Amendments to IFRS® 17

It's time for insurers to take action

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Addressing implementation challenges

"IFRS 17 promises a new era of increased transparency and consistency in insurance accounting.

Since publishing the new standard, the International Accounting Standards Board (the Board) has learned much about insurers' concerns and implementation challenges in some areas.

It has decided to address these issues by proposing a one-year deferral of IFRS 17's effective date to 2022 and amendments to seven important areas of the standard."

Joachim Kölschbach,
KPMG's global IFRS insurance leader

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What is the Board proposing?

Effective date of IFRS 17

The Board is proposing to…

- **defer IFRS 17's effective date** by a year, and
- **extend the temporary exemption** from applying IFRS 9, granted to insurers meeting certain criteria

IFRS 9
for insurers

IFRS 17

1 January 2021

1 January 2022

Proposed amendments to seven areas of IFRS 17

1. Accounting for certain types of credit cards and loans
2. Accounting for investment services in an insurance contract
3. Allocating insurance acquisition cash flows
4. Mitigating the financial risk of direct participating contracts
5. Presentation of insurance contract assets and liabilities
6. Reinsurance of onerous contracts
7. Accounting for acquired claims liabilities on transition

What are the proposed amendments?

Accounting for certain types of credit cards and loans

The Board is proposing to exclude certain credit card contracts that transfer significant insurance risk from the scope of IFRS 17

Issuers of certain loans that transfer significant insurance risk would have the option to apply either IFRS 17 or IFRS 9 to them

Accounting for investment services in an insurance contract

The Board is proposing to amend the pattern of profit recognition to reflect the provision of…

… investment-related services for direct participating contracts…

Insurance coverage + Investment-related service

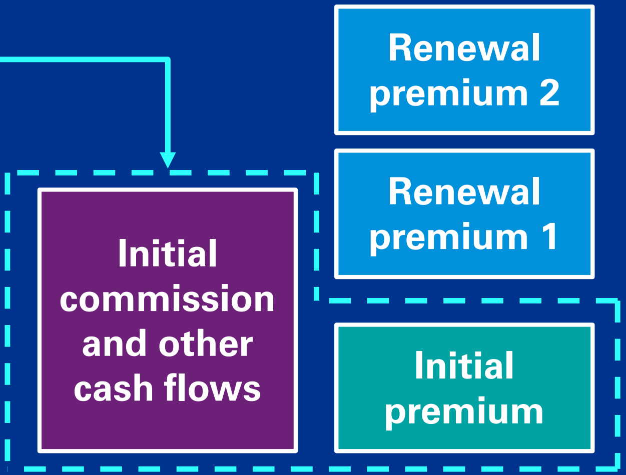
… and investment return services for all other insurance contracts

Insurance coverage + Investment-return service

This would better align the accounting with the services provided

Allocating insurance acquisition cash flows

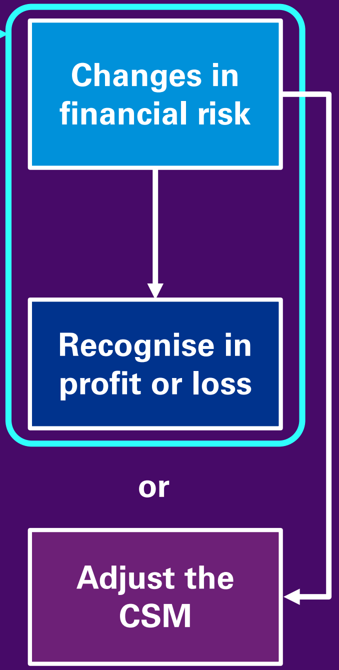
The Board is proposing to require insurers to allocate part of the insurance acquisition cash flows directly attributable to a newly issued contract to expected renewals outside of the initial contract's boundary



Insurance contracts with high acquisition cash flows (e.g. initial commissions) might no longer be onerous under IFRS 17, as insurers would be required to allocate these costs to the expected renewals

Mitigating the financial risk of direct participating contracts

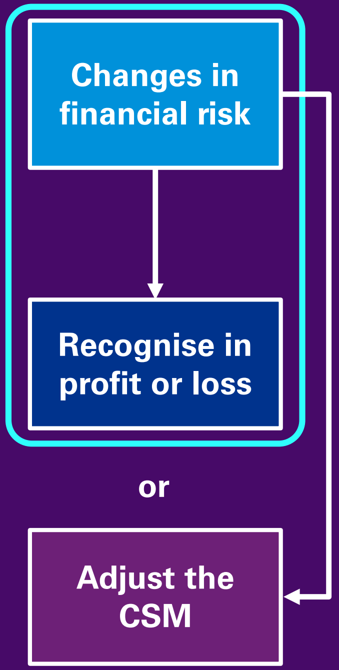
The Board is proposing that the risk mitigation option applicable to direct participating contracts in IFRS 17 be expanded, allowing insurers to use it when reinsurance contracts held – as well as derivatives – are used to mitigate financial risk



This reduces accounting mismatches when reinsurance contracts held are used to mitigate the financial risk of direct participating contracts

Mitigating the financial risk of direct participating contracts

Subject to certain criteria, the option could be applied prospectively from the date of transition, and the fair value approach to transition could be used even if a full retrospective approach is possible



This may reduce some accounting mismatches in the comparative periods presented, and better reflect the insurer's past financial risk mitigating activities on transition

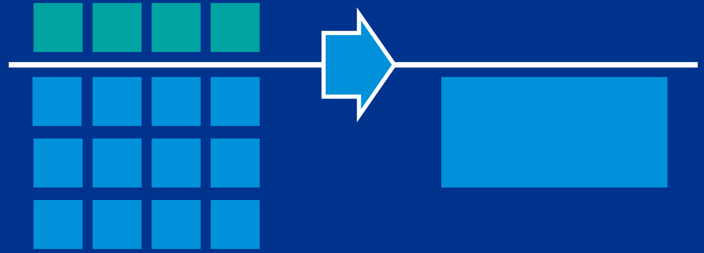
Presentation of insurance contract assets and liabilities

The Board is proposing that insurers be required to present separately on the balance sheet – at portfolio level rather than group level – the carrying amounts of insurance contract assets and insurance contract liabilities

This would provide practical relief to insurers who may find it difficult to allocate cash flows to individual groups of insurance contracts

Portfolio of insurance contracts

Assets



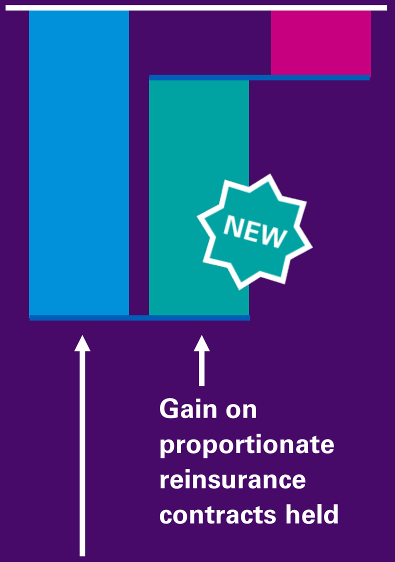
Liabilities

Many groups would be in a liability position, some could be in an asset position

In most cases, the portfolio in aggregate will be in a liability position

Reinsurance of onerous insurance contracts

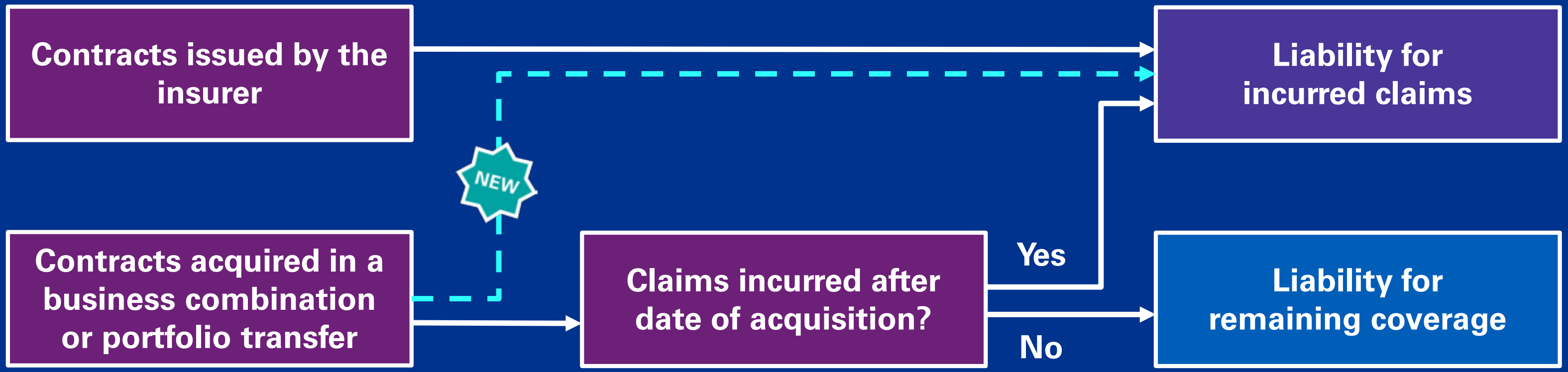
The Board is proposing that if an insurer recognises a loss on underlying insurance contracts that are onerous at initial recognition, then it would also simultaneously recognise a gain in profit or loss on reinsurance contracts held, to the extent that the underlying contracts are covered on a proportionate basis



Recognising a gain under the proposal would avoid an accounting mismatch

Accounting for acquired claims liabilities on transition

The Board is proposing to add a further modification to IFRS 17's transition requirements



Eliminates the challenge of recording claims liabilities in different ways if the information is not available

Next steps for insurers

It's time to step up the pace of implementation

"The amendments are helpful, but implementing IFRS 17 is still a complex and significant undertaking requiring substantial effort, and new or upgraded systems, processes and controls.

It's vital that insurers make good use of the extra year. Many insurers will need to step up the pace of their implementation efforts to reach the finish line with systems and processes tested and results understood by management and investors."

Mary Trussell,
KPMG's global lead, insurance accounting change

Well-prepared insurers need to think about...

- The specific impact of the proposed changes on their results
- What new data will need to be collected
- How processes and systems designs will need to change
- Updating testing and implementation plans
- Communicating changes to those charged with governance
- Stepping up the pace of their IFRS 17 implementation

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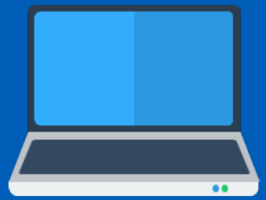
Time is of the essence

Insurers should have a laser focus on the costs and benefits of the amendments, and prioritisation of any matters to be raised with the Board

Any comments need to be submitted to the Board by 25 September 2019

Find out more



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