Financial Reporting Council

FRC Panel Discussion: Benefits and barriers to implementation of IFRS 17 Insurance Contracts - 24 April 2018

Panel chair: Anthony Appleton - Director of Accounting and Reporting Policy, FRC

- The chair referred to the European endorsement process of IFRS 17 and noted that EFRAG will report to the European Commission by the end of 2018.
- EFRAG's advice on the endorsement of IFRS 17 is evidence based. To that end the chair emphasised the importance of UK participation in the EFRAG simplified case study.

Panel members:

- Jo Clube - Accounting Policy Development Lead, Aviva PLC
- Stephen Cooper – Consultant
- William Hawkins - Co-Head of European Research (Insurance), Keefe, Bruyette & Woods
- Roger Marshall – Board member FRC and EFRAG
- Stuart Wilson - Insurance Partner, EY

Panel members gave their perspectives and made individually the following observations:

- Currently different bases and principles are applied internationally for insurance contract accounting. The IASB spent much time listening to stakeholders and building a consensus around the requirements in IFRS 17.
- Some jurisdictions outside of Europe have already confirmed adoption of the standard, the EU decision on endorsement is expected in 2019.
- EFRAG is in process of gathering evidence to support its advice to the EC on endorsement. The importance of good quality evidence from the UK was stressed.
- The effort to implement IFRS 17 should not be underestimated, both in length and complexity. The adoption of IFRS 9 Financial Instruments needs to be factored into the implementation process.
- For life insurers, transition, level of aggregation and ability to match insurance liabilities and assets were noted as critical aspects for implementation.
- General insurers may be able to use the simpler premium allocation approach, however, changes to the accounting for acquisition costs and the accounting for premiums on a received basis require attention.
- IFRS 17 will address some of the problems of current accounting, especially the inconsistency in financial reporting by insurers. It was noted that IFRS 17 will and cannot be expected to be a perfect solution. It will take time for the new reporting requirements and practices to be embedded.

The audience raised issues and questions which were addressed by panel members.

How much will implementation cost?

- It is difficult to accurately estimate the cost of implementing IFRS 17.
- The ability to benefit from Solvency II processes and systems may be limited, however, lessons can be learned from the implementation process itself.
- EFRAG endorsement process will look at cost/benefit of IFRS 17.
- It was predictable that implementation of IFRS 17 would be costly, this should not be a barrier to adoption.

8th Floor, 125 London Wall, London EC2Y 5AS Tel: +44 (0)20 7492 2300 Fax: +44 (0)20 7492 2301 www.frc.org.uk

Should implementation be delayed until EU decided on endorsement?

- The EU endorsement decision is not expected until later in 2019. The effective date for IFRS 17 is January 2021 and comparatives are required for 2020.
- The timetable is challenging and delaying implementation until the EU makes a final decision could be risky.

Should Solvency II be closer aligned with IFRS 17?

- Whether Solvency II and IFRS 17 should be closer aligned, should be a topic for future debate. It was noted that not all entities reporting under Solvency II will also adopt IFRS 17.
- Solvency II has a prudential purpose, whilst IFRS 17 is focused on financial reporting to investors.
- IFRS 17 is principles-based and judgements can be made, Solvency II is more often prescriptive in its requirements.
- There are some important differences, including contract boundaries, discount rates and contractual service margin, which may not be easily reconcilable.

Are financial statements prepared in accordance with IFRS 17 comparable and understandable?

- IFRS 17 requires judgement and provides options which decrease comparability. Disclosures are important for users to understand the critical judgements.
- Options available on transition will make full comparison difficult for a long time, however, this should not stop the adoption of a new standard.
- It is expected that IFRS 17 will make financial statements of insurers more accessible to generalist investors, because, for example, the basic principles of revenue recognition are the same.

Are there plans to amend UK GAAP for IFRS 17?

- There are no immediate plans to amend FRS 103 Insurance Contracts, the applicable insurance contract accounting standard under UK GAAP, for IFRS 17.
- FRC will review implementation experience of listed insurers before considering the case for changing FRS 103 – any changes would be subject to public consultation.
- Any inconsistencies between EU Insurance Accounts Directive and IFRS 17 will be assessed as part of the next FRS 101 Reduced Disclosure Framework review cycle.

8th Floor, 125 London Wall, London EC2Y 5AS Tel: +44 (0)20 7492 2300 Fax: +44 (0)20 7492 2301 www.frc.org.uk