The journey of insurance companies from IFRS 4 to IFRS 17

The road to transition from IFRS 4 “Insurance Contracts” to IFRS 17 “Insurance Contracts” has been and is still a journey of fruitful debates engaging various stakeholders which continue to yield valuable insights sourcing from all key players in the industry. The IASB has recognized that the myriad of concerns raised by stakeholders, pose serious challenges to a smooth transition to IFRS 17. Accordingly, a series of amendments have been proposed to the existing IFRS 17 standard included in the exposure draft published by IASB recently in June 2019. It is important to acknowledge that the amendments proposed are to relieve and not to further burden the process of implementation for insurers. Some of the most notable amendments proposed by the IASB are as follows:

Extension of the deferral for IFRS 9 and IFRS

The IASB acknowledges that the series of proposed amendments to the IFRS 17 standard necessitate a deferral in the adoption of IFRS 17 for a smooth transition. Accordingly, the IASB has proposed to allow insurers to defer the date of initial application of IFRS 17 to 1 January 2022. On a separate note, under the current version of IFRS 4, subject to meeting certain conditions, insurers who have not previously applied any version of IFRS 9 “Financial Instruments”, other than only the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss and having activities predominantly connected with insurance, could defer the initial application of IFRS 9 to 1 January 2021. Following the proposal to extend the date of initial application of IFRS 17, the IASB has proposed to amend the expiry date of the temporary exemption for IFRS 9 adoption to 1 January 2022.

Scope exemption for certain loans and credit cards

Currently, under IFRS 17, for loans that transfer significant insurance risk, entities are required to account for such loans as insurance contract in their entirety. However, it is often noted that such loans are embedded with a clause to compensate the borrower, contingent on the occurrence of certain unforeseen events that could adversely impact the borrower. These clauses are most of the time if not always, exist only to provide insurance coverage only for the settlement of the policyholder's obligation arising out of the contract. Examples could be mortgages with a death waiver, student loans and equity release mortgages. The IASB recognizes that the costs of applying IFRS 17 to such contracts could significantly exceed the benefits. Accordingly, subject to meeting specific conditions, the IASB proposed to provide an accounting policy choice to insurers to apply IFRS 9 in its entirety instead of IFRS 17 to such contracts. This election would be based on a portfolio of insurance contracts and would be an irrevocable choice for each portfolio.

On the other hand, for credit cards, the IASB observed that for some credit cards that provide insurance coverage, the pricing process of the contract for such credit cards do not take into account the insurance risk of the individual customer. The IASB proposed to exclude such contract under the scope of IFRS 17 and to account for such contract under IFRS 9. It is important to note that while the scope exclusion for loan contracts is an accounting policy choice, the credit card exclusion is an obligation.

Other notable proposed amendments

There were several other notable amendments to IFRS 17 proposed by the IASB in the June exposure draft. These related to:

- Amendments regarding allocation, recognition, assessment of the recoverability, and disclosure regarding insurance acquisition cash flows relating to expected contract renewals.

- Amendments regarding the contractual service margin (CSM) allocation relating to investment components and related disclosure requirements so that in the general model the CSM is allocated on the basis of coverage units that are determined by considering both insurance coverage and any investment return service.
- Extension of the risk mitigation option to include reinsurance contracts held.
- Amendments to require an entity that at initial recognition recognizes losses on onerous insurance contracts issued to also recognize a gain on reinsurance contracts held.
- Simplified presentation of insurance contracts in the statement of financial position so that entities would present insurance contract assets and liabilities in the statement of financial position determined using portfolios of insurance contracts rather than groups of insurance contracts.
- Additional transition relief for business combinations.
- Additional transition relief for the date of application of the risk mitigation option and the use of the fair value transition approach.

The way ahead

If adopted, the above proposed amendments would be effective based on the new proposed effective date for initial application of IFRS 17, which is 1 January 2022 (early application permitted) and would be applied on a retrospective basis. The IASB welcomes comments on the above proposed amendments by 25 September 2019.
For further information on IFRS 17 please do not hesitate to reach out to our insurance team. More information on the proposed amendments to IFRS 17 can be found **here**

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