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IFRS and Insurance Companies Competitiveness

Attilio Laganà



IFRS and Insurance Companies Competitiveness

Summary:

- A preliminary remark
- IAS, IFRS vs Markets
- IAS/IFRS key points and theoretical impact on the competitiveness of Insurance Industry
- From theory to reality



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IFRS and Insurance Companies Competitiveness

A preliminary remark

Italian Insurance Companies approach in competing has already had a great evolution during the last few years when it started the process in redefining the "rules of the game".

International Accounting Standards recently issued come in such a process with the theoretical purpose to foster the Insurance Companies Competitiveness through:

- More opportunities for the companies to innovate their way to do in business, within wider general principles, adopting new business/organizational solutions
- Accounting principles based on any specific asset liability own nature more than on their formal classification
- Wider and more effective communication provided by Insurance Companies



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IAS, IFRS vs Markets

Reversing the usual view to the International Accounting Standards we can say that they are mainly focused to support:

- A. Capital Markets "ex ante" financing the Company activity
- B. Consumer Markets "ex post" remunerating Company activity through buying products/services
- C. The development of Insurance Industry as a consequence of both two previous items combination.



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IAS, IFRS vs Markets

Indeed:

- More freedom of enterprise and a better communication are expected to give rise to an increasing in financing the most efficient Companies only
- An increase in Company innovation and efficiency is expected to give rise to an improvement in the "economic quality" of the products and services offered to the final consumers. As a consequence the final consumers should be led to greater pretension in selecting the products/services they buy.
- The economic impact arising from combination of the factors described above (i.e. greater selection in financing the Companies "ex ante" as well as in remunerating their activity "ex post") should provoke a sort of Darwinist selection in the markets.



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IAS/IFRS key points and theoretical impact on the competitiveness of Insurance Industry

- Each product/service own characteristics as the main driver of the applicable Accounting Principles
- Attempt to identify Principles applicable to "Areas" of omogeneous products (and then to "omogeneous areas of market")
- Demand for an "active and responsible" behaviour of the Company Management in the application of the International Accounting Standards.




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IFRS and Insurance Companies Competitiveness

IAS/IFRS key point and theoretical impacts on the competitiveness of Insurance Industry

AREA FOCUS	ITALIAN INSURANCE INDUSTRY	ITALIAN INSURANCE AND FINANCIAL SECTOR	INTERNATIONAL INSURANCE AND FINANCIAL SECTOR
CAPITAL MARKET (ex ante)	<ul style="list-style-type: none"> ■ "Communication" rather than "information" ■ Greater attention to the market needs ■ Transparency and comparability of results and business models 	<ul style="list-style-type: none"> ■ More focused identity and visibility of Insurance Industry and of its players ■ Higher efficiency and specialization 	
FINAL CONSUMER MARKET (ex post)	<ul style="list-style-type: none"> ■ More undertaking and flexibility of Management and distribution players ■ Wider and more transparent communication to the clients 	<ul style="list-style-type: none"> ■ Cost reduction in insurance and investment products ■ Clear identification and specialization of products and distribution channels. 	<ul style="list-style-type: none"> ■ Better exchange of activity among EU countries ■ Reduction of the "accounting arbitrages" still existing (if any) in EU countries



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IFRS and Insurance Companies Competitiveness

From theory to reality


The application of the International Accounting Standards to Insurance Industry as they are at the present, leads to such big issues that they are able to badly impact on the whole sector.


In particular:

- Fair Value
- Implicit Prudence Margins
- Artificial Volatility
- Stability and Solvency of Insurance Companies



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Spontaneous (and in a way “natural”) reactions are easily predictable:


- Reduction of insurance components in the products offered by insurance companies
- Short term perspective in strategy and planning management
- Insurance Companies business models as well as Market Areas going to overlap the Banks’ ones.


In few words:

Insurance Industry will progressively loose it’s own identity and competitiveness



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IFRS and Insurance Companies Competitiveness


From theory to reality


The real potential (and predictable) impacts on Insurance Industry competitiveness

AREA FOCUS	ITALIAN INSURANCE INDUSTRY	ITALIAN INSURANCE AND FINANCIAL SECTOR
CAPITAL MARKET (ex ante)	<ul style="list-style-type: none"> ■ “Wily use” of IAS in balance sheets ■ Immediate return instead of stability over the time ■ Brand value loosing 	<ul style="list-style-type: none"> ■ Stress of the matching between Banks and Insurance Companies ■ Big problems for small/medium size Insurance Company ■ Standardization of business and distribution schemes
FINAL CONSUMER MARKET (ex post)	<ul style="list-style-type: none"> ■ Lack of insurance product availability ■ Impulse to the clients for a bad “pure financial” approach to the insurance products 	<ul style="list-style-type: none"> ■ Confusion in the offering and in the roles of different players
SOCIAL SYSTEM	<ul style="list-style-type: none"> ■ Lack of saving for social security and welfare proposes ■ Lack of available solution/products facing non life risk ■ Drastic shrinking of the stability effect of the Insurance Companies investment on the financial markets ■ Growing up instability of Capital Market and labour market 	



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IFRS and Insurance Companies Competitiveness


From theory to reality

It seems convenient to get to a final formula of the International Accounting Standards based on principles of the insurance products nature rather than a “forced simplification”, as well as observing the proper technical nature to manage the Insurance business.

Upsetting the insurance technical approaches elaborated and tested along centuries of experiences could really mean to operate against the stability, solvency and efficiency of Insurance Industry and probably other sectors beyond it.



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