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Layout & Distribution: Valéria Kozakova

IFRS's and Insurance Companies: Current Position and Challenges Ahead

Tim Harris

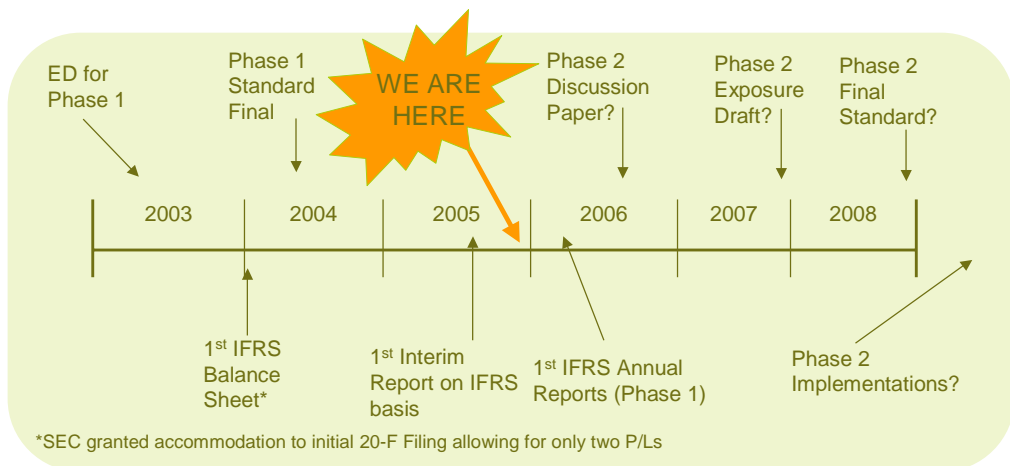
Agenda



- Where we are now ...
- Reflections on Phase I and the response of the industry
- Phase II: Key issues and challenges

IFRS Timetable

- Phase 1 is upon us
- Phase 2 timing uncertain



IFRS

2005 Implementation



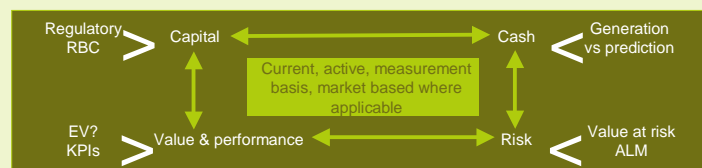
- Decision to implement IFRS across the EU in 2005 was a political one – to promote the European capital markets through consistent high quality financial reporting standards
- Goals remain valid and appropriate. The benefits to the market of conversion to IFRS were never going to be seen overnight
- Nobody said it was going to be easy
- We don't even have full IFRS financial statements from first time reporters yet!
- Strong recent press comment on impact of IFRS – some notable contributions from the insurance industry
- IFRS is here to stay – like it or not – it's up to preparers to recognise this and develop sustainable reporting solutions

Phase I Too early to judge?



The shortcomings of IFRS4 are obvious, but:

- A key 'compensating factor' was the additional disclosure required of companies to address the shortfalls in the measurement basis....we haven't seen this yet!
- Other existing standards and proposals will start to address some of the shortcomings in the existing model ... for example IFRS7 (implementation 2007)



“IFRS is more than a compliance exercise - it remains to be seen how the industry embraces these requirements”

Phase I ‘Least worst option’?




- IFRS 4 was a short term solution – designed to provide an insurance contracts solution as a component of the stable platform
- Not surprisingly, there is frustration with the outcome which permitted (but did not require) the ‘grandfathering’ of local accounting policies
- This has done little to address the complexity and comparability of an amalgamation of local GAAPs
- Few companies appear to have made ‘unforced’ changes – maybe in anticipation of Phase II
- The more significant impact has, arguably, been the implementation of IAS39 on investments and product accounting

“The implementation of IFRS 4 has reinforced the pressing need for a credible Phase II standard”

Phase II

Industry response




- Development of EEV (and subsequent refinement)
- Publication of guiding principles (CFO Forum, (GNAIE and representatives from Japanese Life Industry)
- Participation and contribution to the meetings of the IWG
- balancing the tensions between a timely, credible, tested solution

“If the penalty for the shortcomings of the current approach is an increase in the cost of capital, how pressing is the need for an early outcome to Phase II ?”

PricewaterhouseCoopers
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Phase II

Closing remarks



Some key issues:

- Link to solvency (especially Solvency II)
- Prominence of supplemental reporting bases
- Interdependency with other IASB projects
- Realistic implementation schedule

... and some aspects to be considering now ...

- What would the emerging proposals do to my existing financial reporting?
- What has Phase I taught us about the implementation of Phase II?
- How are the (realistic) expectations of users to be managed and met in the meantime?

‘We believe the second instalment of IFRS for the insurance sector will be as big as the first instalment’

Nic Nicandrou
Group Financial Control Director, Aviva,
quoted in Accountancy Age, 8/9/05

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