

Insurers' initial views – IFRS 17 and IFRS 9

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Global IFRS Institute | Insurance



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Potential impacts of the new standards begin to emerge

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Many insurers and analysts have hailed IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments* as a positive accounting change, offering better comparability than IFRS 4 *Insurance Contracts*, aligning asset and liability measurement models and clearer presentation and disclosures in the financial statements. Some also believe that company valuations may increase over time due to the greater transparency under IFRS 17.

To consider insurers' views in more detail, we have analysed information provided by 26 insurers across the globe on the potential impacts of IFRS 17 and IFRS 9¹. This information was shared as part of their investor education sessions and/or their quarterly or half-yearly reporting (where relevant).

Our analysis highlighted that insurers expect:

- IFRS 17 will have a significant impact but it is primarily an accounting change;
- accounting mismatches and related volatility in the income statement will be significantly reduced under IFRS 17 and IFRS 9; and
- the new standards will not affect a company's strategy and its capacity to pay dividends.

What does our analysis show?

We set out our key insights in the table below. Our additional summary provides more [detailed analysis](#) on these and other areas.

1. Many of the 26 insurers have applied the temporary exemption from IFRS 9 and expect to apply it at the same time as IFRS 17 – i.e. from 1 January 2023.

<p>Accounting mismatches and related volatility</p>	<p>On 1 January 2023, many insurers will apply IFRS 17 and IFRS 9 at the same time. They expect accounting mismatches and related volatility in the income statement to be significantly reduced under these new standards. Aligning asset and liability measurement models is a key driver in reducing accounting mismatches in the income statement. For example, an insurer may elect to:</p> <ul style="list-style-type: none"> disaggregate insurance finance income and expenses between profit or loss and other comprehensive income (OCI option) for insurance liabilities and apply the 'hold to collect and sell' business model (fair value through OCI – FVOCI) for debt instruments; or not apply the OCI option for insurance liabilities and apply the fair value through profit or loss (FVTPL) business model for debt instruments. <p>We cover other mismatches in our more detailed analysis.</p>
<p>Shareholders' equity and profitability</p>	<p>Quantitative impacts presented thus far focus on the change in shareholders' equity and future profitability between IFRS 4 and IFRS 17. Some of the key drivers affecting shareholders' equity under IFRS 17 include (changes in) interest rates, the release of margins for prudence and offsetting recognition of the risk adjustment, measurement of options and guarantees and the timing of when profits are recognised (and related recognition of the contractual service margin – CSM – in the opening balance sheet).</p>
<p>Key accounting policy choices and judgements</p>	<p>Many insurers have already explained the principles they have applied in their key IFRS 9 and IFRS 17 accounting policy choices and judgements. Under IFRS 17, insurers can make a number of accounting policy choices – e.g. the use of OCI for changes in discount rates. In doing so, insurers will need to disclose the significant judgements they have made.</p>
<p>Life insurers vs non-life insurers</p>	<p>IFRS 17 is expected to impact life insurers significantly; non-life insurers less so.</p> <p>However, for some non-life insurers the impacts could be more significant – i.e. those with long-tail claims reserves that need discounting under IFRS 17 and those with longer coverage period contracts to which the premium allocation approach does not apply.</p>
<p>Key performance indicators (KPIs)</p>	<p>Some life insurers indicated that they expect there will be new KPIs and changes to existing KPIs. A few will leverage IFRS 17 new business values related to the CSM, whereas others plan to make certain non-GAAP adjustments. For non-life insurers, the common KPIs used (e.g. gross written premiums and combined ratio) are not expected to change significantly.</p> <p>However, for both life and non-life insurers, even though the KPIs will have a more consistent basis under IFRS 17, the individual (non-GAAP) adjustments that insurers expect to make will vary significantly and will take time to align over the coming years.</p>
<p>IFRS 9 impacts</p>	<p>For many insurers, implementing IFRS 9 will address accounting mismatches and related volatility but is otherwise unlikely to be significant. Most debt instruments will meet the solely payments of principal and interest (SPPI) criterion and the size of expected credit losses is not expected to affect insurers significantly. Some insurers indicated that a small proportion of their debt instruments will be recognised at amortised cost – e.g. those 'backing' the CSM balance.</p>

What are global rating agencies' expectations for insurers' credit ratings?

Rating agencies do not expect material changes in credit ratings because they do not expect insurers' underlying businesses to change, despite the significance of the new standards. Similar to insurers, they also expect that it will take several years for stakeholders to become acquainted with the new numbers and related KPIs under IFRS 9 and IFRS 17. They note various options for presenting combined ratios in the non-life sector and financial leverage ratios more broadly.

What's next?

Use our analysis to identify and benchmark the key information that you intend to provide in your next round of reporting. Also, with stakeholders expecting disclosures under IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* on the expected impact of IFRS 17 and IFRS 9 in your 2022 financial statements, read our guide [Insurers – reporting now and into 2023](#).

Some insurers have committed to providing the restated opening balance sheet in their 2022 annual reports and expect to issue first quarter results in May 2023. Others expect to include unaudited supplementary financial information on the impact of the new standards in separate IFRS 17 and IFRS 9 transition documents. As insurers share more detailed information on the new standards, we will seek to share more insights.

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