

The International Accounting Standards Board (the Board) issued IFRS 17 Insurance Contracts in May 2017 to replace IFRS 4. IFRS 17 sets out the requirements for reporting information about insurance contracts issued and reinsurance contracts held. Insurance companies are required to implement IFRS 17 along with IFRS 9 from January 1, 2022 and prepare its financial statements for the year ending December 31, 2022 in accordance with the requirements of IFRS 17 and IFRS 9, including the quarterly interim financial statements with comparatives.



OVERVIEW OF CLASSIFICATION OF INSURANCE CONTRACTS

An entity shall apply IFRS 17 to the following:

- Insurance contract, including reinsurance contracts it issues;
- Reinsurance contracts it holds; and
- Investment contracts with discretionary participation features it issues, provided it also issues insurance contracts.

Additionally, the eligibility of the contracts will differ whether the company uses the simplified approach, the Premium Allocation Approach (PAA) or the Building Block Approach (BBA)

Application to these standards will require a detailed analysis of pertinent agreements, facts and circumstances along with the appropriate knowledge and expertise on interpreting the standard; and significant disclosures and judgment.

OUR TEAM



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HOW SRCO CAN ASSIST WITH YOUR TRANSITION TO IFRS 17

Significant accounting changes are expected to occur under the IFRS 17, specifically for life insurers. The type of financial assets held by an insurer typically depends on the characteristics of the liabilities or obligations for which the assets are being held and invested. Sources of complexity include use of current estimates, disaggregating changes in liability for remaining coverage, tracking the contractual service margin at a group level. Accounting for non-life insurers may have similarities to current practices but impacts may arise around qualifying for the premium allocation approach, liability for incurred claims discounting and onerous contracts.

SRCO has developed a diagnostic tool to assist companies with the adoption of these new and complex accounting standards. We work with our clients in a collaborative manner for adoption of new standards as described below:

Phase I: Gap Analysis involves identifying differences between IFRS 4 and IFRS 17, IAS 39 and IFRS 9 and assessing the impact on operational and IT processes.

Phase II: Financial Impact Assessment involves understanding of actuarial methodologies, assumptions, and models, perform actuarial calculations of each product either under premium allocation approach or variable fee approach, and calibrate actuarial assumptions like discount rate, yield curve formulations in consultation with claims, underwriting, reinsurance, including the impact on IFRS 9 classification and expected credit loss on financial assets.

Phase III: Implementation Procedures and Guidelines involves documenting of accounting policies, processes and procedure, implementing IT solutions, assessing downstream business impacts, changing financial statement close process, detailed technical reviews and revising internal and external reporting to all stakeholders, including revision of the actuarial framework as per IFRS 17. This phase includes developing various actuarial scenarios, development of ECL model for financial assets carried on amortized costs, including reinsurance receivables and recoverables, the governance structure, completing the disclosure checklist, developing IT solutions and communicating with the Board.

Phase IV: Post-Implementation and Dry-Run ensures, compliance with IFRS 17 reporting requirements, the systems are implemented and becomes part of the business as usual, ensure the accounting and actuarial policies and procedures are updated for the requirements of local regulatory authorities, IFRS 17 and IFRS 9 including the actuarial guidance and ongoing changes to IFRS 17.

SRCO provides regular reports on the project and change management throughout the various phases in regular meetings with various stakeholders.

OUR EXPERIENCE

- SRCO specializes in assisting businesses in the implementation of IFRS and other standards
- We have assisted in the implementation of IFRS 9 for multiple private and public companies in Canada and KSA
- We have validated ECL model for banks in Bahrain and North America
- Our industry experience in the Middle East and North America includes financial institutions like commercial banks, merchant banks, investment companies, non-banking financial corporations
- Our actuarial team includes acknowledged experts having assisted global insurance companies globally with IFRS 17 implementation
- Our IFRS lead partner, Sameer Parekh, is an acknowledged expert in the implementation of IFRS 9, having assisted two of the top 10 Canadian banks.

OUR ACTUARIAL AND IT TEAM



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Audits of insurance companies including audits of conversions to IFRS 17



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