such as enhanced operational efficiency. Survey findings indicate that 55% of the respondents somewhat agree that the benefits of adopting IFRS 17 outweigh the cost, 15% strongly agree, 21% neither agree nor disagree, 8% are unsure and none strongly disagree.



IFRS 17 not just a discrete accounting change. IFRS17 creates a complex end-to-end change for insurers, with multiple functions from across the business needing to work collaboratively to create a workable IFRS 17 solution initiated in policy administration systems and ending in publicly disclosed financial statements. Many can see the challenges in this, but some will also recognize opportunities that present themselves with this overhaul and seize the chance to realize benefits beyond just 'strict compliance

Challenging areas of preparing technology solutions to support IFRS 17 compliance

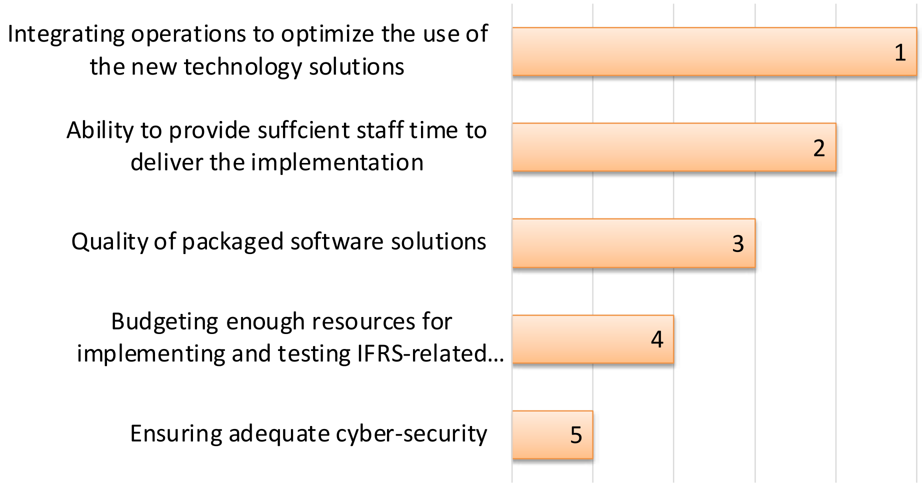
In this clime, IFRS 17 in effect may require an overhaul of insurers' foundational data management practices–from the way they capture data to its analysis, reporting, and governance.



Adhering to IFRS 17 requires numerous processes to prepare technology solutions that support the systems to be implemented. The survey findings aimed to identify areas where respondents encountered challenges in preparing technology solutions for IFRS 17 compliance.

Ranking these implementation challenges in most significant order

We asked respondents to rank their top three challenges as their company's finalizes implementing its technology solutions, integrating operations to optimize the use of the new technology solutions ranked number 1. This was followed by ability to provide sufficient staff time to deliver the implementation



A typical implementation of a packaged software must meet the challenges of integrating with the different requisite systems that will interface with it. On top of the integration of different systems, the architecture for IFRS 17 requires seamless interaction between departments– including finance, IT, actuarial, and accounting– and across geographies

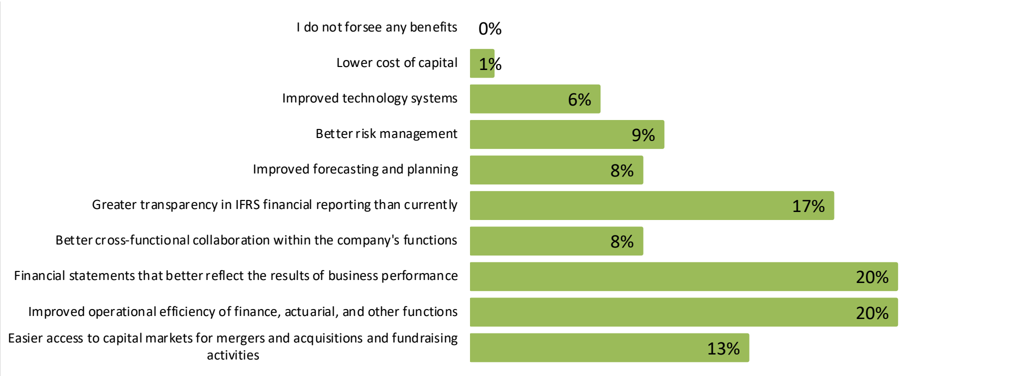
Most-needed skills to be successfully IFRS 17-compliant

The survey findings identified skills needed by organizations to IFRS 17 compliance. Accounting and Program management skills ranked 1st and 2nd respectively. Actuarial skills surprising ranked low. This may be as a result of most entities pre-determined decision to outsource actuarial skill requirement.

The survey result flags the criticality of collaboration across large teams comprising a wide spectrum of expertise, professional background and the degree of focus on the IFRS 17 implementation versus business-as-usual priorities. Adhering to IFRS 17 requires a wide range of skill and meeting the reporting deadline requires skilled staff who are limited in supply. While upskilling existing workforce or hiring externally are alternatives, both require additional time.

Expected benefits when most entities become IFRS 17- compliant

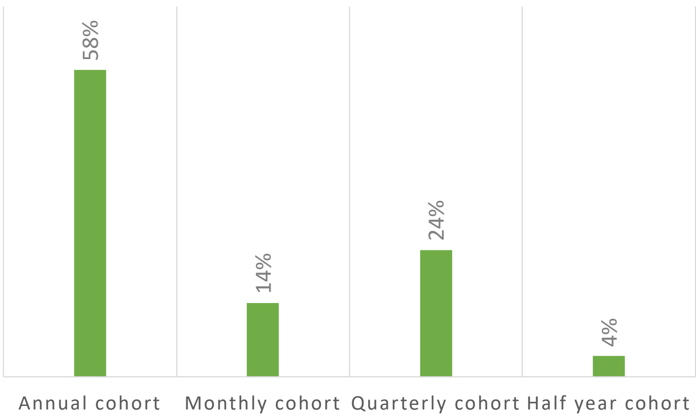
The survey also shows many respondents believe IFRS 17 will have a positive impact on their business. Many also expect a financial statements that better reflect the results of business performance (20%), improved operation efficiency of finance, actuarial, and other functions (20%), easier access to capital markets for M&A and other fundraising activities (13%)



Many can see the array of challenges in the journey to IFRS 17 implementation, but some will also recognize opportunities that present themselves with this overhaul and seize the chance to realize benefits beyond just 'strict compliance'.

Level of aggregation being adopted

Our survey shows that a significant number of the participants prefer annual cohort level of aggregation. 14% prefer monthly cohort, 24% prefer quarterly cohort and 4% prefer half year cohort.



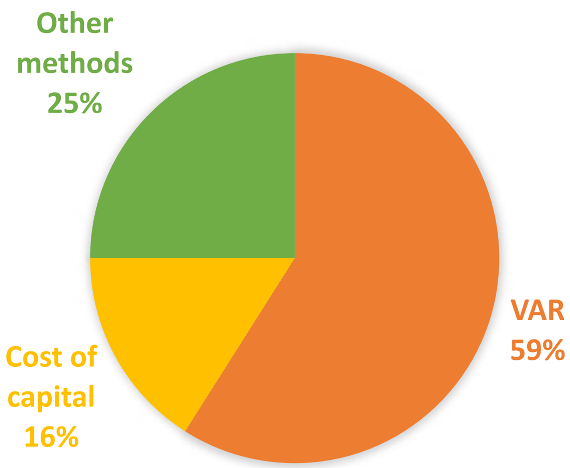
The level of aggregation requirements defined by IFRS 17 can be summarized into the following sequential levels of aggregation that an entity must apply as stipulated to achieve compliance with IFRS 17:

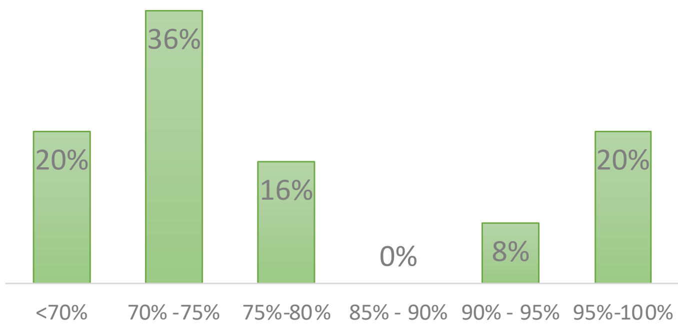
a. Portfolio level which includes all those contracts subject to similar risks and managed together as a single pool
b. A time bounded cohort level which should be no longer than 12 months and be part of a portfolio (IFRS 17 Para 22);
c. Further division of the cohort into the following profitability group of contracts (IFRS 17 Para 16)
    I. A group of contracts that are onerous at initial recognition, if any;
    II. A group of contracts that at initial recognition, have no significant possibility of becoming onerous in subsequent periods, if any; and
    III. A group of remaining contracts in the portfolio, if any.

The level of aggregation, or unit of account, is a critical aspect of the measurement of insurance contract as it determines how individual contracts are grouped for measurement and reporting purpose

What risk adjustment methodology is your company adopting?

- According to the survey respondents, 59% opted for Value at Risk (VAR) approach, 16% are in favour of cost of capital and 25% opted for other methods
- Also, the survey results shows varying confidence level selected by the different entities





Another new concept introduced by IFRS 17 is the Risk Adjustment (RA), which replaces the prudency included in the actuarial reserves as calculated
under IFRS 4. The volatility due to uncertainty in the amount and timing of the cash flows arising from non-financial risks associated with an insurance contract is reflected in the RA.

There is no single prescribed method of estimating the risk adjustment for non-financial risk. Entities need to apply judgement and develop their own techniques, as long as these fulfil the measurement objective and have the characteristics described in IFRS 17:B91 . However, one method of estimating the risk adjustment is described as a confidence level technique and is referred to in the required disclosures in IFRS 17:119.

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