

IFRS 17 Insurance Contracts – Is your insurance business ready for IFRS 17?



As an underwriter you have had to deal with Solvency II for regulatory purposes, but have you considered how to manage the additional cost of the new accounting standard's impact in your tax bill?

Here's what you need to know about it:



Effective Date:

IFRS 17 is the new standard for insurance and reinsurance contracts, replacing IFRS 4. It will become effective for financial years beginning on or after 1 January 2023.



Transition Date:

IFRS 17 will apply retrospectively with transition date being 1 January 2022.



Objective:

The objective of IFRS 17 is to enhance transparency in financial reporting and achieve comparability across the globe.



Which insurance entities will be impacted?

All type of insurance entities may be impacted by the adoption of IFRS 17.



Main impacts on insurance entities:

IFRS 17 will impact the way insurance businesses operate and communicate to their stakeholders.

The introduction of IFRS 17 will mainly impact:

1. The format and presentation of Financial Statements especially the Statement of Profit and Loss Account (SOPL);
2. The Equity and Financial Reporting;
3. The recognition of profit from insurance contracts over time;
4. The distributable profits affecting dividend distribution; and
5. Tax Reporting.



Accounting Implications:

IFRS 17 uses three measurement approaches which will affect revenue recognition:

1. **General Measurement Model (GMM) or Building Block Approach (BBA):** This measurement model is used for most long-term contracts;
2. **Premium Allocation Approach (PAA):** This is an optional simplified approach which can be used for most short-term contracts (less than 1 year);
3. **Variable Fee Approach (VFA):** This applies to contracts with direct participation features.



Taxation Implications:

Tax reporting is not a separate process from accounting, but it is rather a crucial part of the entire financial reporting process and should be considered with every step along implementing IFRS 17. The adoption of IFRS 17 will lead to taxation implications, both on transition and for ongoing calculations which will need to be addressed by insurance entities. The main impacts which should be assessed in relation to taxation are:

1. The tax transition impact;
2. The ongoing tax treatment;
3. The tax implications of income being recognised in the Other Comprehensive Income; and
4. The tax impact on indirect taxation (VAT and IPT).



Here's what you can do about it

Insurance entities should start assessing their actuarial, accounting and tax impact as a result of IFRS 17 adoption. For more information please contact our expert IFRS 17 accounting, regulatory and tax teams which can review your assessment in order for you to be able to anticipate and manage the regulatory, accounting and tax implications on your business which will arise as a result of the adoption of IFRS 17.

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