



Insurance contracts – more transparency for investors

Australian insurance analysts and preparers will benefit from improved international comparability offered by IFRS 17 *Insurance Contracts*, issued today by the International Accounting Standards Board.

Australia has led the way with transparent reporting of an insurer's risk, exposure, profitability and financial position with AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts* (effective since 1990 and 1998 respectively).

Like AASBs 1023 and 1038, IFRS 17 is based on current values, meaning international insurers will no longer be permitted to use historical cost in their financial statements. Internationally, IFRS 17 will result in significantly more insurance liabilities being recognised.

Australian Accounting Standards Board (AASB) Chair Kris Peach said, "Insurance accounting has sometimes been considered by investors as a 'black box'. IFRS 17 will help analysts compare insurers with non-insurance entities, as the revenue and expenses in the statement of financial performance will now be determined similarly to other entities."

Australian investors will also appreciate the greater granularity provided by IFRS 17, as it reduces opportunities to combine unprofitable and profitable business within one portfolio, resulting in earlier recognition of losses.

Ms Peach commented, "IFRS 17 is validation that our decision to move to current value insurance accounting has served Australian investors well. The Australian experience is clearly reflected in the requirements of IFRS 17."

Ms Peach noted, "At first glance IFRS 17 appears very consistent with AASBs 1023 and 1038 however, there are some subtle differences that need to be carefully considered. Life insurers – and general insurers providing products with long term coverage – are likely to find increased complexity when implementing IFRS 17, while other general insurers are likely to experience limited impacts. Whilst the effective date of 1 January 2021 seems a long way off, system changes should be identified early."

IFRS 17 treats insurance products with similar risks in the same manner, regardless of how they are labelled, ie 'general', 'life' or 'health' insurance. This may be beneficial for some life insurance entities as some of their products will now qualify for a simpler way of determining their insurance liabilities.

Ms Peach said, "Given our long history with insurance accounting, some Australian preparers may feel that IFRS 17 introduces unnecessary complexity, however, due to our existing standards, they are well-positioned for transition and the benefits of a more level international playing field will be significant."

IFRS 17 will be considered for adoption in Australia by the AASB by the end of July. If adopted, it will replace AASBs 1023 and 1038.

More information about IFRS 17 can be found on the [IFRS website](#).

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