

Pre-Implementation Disclosure Requirements of IAS 8 for IFRS 17: A Study of Select Insurance Entities

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Abstract

The purpose of this study is to analyse and evaluate the quality of pre-implementation disclosures concerning IFRS 17, as mandated by IAS 8. These disclosures contain essential information for financial statement users, enabling them to understand the potential impact of forthcoming standards on the financial well-being of entities (I. Pavic, 2017). The study focuses on selected insurance entities, chosen based on criteria such as public accountability, net worth, and economic significance (AM Best credit rating agency, US, 2023). The researcher examines the requirements of IAS 8 and assesses the level of compliance. However, despite meeting the formal requirements of IAS 8, the study reveals a lack of meaningful disclosure.

Keywords: IFRS 17, IFRS 4, Insurance Contracts, IAS 8, Pre-implementation disclosure.

Abbreviations

CBIRC – China Banking and Insurance Regulatory Commission

CSM – Contractual Service Margin

EV – Embedded Value

FRA – Full Retrospective Approach

FVA – Fair Value Approach

GMM – General Measurement Approach

IACF – Insurance Acquisition Cash Flows

IAS – International Accounting Standard

IAS 8 – Accounting Policies, Changes in Accounting Estimates, Rectification of Errors

IFRS – International Financial Reporting Standard

IFRS 17 – Insurance Contracts

IFRS 4 – Insurance Contracts

MRA – Modified Retrospective Approach

NBV – New Business Value

OCI – Other Comprehensive Income

PAA – Premium Allocation Approach

SCF – Statement of Cash Flows

SOCIE – Statement of Comprehensive Income

SOPF – Statement of Financial Position

SOPL – Statement of Profit or Loss

VFA – Variable Fee Approach

Introduction

The concept of insurance is based on sharing of resources with common interests (Peter O' Neil, 2023). Insurance entities have one unique responsibility which makes them different from other businesses (Melani Luhramann, 2022). That is towards their policyholders as per contract because they are considered as trustee of their money. IFRS 17 helps insurance entities to fulfil this responsibility so far as fair presentation of business transactions is concerned (Mashadani, 2021). But the high level of uncertainty in the insurance business makes this task more challenging (Lucy Hayes, 2022). That is the reason for delay in finalising a complete standard on insurance contract (Deloitte, 2020), while the history of insurance trails back to the third and second millennia, B.C (III, Principles of insurance, 2020). Now IFRS 17 is applicable with effect from 1st Jan 2023 (IASB, 2021). Till 2022 IFRS 4 was applicable which was an interim standard (IASB, 2004). Under IFRS 4 financial statements were lacking transparency, comparability and fair presentation (Michelle Chong-Tai, 2020). Most of the insurance entities have published their financial results for the year 2022 (annual reports of respective entities, 2023). IAS

8 requires entities to disclose specific information about standards which have been issued but are not yet effective (para 30). This requirement aims to enable users of financial statements to understand financial impact of forthcoming standard Michail G. Bekiaris, 2005). Financial statements used for the present study are prepared as per IFRS 4. But future financial statements from 1st Jan 2023 will be based on IFRS 17. This study has verified whether select insurance entities have complied with the particular requirements of IAS 8 in respect of IFRS 17 or not.

Research Methodology

Financial statements used for this study are consolidated, audited and were prepared for the period ended 31 Dec 2022. These financial statements were sourced from the annual reports of insurance entities. All insurance entities under study are publicly accountable and having net worth of more than \$650 bn. All entities are strategically important for economic development of the country in which they operate (AM Best credit rating agency, US, 2023). Reliability of the data collected from the annual reports of select insurance entities was validated by finance professionals working in different insurance entities.

Theoretical Framework Underlying IAS 8's Disclosure Requirements

Paragraph 30 of IAS 8 mandates disclosure of upcoming standards that are not yet applicable. The table below illustrates the required disclosures and the corresponding compliance by the chosen insurance entities.

Table1: Requirements of IAS 8 and related compliance

	IAS 8 requirements	Admiral	Allianz	Aviva	Beazley	Prudential	Ping An Insurance	Axa SA	China Life Insurance	Generali	Aegon
1.	The fact that the IFRS 17 was issued by the IASB but not yet effective.	1	1	1	1	1	1	1	1	1	1
2.	Known or reasonably estimable information relevant to assessing the possible impact that application of the IFRS 17 will have on the entity's financial statements in the period of initial application.	1	1	1	1	1	1	1	0	1	1
3.	The title of the new IFRS – "IFRS 17 Insurance Contract"	1	1	1	1	1	1	1	1	1	1
4.	The nature of the impending	1	1	1	1	1	1	1	0	1	1

	change or changes in accounting policy.										
5.	The date of 1 st Jan 2023 by which application of the IFRS 17 is required.	1	1	1	1	1	1	1	1	1	1
6.	The date as at which it plans to apply the IFRS 17 initially.	1	1	1	1	1	1	1	1	1	1
7 (a)	Either a discussion of the impact that initial application of the IFRS 17 is expected to have on the entity's financial statements.	0	1	0	0	0	0	0	0	0	0
7 (b)	Or if that impact is not known or reasonably estimable, a statement to that effect.	1	1	1	1	1	1	1	0	1	1

In this table, a value of 1 indicates compliance with IAS 8, while a value of 0 represents non-compliance. In theory, most insurance entities, excluding China Life Insurance, are observed to be fully compliant with IAS 8. However, the disclosure of quantitative information and the expected financial impact of implementing IFRS 17 is not particularly noteworthy. While some companies provided details regarding the impact on equity, the amount of CSM, the measurement model chosen, the OCI option selected, the transitional approach, the discount rate approach, and the risk measurement approach, it should be noted that these entities also acknowledged that the estimates are subject to change as they continue to update the financial impact.

Table 2: Key disclosures from IFRS 17

Key disclosures	Admiral	Allianz	Aviva	Beazley	Prudential	Ping An Insurance	Axa SA	China Life Insurance	Generali	Aegon
Equity (at 1st Jan 2022)	Expected to reduce by £100 million	Expected to reduce by € 65.6 bn	Expected to reduce by £2.2 million	Expected to increase by 2%	Expected to increase by \$18.9 -	Not disclosed	Expected to reduce by Euro 20 bn	Not disclosed	Expected to reduce by Euro .3 bn	Expected to reduce by Euro 12.6 bn

	- £130 million	- € 84.2 bn	- £2.9 million		\$19.8 billion						
CSM at 1 st Jan 2022	£ 130 bn	Not disclosed	Not disclosed	Not disclosed	Not disclosed	Not disclosed	Not disclosed	Not disclosed	Euro 33 bn	Euro 11.8 bn	
Impact on profits (during the accounting year ending 2023)	Not disclosed	Expected to increase in case of non-life businesses. Expected to remain same in case of life businesses	Not disclosed	Expected to increase.	Not disclosed	Not disclosed	Not disclosed	Not disclosed	Not disclosed	Not disclosed	Not disclosed
Transitional Approach	FRA	Mixed	Mixed	Not disclosed	Not disclosed	MRA for most and FVA for few	Mixed	Mixed	Mixed	Mixed	Mixed
Measurement Model	PAA	Mixed	VFA and PAA	GMM	VFA and GMM for most and PAA for some	Mixed	Not disclosed	Mixed	Mixed	Mixed	Mixed
Discount rate	Bottom-Up	Bottom-Up	Bottom-Up and Top-Dow	Bottom-Up	Bottom-Up	Bottom-Up	Bottom-Up	Not disclosed	Bottom-Up	Not disclosed	Not disclosed
Impact on SOPL	Significant	Significant	Significant	Significant	Significant	Significant	Significant	Not disclosed	Significant	Significant	Significant
Impact on SOFP	Significant	Significant	Significant	Significant	Significant	Significant	Significant	Not disclosed	Significant	Significant	Significant
Impact on SCF	No impact	No impact	No impact	No impact	No impact	No impact	No impact	Not disclosed	No impact	No impact	No impact
Impact on disclosure in Notes	Significant	Significant	Significant	Significant	Significant	Significant	Significant	Not disclosed	Significant	Significant	Significant

OCI option	Not disclosed	Yes	Yes	Not disclosed	Not disclosed	Not disclosed	Yes	Not disclosed	Yes	Yes
Risk adjustments	85 th – 95 th percentile	Cost of Capital	Not disclosed	85 th percentile	Confidence level approach	Not disclosed	Not disclosed	Not disclosed	Percentile approach	Not disclosed

The Impact on Equity: It varies among the companies analysed. Except for Prudential and Beazley, all other companies expect a decrease in equity during the transition period. It is worth mentioning that Ping An and China Life Insurance have not provided information on the anticipated impact on equity.

CSM at Transition; It has been disclosed by Admiral, Generali, and Aegon, and it appears to be a substantial amount. This suggests a significant impact on revenue since CSM represents the revenue that will be recognized in the future as insurance services are provided.

Impact on Profitability: Allianz has mentioned that its equity is expected to increase in case of non-life segment. But for life segment, it is expected to remain same. Beazley is also expecting increase in profitability due to IFRS 17. Other entities have not disclosed impact on profitability.

Transitional Approach: Most entities will adopt a mixed approach, except for Admiral, which will solely apply the Fully Retrospective Approach (FRA). On the other hand, Ping An will adopt the Modified Retrospective Approach (MRA) for most contracts and FRA for a few contracts.

Measurement Model: Admiral will apply PAA approach, Beazley will apply GMM approach, Aviva will apply VFA and GMM approach and remaining entities will apply mix of all approaches depending upon nature of contracts. Axa has not disclosed about measurement model.

Discount Rate: All entities will use bottom-up approach to measure discount rate except for Aviva which will use both bottom-up and top-down approaches. China life insurance has not given any disclosure about it.

Impact on Financial Statements and Key Metrics: When it comes to impact of IFRS 17 on SOFP, SOPL, Notes and key metrics, all entities are expecting significant impact. But they do not expect any significant impact on their ability to generate cash flows and the way they are doing the business. To assist investors in better understanding the impact of IFRS 17, certain entities are expected to disclose key metrics based using existing methodology for a period of time. This transitional disclosure aims to provide a clearer picture of the changes resulting from the implementation of IFRS 17. China life insurance has not given any disclosure regarding this.

OCI Option: IFRS 17 provides option to disaggregate finance income and expenses in SOPL and OCI. Companies that have disclosed their decision have chosen to exercise this option. However, Admiral, Beazley, Prudential, Ping An, and China Life Insurance have not provided any disclosure regarding their decision on utilizing this option.

Risk Adjustments: Admiral, Beazley, and Generali will employ the percentile approach. Allianz will utilize the cost of capital approach, while Prudential will adopt the confidence level approach. However, other entities have not provided any disclosure regarding their chosen approach for risk adjustments.

Common observations

Consistency in Accounting Policies: Insurance entities acknowledge that under IFRS 4, non-uniform accounting policies were followed within the group. With IFRS 17, consistent accounting policies will be adopted for all jurisdictions.

Revenue Based on Insurance Services: Under IFRS 17, insurance revenue will no longer be based on underwritten premiums but will instead be based on the provision of insurance services.

Areas with Significant Impact: Significant impacts of IFRS 17 can be observed in areas such as discounting, more granular testing for onerous contracts, risk adjustment requirements, deferment of insurance revenue as CSM, contract boundaries, GMM, IACF treatment, and deferred taxes due to changes in insurance liabilities.

Difficulty in Quantifying Financial Impact: Many insurance entities have not been able to quantify the likely financial impact of IFRS 17 on their SOPL for the year ending December 31, 2023.

Different Treatment for Long-term and Short-term Contracts: Under IFRS 17, the treatment of insurance contracts differs for long-term and short-term contracts. Long-term contracts will have the IACF deferred over time, while short-term contracts will expense it immediately in the SOPL, unlike the practices followed under IFRS 4.

Optional Exemption from Annual Cohort Requirements: Majority of insurance entities in Europe will apply the optional exemption from annual cohort requirements provided by IFRS 17. Few entities have decided not to choose it and few will decide it once its impact is clearer.

Adjustment of Receivables and Cash Flows: IFRS 17 requires insurance receivables and deferred insurance cash flows to be adjusted against insurance liabilities, instead of being shown as separate assets.

Measurement Approaches: Most short-term insurance contracts will be measured using the PAA, while most long-term contracts will be measured using the GMM. Contracts with direct participation features will use the VFA.

Similar Financial Results: Financial results obtained from the PAA approach are similar to the results under IFRS 4.

Exclusion of Investment Component: Currently, many insurance entities report the investment component of insurance contracts in the SOPL, but under IFRS 17, it will be excluded from insurance revenue.

Limited Impact on Solvency Ratio: IFRS 17 is not expected to have a significant impact on the solvency ratio measured as per the regulatory requirements of Solvency of Insurance Companies (II) issued by CBIRC.

Reclassification of Financial Assets: IFRS 17 provides the option to reassess the business model for reclassification of financial assets associated with insurance liabilities. Many insurance entities have decided to reclassify some financial assets from amortized cost to fair value through other comprehensive income, aiding in asset-liability management.

Disclosure of Key Performance Indicators: Most entities will continue to disclose key performance indicators calculated as per the current requirements to provide important information, such as EV and NBV measured under Standard for Actuarial Practice.

Onerous Contracts at Inception: It is expected that a greater number of contracts will be classified as onerous at inception under IFRS 17 compared to IFRS 4, due to the detailed analysis required.

Optional Exemption from Cohort Requirements: The European Union has provided an optional exemption from annual cohort requirements in certain cases, and most companies will consider this option.

Impact on Estimation of Future Cash Flows: IFRS 17 is likely to impact the estimation of future cash flows for fulfilment cash flows.

Most of the entities have prepared draft opening balance sheet as on 1st Jan 2022 as per IFRS 17 and efforts to prepare quarterly financial statements for the period ended 31st Dec 2022 are underway.

Conclusion

The research paper systematically examined the pre-implementation disclosure requirements of IAS 8 for IFRS 17 in select insurance entities. While most of the insurance entities appeared to fulfil the requirements of IAS 8 on paper, the true sense of disclosure was found to be lacking. The study revealed that the disclosures regarding the quantitative information and the expected financial impact of implementing IFRS 17 were not particularly remarkable.

The impact on equity varied among the analysed companies, with the majority of entities expecting a decrease in equity during the transition period. The disclosure of the anticipated impact on equity was missing for Ping An and China Life Insurance. The study also highlighted the substantial amount of CSM disclosed by Admiral, Generali, and Aegon, indicating a significant impact on revenue.

In terms of the impact on profitability, only Allianz mentioned an expected increase in equity for its non-life segment, while the impact on the life segment was expected to remain the same. Other entities did not disclose the impact on profitability. It was observed that most entities planned to adopt a mixed approach for the transitional period, except for Admiral and Ping An, who had different approaches.

Regarding measurement models, different entities chose different approaches depending on the nature of their contracts, although Axa did not disclose its measurement model. The use of the bottom-up approach for discount rate measurement was common among entities, with Aviva being the only exception.

Overall, the research paper found that while insurance entities were compliant with the theoretical requirements of IAS 8, the disclosures lacked significant details and depth. The study identified areas of significant impact, such as discounting, risk adjustment requirements, and changes in insurance liabilities. However, many entities faced difficulty in quantifying the financial impact of IFRS 17 on their Statement of Profit or Loss for the year ending December 31, 2023.

In conclusion, the research paper highlights the need for more comprehensive and meaningful pre-implementation disclosures in order to provide users of financial statements with a clearer understanding of the impact of IFRS 17 on insurance entities' financial health. The findings suggest that insurance entities should strive to improve their disclosure practices to ensure transparency, comparability, and fair presentation of financial information.

Limitations

The study did not encompass every insurance organization, which leaves open the possibility that certain other insurers may have presented dissimilar disclosures when compared to the evaluation conducted in this study.

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