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IFRS 17



We are all familiar with the story outline for the franchise blockbuster, whether it's Home Alone, Rocky or James Bond. The faces or locations may change but the plot remains largely untouched, tension builds as the story develops, there a major surprise towards the end and the good guys (or girls) survive for the next one. But it's also true that recreating the magic, time after time is challenging as anyone who has watched Jaws 6 or Rocky 5 will testify to, and this means only the true fans continue to show any interest. And so, we come to IFRS 17 – International Financial Reporting Standard for Insurance Contracts.

IFRS 17 was published in May 2017 superseding IFRS 4 after 20 years of discussion. There is a new income statement presentation for insurance contracts, a revision for the definition of insurance revenue, and a series of additional disclosure requirements. I can already hear the non-accountants starting to SWIPE LEFT but hold off a little longer. Whilst this might appear to be just for the number crunchers amongst us, the implications for individual insurance companies are much more significant and the impact for the legacy industry as a whole might be much greater than you would initially expect.

As part of the presentation of insurance contracts, reserves are to be shown discounted, plus a risk adjustment to reflect uncertainty plus a contractual service margin will result in profits being earned over the full coverage period.

Decisions about whether to place a portfolio into run-off might become more obvious but also for sellers of legacy portfolios this might mean that decisions in the future to sell or hold become much more binary – Discounted reserves + Risk adjustment vs Price. Positive result- sell, Negative result – hold. Much will depend upon the quality of the assessment of the risk adjustment. Also, outwards reinsurance is to be considered separately to the gross contract which might mean that care may need to be taken when structuring any transaction to achieve the required result.

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For buyers the challenges might be even greater. Earning profits over the entire coverage period is likely to mean significant reinstatements for past transactions, and early extraction of profits is key to many of their business models which could in turn effect future pricing decisions.

So whilst this may be IFRS 17, the plot is developing, the deadline has been extended to January 01, 2022 but comparatives still need to be prepared and the work required to breakdown information to contract level requires major changes to accounting systems. So, keep watching, there could still be that nasty surprise to come, and lets all hope the good guys come through unscathed!

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