



The 2025 CFRR Ministerial Conference

IFRS 17

Implementation successes and challenges

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The views expressed in this presentation are my own and not necessarily those of any organization with which I am associated.

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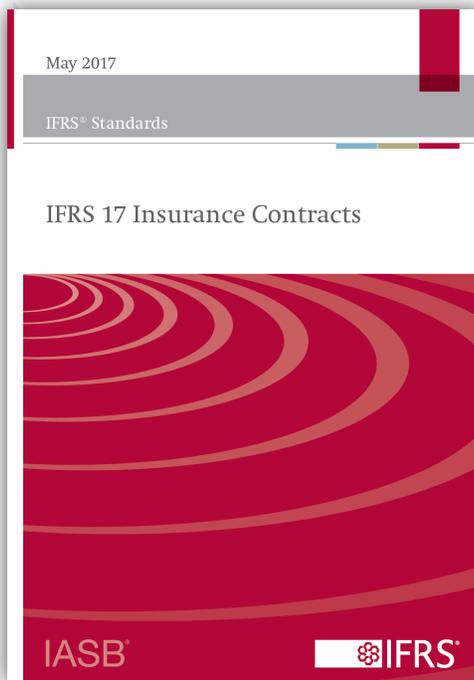


European Union



Introduction

IFRS 17 Insurance Contracts

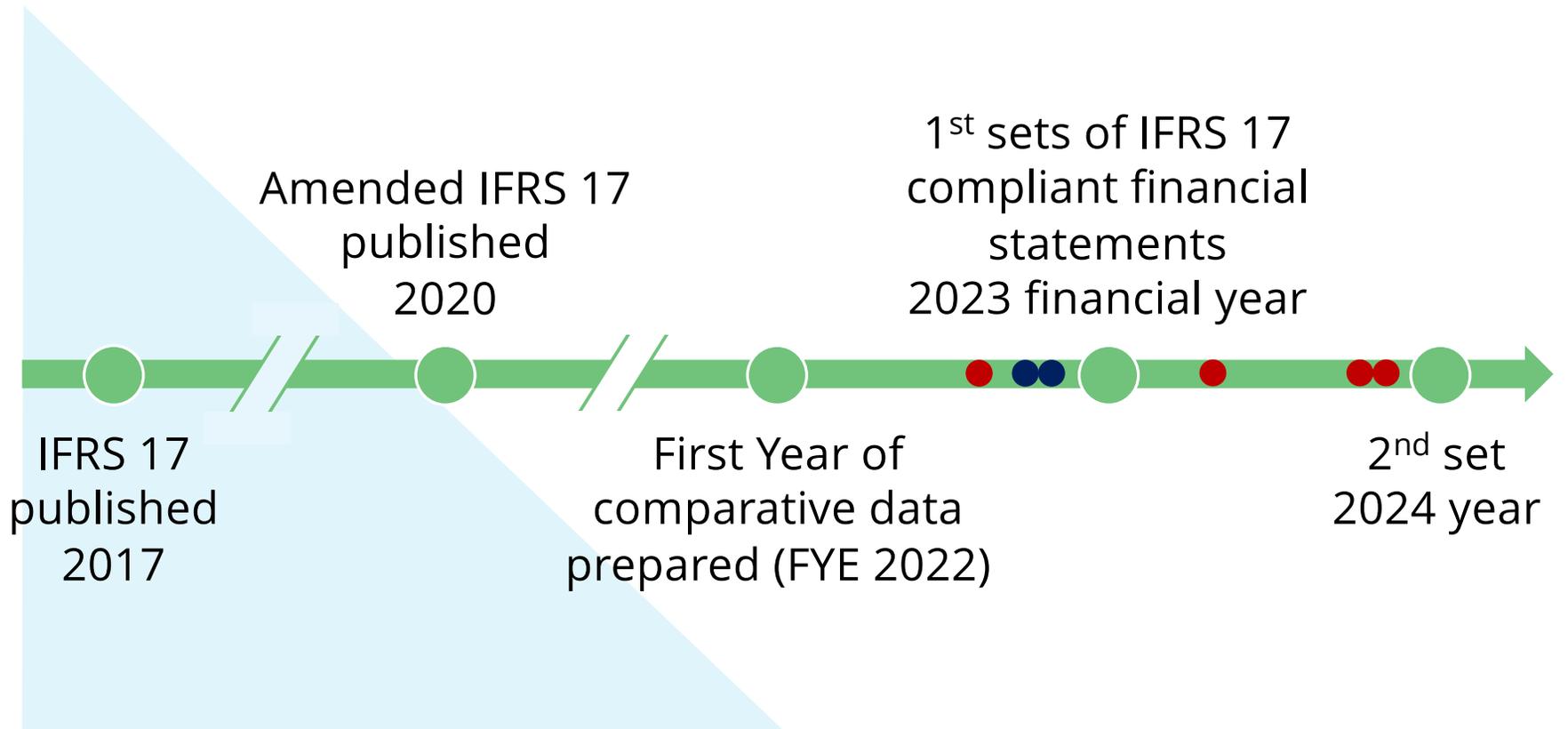


» IFRS 17

- » replaces an interim Standard—IFRS 4
- » requires consistent accounting for all insurance contracts based on a current measurement model
- » will provide useful information about profitability of insurance contracts
- » Effective 2023
 - » one year restated comparative information
 - » early application permitted



Progression





Newest information

Regulatory reviews of IFRS 17 reporting

- » FRC UK: [*IFRS 17 'Insurance Contracts' Disclosures in the First Year of Application*](#), September 2024

We were pleased with the overall quality of disclosure of insurance contracts under IFRS 17 in our sample, including transition-specific disclosures. We [consider] that disclosures of significant judgements and estimates, and accounting policies, are more useful when entity specific. Boilerplate language should also be avoided.

- » ESMA: [*From "black box" to "open book"? Evidence from the first application of IFRS 17 Insurance Contracts*](#), October 2024

Overall, results show that the disclosure requirements have in many cases been well covered in the financial statements of insurance companies in the sample. However, there is room for improvement in the level of granularity and transparency.... In general, ESMA notes the low level of entity-specific details in some areas.



Newest information

Regulatory reviews of IFRS 17 reporting

» EIOPA: [*IFRS 17 Report on implementation & synergies and differences with Solvency II*](#), April 2024

The report highlights several differences among both frameworks, including the alternative valuation methods allowed by IFRS 17, the Variable Fee Approach and the Premium Allocation Approach.

Despite the existing differences, respondents highlighted very material synergies with the Solvency II framework on several aspects, including contract boundaries identification, cashflow projection, risk adjustment calculation and, in particular, the determination of discount rates.

Internal application



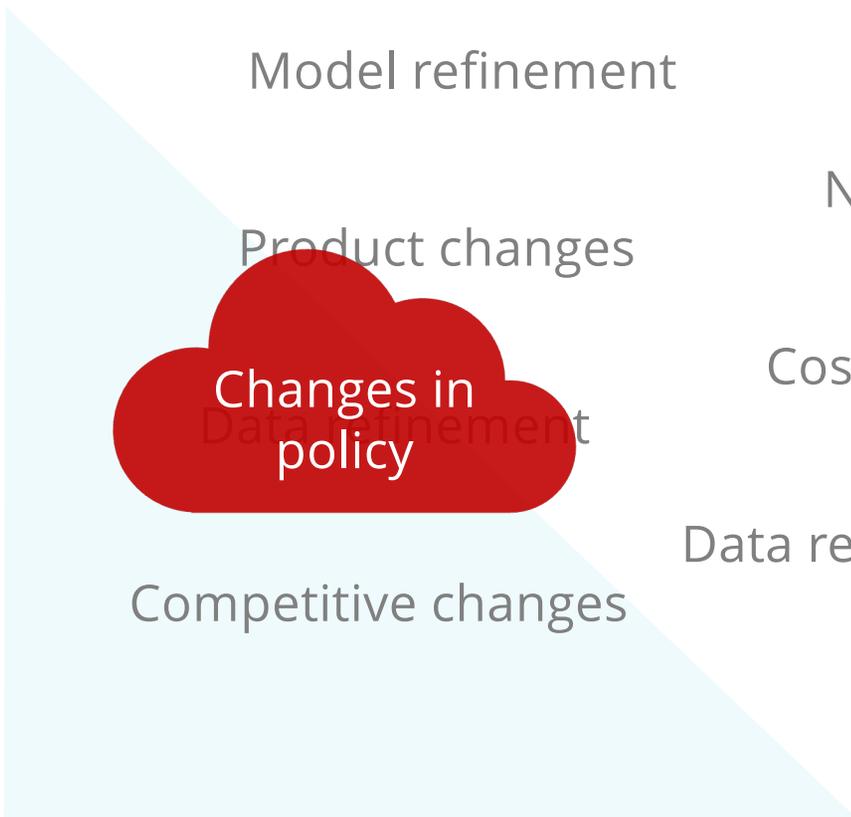
Internal management accounting

- » No formal research yet available
- » Anecdotal evidence only, based on:
 - » Reviewing financial statement commentary
 - » Discussion groups
 - » Direct experience
- » Early evidence indicates IFRS 17 based approaches are dominating internal reporting
 - » Approach supports external reporting
 - » Supports remuneration, and
 - » Is considered genuinely useful

Changing outcomes
Second year of reporting



2025 Words of the year (IFRS 17)



Model refinement

Product changes

Changes in policy

Competitive changes

New models

Cost allocation

Data recalibration



Once off events
Errors

Modelling change

New data acquisition



Changes in estimate

Product repricing



Changing Accounting Policies



Changing accounting policy

When can you change accounting policies?

An entity **shall change** an accounting policy **only if**

- **required** to by an IFRS; or
- results in the financial statements providing reliable and **more relevant information** IAS 8.14

The following **are not** changes in accounting policies:

- **application to transactions**, other events or conditions that **differ in substance** from those previously occurring; and
- **application to transactions**, other events or conditions that **did not occur previously or were immaterial** IAS 8.16



Changing accounting policy

How do you account for a change accounting policies?

A change resulting from initial **application of an IFRS** is accounted for in accordance with specific transitional provisions, if any, of that IFRS;

Changes an accounting policy are **applied retrospectively** for

- initial application of an IFRS that does not include specific transitional provisions, or
- Voluntary changes in accounting policy ^{IAS 8.19}

Unless and to the extent that it is **impracticable** ^{IAS 8.23}



Accounting estimates



Accounting estimates

What is an accounting estimate?

- IAS 8 notes that because of uncertainties inherent in business activities:
 - many items in financial statements can only be estimated
 - estimation involves judgements based on the latest available, reliable information ^{IAS 8.32}
- Use of reasonable estimates is an essential part of preparation of financial statements and does not undermine their reliability ^{IAS 8.33}



Changes in Accounting Estimates



Changing accounting estimates

What is a change in accounting estimate?

- An **adjustment of the carrying amount** of an asset or a liability, or the amount of the periodic consumption of an asset,
- That results from an **assessment of the present status** and expected future benefits and obligations associated with, assets and liabilities.
- Changes in accounting estimates **result from new information or new developments** and, accordingly, are not corrections of errors

IAS 8.5 (definition)



Changing accounting estimates

What is a change in accounting estimate?

- An estimate may need revision if there are **changes in circumstances or new information** or experience. A revision of an estimate doesn't relate to prior periods and **is not a correction of an error** IAS 8.34
- A change in **measurement basis** applied is a change in an accounting **policy**, not estimate.
- **When it is difficult to distinguish** a change in a policy from a change in estimate, the change is treated as a change in an accounting estimate. IAS 8.35



Changing accounting estimates

How do you account for a change accounting estimate?

- Changes in accounting estimates are **recognised prospectively** in profit or loss in:
 - the **period of change**, if change affects that period only; or
 - the **period of change and future periods**, if the change affects both IAS 8.36
- To the extent that a change gives rise to changes in assets and liabilities or equity, it is **recognised by adjusting the carrying amount of the asset, liability or equity in the period** of the change IAS 8.37



Prior period errors



Prior period errors

What is a prior period error?

- Prior period errors are omissions and misstatements in the financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:
 - was available when financial statements for those periods were authorised for issue and
 - could reasonably be expected to have been obtained
- Errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud IAS 8.5 (definition)



Current period errors

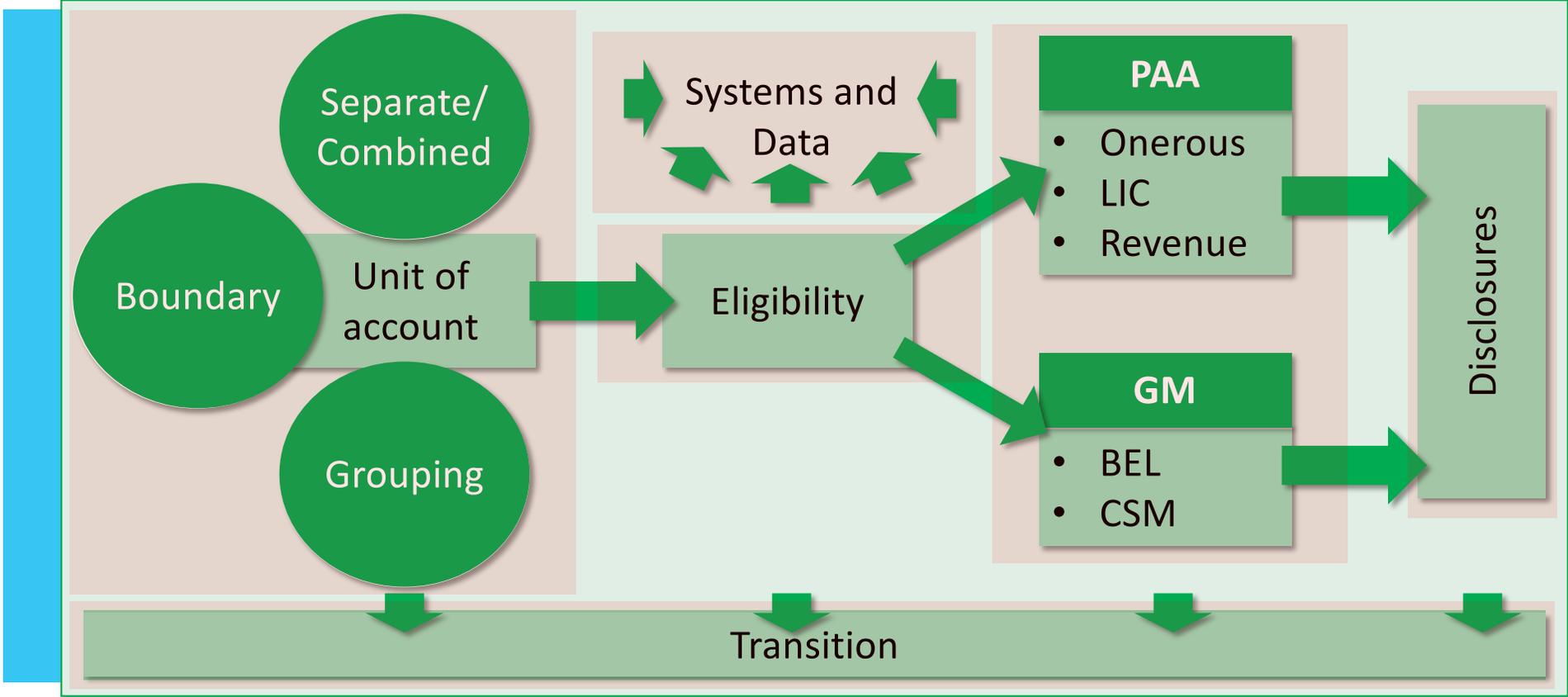
Current period errors

- Financial statements **do not comply with IFRS** if they contain either
 - **material errors** or
 - **immaterial errors made intentionally** to achieve a particular outcome
- Current period errors **are corrected before** financial statements are authorised for issue.

Discussion



Key Judgments and estimates





Contract terms



Judgement Combination and separation

Key Judgements

Unit of account

1. Explicit **contract wording**

2. Substance over form

(implied terms):

- Past practice
- Law and regulation
- Other materials
- Hurdle is high

Regulator response

- **Monitor disputes** and inconsistencies
- Facilitate **insurer collaboration**
- **Comparative** analysis
 - Common contracts

Unlikely to impact regulatory reporting

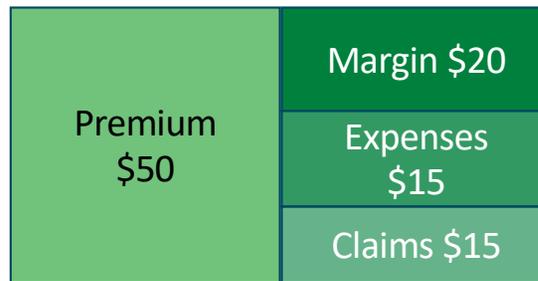


Example Combination and separation

Composite product



Core contract



Rider





Example Combination and separation

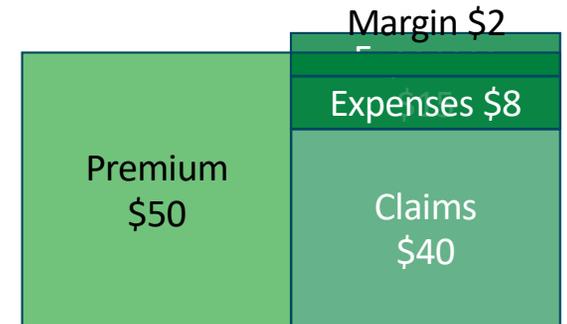
Composite product



Core contract



Rider





Contract Boundary



Judgement **Contract boundary**

Key Judgements

Duration of coverage

1. Contractual **terms**

2. Substance over form

- Past practice
- Law and regulation
 - Insurance and
 - Consumer law
- Other materials

Regulator response

- *Consider inclusion in Impact assessment*
- **Comparative** analysis
 - Common contracts
- **Interact** with other regulators

May change regulatory reporting

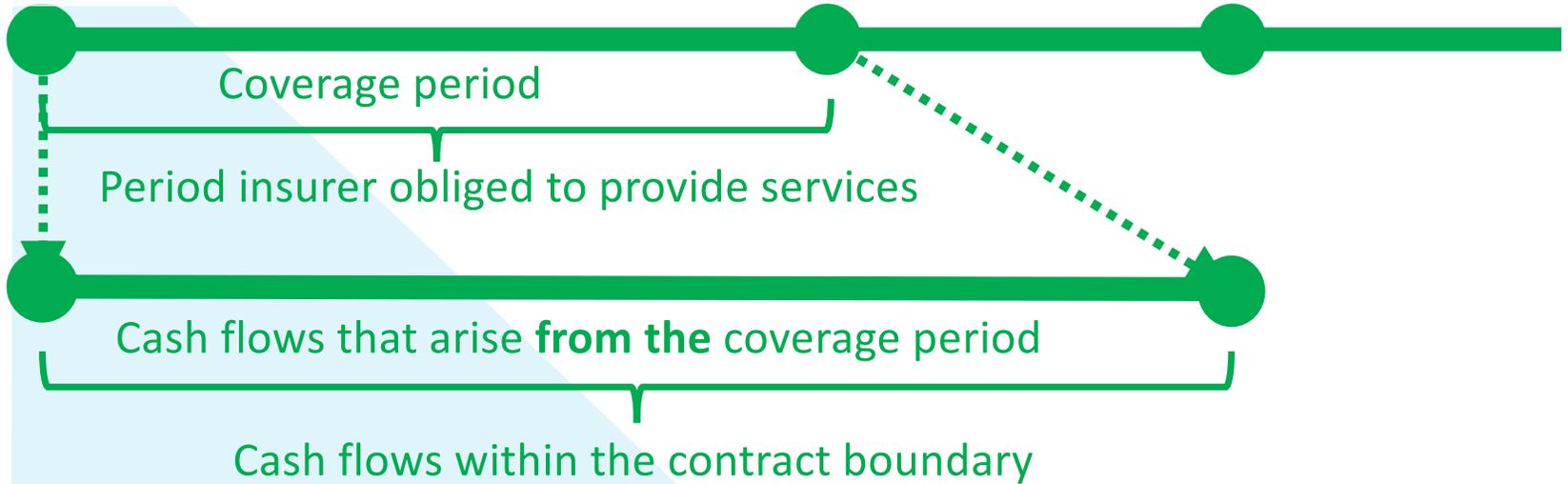


Contract Boundary Timing

Commencement
1 January 2023

Last day of
coverage
31 December 2023

Last claims date
for
31 March 2024





Level of aggregation



Judgement Level of Aggregation

Judgement

1. Portfolio designation
 - **Evidenced** by internal accounts
 - Similar risks
2. **Initial profitability**
 - Either full test (GM or VFA), or
 - Facts and circumstances

Regulator response

- Interaction with **other regulators** (price regulation)
- Comparative **analysis**
 - Similar risks

Unlikely to change regulatory reporting



Example Level of Aggregation

Life Insurance Group



Whole of Life



Term Life





Data



Challenge D1

Data

Key Challenges

1. Existing data

- **Robustness**/reliability
- Verifiability
- Consistency with IFRS

2. New data

- Source
- Back testing
- Plus same for existing data

Regulator response

- Identify **data gaps**
- **Supplementary data** (eg interest rates)
- **Comparative** analysis

Likely to change regulatory reporting



Data **Regulatory intervention**

What **can regulators do** about absence of data?

» Some **specific approaches** that regulators have applied:

Action	Rationale
Include data preparedness in ORSA and/or bilateral/trilaterals	<ul style="list-style-type: none">• Increases the focus on data issues• Identifies early if concerns
Provide source of data (use-or-explain): <ul style="list-style-type: none">• Interest rate curve• Averaged loss ratio data	<ul style="list-style-type: none">• Provides consistent source of industry data• Permits insurers to deviate
Publish ongoing claims data	Updated data for insurers
Support actuarial collaboration	Supports sharing of information



Eligibility for Simplified approach



Judgement Eligibility for Simplified approach

Judgement

Subject to contract boundary and separation/combination

1. Contract boundary decision is key
 - Automatic renewal
 - Long dated claims
2. If longer than 1-year, significant judgement

Regulator response

- Interaction with other regulators
- Comparative analysis
 - Thresholds

Unlikely to change regulatory reporting

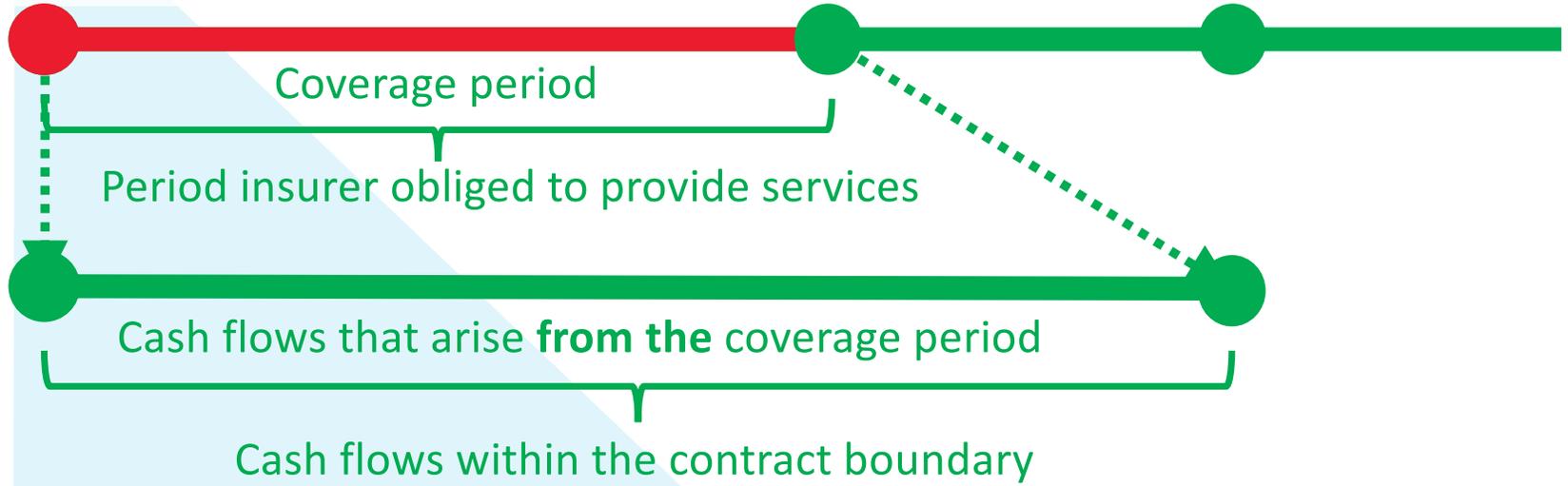


Contract Boundary Reminder of contract boundary

Commencement
1 January 2023

Last day of
coverage
31 December 2023

Last claims date
for
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General measurement model - BEL



Judgement

General measurement model - BEL

Judgement

Comprises

- future cash flows
 - discount rate
 - Risk margin
1. Modelling cash flows
 2. Sourcing reliable external data
 3. Activity costing

Regulator response

- Supplementary data (eg interest rates)
- Comparative analysis
 - Which interest rate curves etc
- Consider how output will be used

Likely to change regulatory reporting



General Measurement Model **Discount rates**

- » Determining the **discount rate**, i.e. the **risk-free interest rate curve** for discounting the cash flows of an insurance contract according to IFRS 17?
- » This is **complicated**, especially for:
 - » **Long dated contracts**
 - » **Jurisdictions without liquid long-term debt or swap instruments**
- » IFRS 17 provides **significant guidance**
- » Many jurisdictional regulators providing guidance **on a 'use of explain' basis**
 - » **But for example see ESMA/EIOPA comments**



General measurement model - CSM



Judgement

General measurement model - CSM

Judgement

Calculated at inception,
tracked thereafter

1. Allocation of CSM over time
2. Distinction between experience and future adjustments

Regulator response

- Comparative analysis
- CSM allocation methods for common products

Unlikely to change regulatory reporting



Data



Challenge D1

Data

Key Challenges

1. Existing data
 - Robustness/reliability
 - Verifiability
 - Consistency with IFRS
2. New data
 - Source
 - Back testing
 - Plus same for existing data

Regulator response

- Identify data gaps
- Supplementary data (eg interest rates)
- Comparative analysis

Likely to change regulatory reporting



Data **Regulatory intervention**

What **can regulators do** about absence of data?

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Publish ongoing claims data	Updated data for insurers
Support actuarial collaboration	Supports sharing of information



Disclosures



Judgement C1 **Disclosure**

Key Judgements

1. Forward looking disclosures
2. Risk discussion and analysis
3. Completeness of disclosures
4. Description of policy choices

Regulator response

- Facilitate market communication
- Anticipate systemic issues
- **Clarify IFRS reviews**

Unlikely to change regulatory reporting



Systems



Challenge D2 Systems

Key Challenges

1. Existing systems
 - Robustness/reliability
 - Verifiability
 - Controls
2. New systems
 - Compatibility with old
 - Testing of systems
 - Plus same for existing data

Regulator response

- Monitor outcomes
- Identify gaps
- Set milestones

**Unlikely to change
regulatory reporting**



Changes from existing non-life accounting



Judgement A2

Changes from existing non-life accounting

Judgement

- Most jurisdictions use a form of UPR method
- Very similar to PAA, but:
 - 1.Revenue
 - 2.Onerous contracts
 - 3.Liability for incurred claims
 - 4.Remapping

Regulator response

- Supplementary data (eg interest)
- Comparative analysis
 - Extent of change

Unlikely to change regulatory reporting



Transition



Judgement Transition

Judgement

1. Fully retrospective unless Impracticable
2. Choice between modified retrospective and fair value
 - Best available approach
 - Estimations
 - Fair value

Regulator response

- Comparative analysis
 - Chosen method
- Data sharing

**Unlikely to change
regulatory reporting**

Thank you