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IFRS 17 – LEFT OUT IN THE COLD before it even gets a foot in the door?

A much anticipated IFRS 17 was released on 18 May 2017 – well, at least it is termed a "much anticipated" standard in many of the newly released IFRS 17 publications and articles. For many following the development of the new Insurance standard, it has been a long and often tedious journey; one that left many suffering from "IFRS 17 fatigue" and wondering whether the standard would ever officially be published. Now that the standard has made it into the realm of issued and not simply proposed, it remains to be seen how accepted it will become over the next few years.

Given the often less than helpful guidance in the current IFRS 4 standard, the insurance industry as a whole has become accustomed to a rather large amount of leeway. While most of the common insurance accounting elements have become ingrained in accepted industry practice, the outlying, strange and uncommon parts of insurance accounting often lie in a very grey area. IFRS 17 seeks to bolster the comparability of insurance financial statements, but with that, comes a decidedly reduced grey area. Of course, it still remains an IFRS standard, based on principles rather than rules, and the grey will never be completely removed.

Insurers are now preparing to embark on a transitional journey over the next three years. Whether the insurer is one of the more eager market participants, ready to adopt the standard long before the official effective date, or lagging at the latter end of the curve not wanting to adopt before absolutely necessary and ultimately scrambling to get everything in order before signing off their first set of accounts under IFRS 17 – everyone will inevitably find themselves with new looking IFRS accounts in a few years. The question becomes what kind of journey the next three years will be.

If SAM has taught us anything, it is that we are perhaps not as equipped for change as an industry as we thought we were, and that while something may appear simple at a high level, the devil is often in the detail. We have also learnt the hard way that accountants need to learn to speak actuary, and that actuaries need to learn to speak accountant to make sure we ultimately end up with the correct result – and this is only going to become more critical with IFRS 17. The days of silo'ed business units within an insurer are fast coming to an end with more and more integrated information required for reporting purposes. SAM has started this trend, and it will only be increased by IFRS 17.

While we have no choice but to adopt IFRS 17 at some point in preparing IFRS compliant financial statements, we do have a choice as to how integrated IFRS 17 will become to other forms of reporting within the business.

IFRS 17 will change what is considered revenue, the components of the insurance liabilities, and to a large extent the way in which we value these liabilities. But will IFRS 17 change what is reported in management accounts each month or quarter end? Will it become the basis on which KPIs are set, bonuses are calculated and how the success of the business is measured? Or will it simply become a list of adjustments at year end that are passed to ensure the management numbers become numbers that can be included in the IFRS compliant financial statements? And if the latter is the case, then where has IFRS 17 failed in becoming a more relevant and reliable basis of reporting insurance results? Has it become so complicated that those applying it are uncertain about the exact requirements? In the quest to make revenue in the insurance sector more aligned to revenue of other sectors, has it missed what is most important to users of insurance financial statements? In not being prescriptive, has it left a lot open ended questions about how the standard is to be applied? Or is it simply that IFRS 17 will not be given the opportunity to become the reporting basis of choice.

Insurers are already faced with a number of reporting bases – current IFRS, current regulatory, SAM and for some insurers, US GAAP – which they are required to report on. Will IFRS 17 simply become another column on an excel spreadsheet, requiring yet another reconciliation to enable management to understand why the results differ from the other bases. Or worse – another basis with differences that cannot be explained through reconciliations.

Along with valuation changes, IFRS 17 also includes additional disclosure requirements. Will these disclosures align with the day to day practices of the business – will they talk to actual business practices and what is included in other forms of reporting such as the ORSA? Or will they simply be included in the financial statements as a tick box exercise to ensure approval of the financials – but ultimately add almost no value to those reading the financial statements?

The success of a new standard depends largely on the acceptance of those using it – those that use it to prepare results, as well as those who read and interpret the results on the other side. The acceptance of the new standard in turn depends largely on the understanding of that standard – understanding what the standard is trying to achieve and being able to truly understand the results that are being produced under that standard. Unfortunately, it is the understanding of a standard that often takes much longer than the time taken to practically implement the standard.

Are we ready to give IFRS 17 the opportunity to become a more relevant and reliable reporting basis? Are we ready to give up the grey areas and leeway that we currently have, in order to produce financial statements that are more comparable?

Are we ready to face the challenges that complying with IFRS 17 will bring, specifically regarding the sheer amount of information that is required – and are we ready to face the increased challenge of getting that information out of African sectors of the business? Are we ready to properly integrate the business units within an insurer? Globally, are we ready to give up the geographically specific industry practices that we have become so accustomed to, in order to achieve comparability worldwide? Are we ready to embrace yet another change, in what seems to be an ever changing industry? Or, will we simply brush IFRS 17 off as an overly complicated and unnecessary standard – yet another tick box exercise in a world of increasing regulation and rules.

Ready or not, IFRS 17 is coming and will be here sooner than we think. In a world of deadlines and limited resources, three years may not be long enough to run gap analyses, complete product analyses, improve systems, train staff and non-executives, and produce comparative information – all while trying to truly understand the standard in a way that will actually make the standard useful to you and to your business. IFRS 17 may or may not be the best basis on which to measure the results of an insurance company, but we will only be able to make that decision if we give the new basis a fair shot.

> Artificial intelligence will reach human levels by around 2029. Follow that out further to, say, 2045, we will have multiplied the intelligence, the human biological machine intelligence of our civilisation a billion-fold.
>
> **Ray Kurzweil**
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> Author, Computer Scientist, Inventor, Futurist