

# IFRS 17

IFRS 17, which supersedes existing IFRS 4 Accounting Standard for insurance contracts, establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the Standard. One of the objectives of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial statement position, financial performance and future cash flows.

IFRS 17 will change the existing mechanism of insurers' accounting practices for reporting income and liabilities from insurance and reinsurance companies, creating a new financial semantic to inform investors about performance of this complex global industry.

## Why Adopt It

IFRS accounting standards have already been adopted in the Middle Eastern countries (including the Kingdom of Saudi Arabia, United Arab Emirates, Qatar, Bahrain, Kuwait, Oman and others), Asian countries (including Singapore, Malaysia, India, Sri Lanka, Thailand, Hong Kong and others) and across various regions. This new financial semantic, IFRS 17, delivers consistency in the financial reporting for a sector that has never had it. IFRS 17 will introduce a significant degree of transparency that aims to open what many considered an accounting and actuarial black box.

IFRS 17 also outlines a comprehensive framework that will require insurers to provide information relevant to users of financial statements for economic decision making. All countries that follow existing IFRS will be required to adopt IFRS 17. Most expect the exercise to be wide ranging, complex and costly. Therefore, early planning is recommended for both life and general insurance/reinsurance companies, with more detailed requirements for life insurers.

# How IFRS 17 impacts you

If you happen to work for an insurer and your nature of work relates to reporting, preparing, analyzing, reviewing, estimating or presenting the assets, liabilities or equities in the financial statements, IFRS 17 financial semantic will impact you. IFRS 17 will become effective starting 1 January 2021.

IFRS 17 provides insurers with general principles and flexibility on the implementation. Therefore, the choices that an insurer makes will impact how the profits are released over the life of a contract. The impact to insurance organizations, whether subsidiaries/branches of international insurers or domestic insurers, are significant given that many countries have adopted IFRS accounting standards and therefore would need to comply with the new requirements of IFRS 17.



## IFRS 17 Implementation – How SIR Consultants can help you?

IFRS 17 outlines the general principles of insurance contract reporting. It however allows flexibility with regards to its transition and implementation with each phase involving significant judgment that would need to be made. Our firm has the expertise to help companies not only apply best practices but also avoid the eventual problems that they may face when adopting IFRS 17. The implementation of IFRS 17 will have a major impact across the entire financial management framework, requiring changes to be made to key areas of strategic financial management and operations in the way the results will be delivered.

IFRS 17 will require insurance companies' IT and finance personnel, accountants and actuaries to work together to modify and/or restructure its existing systems. Our firm can help provide the technical support necessary to make the transition as smooth as possible.

IFRS 17 will also have a significant impact on data, systems and processes used to prepare the financial reporting framework.

# Suggested IFRS 17 implementation Phases

SIR Consultants provides the following support to implement IFRS 17 for insurers:

- **Carry out gap analysis**
  - o Evaluate key differences against your current accounting, actuarial and reporting practices
  - o Plan the journey to bridge gaps
- **Develop and deliver training for your staff**
  - o This is an essential part to implement IFRS 17 without it the objective will be difficult to achieve
  - o Requires interactive training and series of workshop at different levels
  - o Understanding of new KPIs and impact on disclosures
- **Perform Impact assessment**
  - o Assess the impact of policy choices (such as financial statements, management information, accounting and actuarial processes, business projections and operations)
  - o Evaluate the impact on resources, IT systems, data
  - o Analysis of product profit profiles and level of aggregation
  - o Apply all transition approaches to evaluate the impact of equity
- **Assist with the system solutions and mapping of requirements**
  - o This will include testing IT and reporting process
  - o Track against a clear road map and budget
- **Assistance with implementing new policies, processes and systems**
  - o Apply all the procedures with new/modified systems
  - o Carrying out parallel runs
  - o Engage in a timely way with you and your auditors on key judgments
  - o Advise on resolving gaps and limitations
  - o Continuous monitoring and ensure to meet the objectives
  - o Educate the executive management team and Board on the new requirements and implications

IFRS 17 is a long-awaited remedy to the shortcomings of IFRS 4, however, transitioning to the new standard could have an impact on an insurer's currently reported shareholders' equity. The impact is dependent on multitude of factors and cannot be generalized. Insurers should undertake early efforts to identify the impact under each possible transition option to avoid last minute surprises.





## About SIR Consultants (Pvt.) Ltd

SIR Consultants (Pvt.) Ltd is a subsidiary of SHMA consulting. SHMA Consulting is a registered free zone company incorporated in the Dubai Multi Commodities center (DMCC) and is licensed by Dubai Multi Commodities Centre Authority (DMCCA) to perform wide range of consulting services. SIR is an outcome of an initiative taken by a team of dedicated, young and dynamic actuarial professionals aiming to provide specialized and client-focused actuarial and financial consulting services on insurance, retirement, enterprise risk and investment management matters, aimed to simplify complexity, support your decision-making processes, and to give you a competitive advantage over your competitors. In addition, our firm provides actuarial personnel outsourcing for allowing organizations to engage in full-time actuarial services for long-term cost effectiveness. We have vast experience working for several international and local corporations, SIR is also providing actuarial expertise to all Big 4 audit firms.

## SIRCONSULTANTS

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## OUR IFRS 17 TEAM

SIR consultants IFRS 17 team have over 50 actuarial professionals including 15 qualified actuaries with extensive knowledge of local and international insurance industry and have guided various insurers through regulatory and local accounting policy changes according to both local and international financial reporting standards (IFRS). Our consultants have worked as advisors to insurance regulators in various countries and professional bodies of actuarial and accounting in Pakistan. SIR consulting IFRS 17 team also plays a leading role in the working group formed by the Institute of Chartered Accountants of Pakistan (ICAP) which is responsible to guide the insurers in Pakistan in adopting IFRS 17.