

EIOPA analyses the benefits of IFRS 17 Insurance Contracts

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Today, the European Insurance and Occupational Pensions Authority (EIOPA) published its analysis of IFRS 17 Insurance Contracts.

EIOPA carried out the analysis in light of the upcoming implementation of IFRS 17 to foster a better understanding of the implications and potential impacts of the standard on European insurance and reinsurance undertakings as well as to provide insights into the future interplay between insurers' financial and prudential reporting.

Overall, EIOPA found that the expectedly increased transparency and comparability of insurers' financial statements through IFRS 17, providing better insights into insurers' business models, have the potential to strengthen financial stability in the European Economic Area (EEA). Therefore, EIOPA regards the implementation of IFRS 17 as beneficial for the European public good. IFRS 17's current, market-consistent and risk-sensitive measurement of insurance obligations better reflects economic reality. This supports efficient risk management and allows stakeholders to gain important insights into the entity's business model, exposures and performance.

The introduction of IFRS 17 is a long overdue and positive shift of paradigm compared to IFRS 17's predecessor IFRS 4 Insurance Contracts. Notwithstanding the significant improvements to the financial reporting applying IFRS 17, EIOPA has reservations on a few concepts that may affect comparability and relevance of IFRS 17 financial statements and should be duly addressed:

- IFRS 17's principles on determining the applicable discount rate and risk adjustment may have exceeded the appropriate level of allowing for entity-specific inputs and consequently may give rise to significantly different and potentially incomparable results
- Issues such as level of contracts' aggregation or gains from reinsurance contracts held may lead to further complexity of the financial statements

With regards to the practical implementation of IFRS 17, EIOPA's analysis concluded that arguably crucial inputs and processes developed for Solvency II can be used, but may need adaptation to varying degrees. Besides the potential need for adaptation, significant efficiency gains are expected. These efficiency gains are most prevalent in the key building blocks of IFRS 17: cash flows, discount rate and risk adjustment.

The International Accounting Standards Board (IASB) issued IFRS 17 Insurance Contracts in May 2017. IFRS 17 sets out the requirements in relation to the accounting for insurance contracts and reinsurance contracts held.

IFRS 17 is effective from 1 January 2021 and is subject to an explicit endorsement before it becomes applicable in the EEA. IFRS 17 replaces an interim Standard—IFRS 4 Insurance Contracts.