AccountancyAge

IASB insurance contract rules “a new world” for insurance

by Mark Sands, Post 21 Jun 2013

THE IASB PROPOSALS, which can be found here, were constructed following a public consultation on plans first published in 2010, and represent a move towards a common insurance reporting framework.

The Exposure Draft seeks to make it easier to understand how insurance contracts affect a firm's financial position, performance and cash flow, by changing the presentation and measurement of contracts, *Accountancy Age*'s sister title *Post* reports.

Joachim Kölschbach, KPMG's global IFRS insurance leader, said: "This would be the biggest ever financial reporting change for most insurers - far surpassing the adoption of IFRS. The extent of change would be far-reaching, and there is no question that insurers' financial statements would look very different compared to today.

He added that the IASB's goal of creating standardised insurance reporting would represent a significant improvement in transparency.

"This would be a new world for insurance - a world in which financial reporting metrics and stakeholders' perceptions of insurers would change," Kölschbach said.

The IASB has refined rules on quantification, asking that firms recognise changes in estimates of future profits for insurance coverage in the period in those profits are set to be earned.

Changes to rules on presentation include exceptions on where no mismatch on an insurance contract and assets is possible, though the IASB is also seeking to maximise comparability of balance sheets created before and after the rules.

Under the new model, experts expect increased volatility in the profit and loss accounts of insurers, though it is also expected to provide a more accurate reflection of risks and liabilities.

PWC's global accounting services financial instruments leader Gail Tucker agreed the proposals will "fundamentally change the accounting by all issues that issue insurance contracts."

"Combined with regulatory changes such as Solvency II, adopting this new standard will be a significant challenge for the industry. As a consequence, insurers will need to overhaul their systems and performance reporting," Tucker said.

She added: "Nevertheless, insurers should welcome the revised Exposure Draft as a significant step towards achieving a single accounting model, which will enable better global comparability."

Deloitte's global IFRS insurance leader Francesco Nagari agreed that the draft represents a positive step for the industry.

"Consistency and transparency are what capital markets need to get better clarity and comparability around insurers' reporting and it could act as an incentive for investors to pay closer attention to the insurance sector," he said.

The IASB is seeking feedback on the changes in a comment period scheduled to run until 25 October.

It has also pledged undertake "field testing" and "outreach activities" while the consultation takes place, including two live webcasts.

Announcing publication of the proposals, IASB chairman Hans Hoogervorst said: "We are approaching the end of this important project to bring consistency and transparency to the accounting for Insurance contracts. The document published today responds to concerns expressed about non-economic volatility resulting from our previous proposals."

The rules are expected to come into effect from 2018.