Preparing for IFRS reporting for insurance contracts
A new world for Asian insurers

Introduction
On 25 October 2013 the International Accounting Standards Board (IASB) closed their comment period on the impact of the revised proposals for the new International Financial Reporting Standard (IFRS) for Insurance contracts, IFRS 4 Phase II. During this period, whilst users and preparers were formulating their views on the proposals, Deloitte commissioned the Economist Intelligence Unit (EIU) to conduct a survey at the global headquarters of nearly 300 insurance companies and their senior executives, on their preparations to address the implementation of this new standard, and the forthcoming financial instrument standard, IFRS 9.

Of the 300 insurance senior finance executives surveyed, approximately 24% are based in Asia, and of the 53% surveyed based in Western Europe, a large proportion of these insurers have significant operations in Asia.

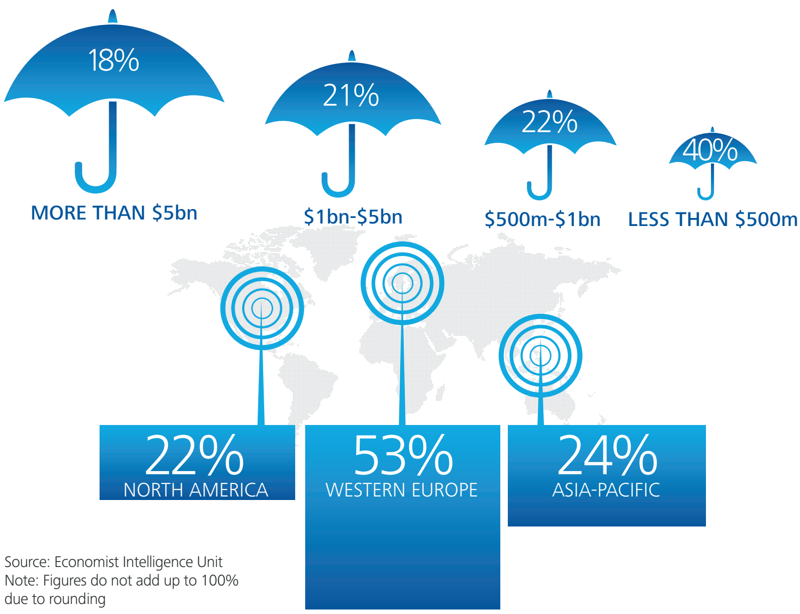
The impact to Asian-based insurance organizations, whether subsidiaries of European insurers or domestic insurers, are significant given that many Asian countries have adopted IFRS and therefore would need to comply with the standard when issued (currently expected in early 2015).

Considerations for Asian Insurers
The challenge for Asian insurers' to adopt the new Insurance standard is compounded by two key factors.

1. Absence of a solvency basis aligned with the new IFRS – Unlike European insurers, Asian insurers would not be able to leverage their IFRS 4 Phase II solution from the technical alignment between IFRS and the new Solvency II regime expected to go live in 2016 across the European Union. Asian insurers will therefore have a different starting point in the absence of similar requirements by their local solvency regulators and need to factor into the cost the ability to report between their current regulatory bases and the more complex IFRS 4 Phase II requirements.

2. IFRS-US GAAP reconciliation requirements – Convergence between the FASB and the IASB models for Insurance contracts still has significant differences, and of the 20% surveyed which will need to report under both models, almost 15% of that population is based in Asia. Therefore, with the strong likelihood that the IASB is likely to press forward with their respective model and the FASB continues to evaluate the benefit of their insurance model, these insurers will need to carefully plan the scale of the implementation challenge. In particular, the key challenge will be to report, measure and educate their investor community and other key stakeholders for a different sets of earning profiles under the final models, irrespective of whether the FASB decides to either issue or not issue a comprehensive new

PARTICIPATING INSURERS BY NET WRITTEN PREMIUM (NWP) AND GLOBAL HEADQUARTERS



Source: Economist Intelligence Unit
Note: Figures do not add up to 100% due to rounding

standard. Developing an implementation strategy to enable a sufficient granular level of reporting, embedding and tracking and most importantly the understandability of these results could impact costs of implementation more significantly than in other markets where US GAAP is a less relevant reference.

Many insurers have used the latest exposure draft to commence their preparations and understand the implications of the new standards to their business. This highlights the awareness of the implications of the new standard is growing and it represents a significant change in attitude since the last global survey undertaken in 2012 by Deloitte and EIU.

Key findings from the research

- **The waiting game is over** – The IASB has given a clear indication that the mandatory effective dates for IFRS 4 and 9 are set within a narrow range. This has removed years of uncertainty for the industry and has given the green light to insurers to begin their preparations. Over half of respondents (58 percent) have already started their projects. Some 86 percent say that they will complete the work within the expected three-year time line proposed by the IASB.
- **Cost is the key** – Since the adoption of the new standards rewrites the rules for financial reporting for the industry, the transition will be complex and expensive. Concerns over the cost of implementation dislodged previous concerns over uncertainty. Insurers now predict the average price of the changes will be between US$25m -50M per company, a sharp increase from 2012 when the most frequently selected estimate was no more than US$14m.
- **Adoption heralds sweeping organizational change** – Insurers believe that implementing the standards will have a large impact on the way that they are structured. For example they expect to integrate risk and financial operations (59 percent) and to make significant changes to IT systems (60 percent).

THE WAITING IS OVER

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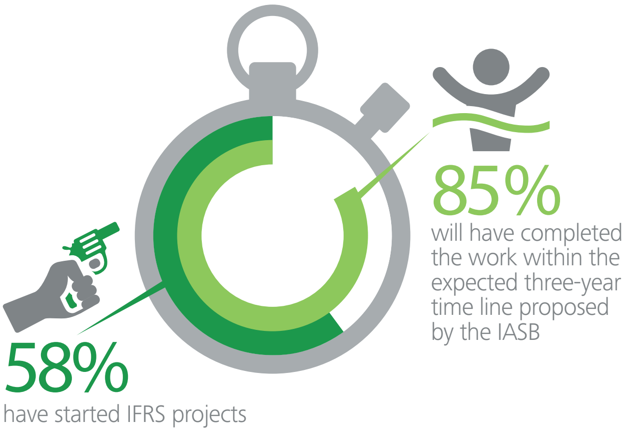

Source: Economist Intelligence Unit

- **Insurers see mixed benefits** – Confidence in the benefits of adopting the standards on insurance contracts is high, with 66 percent of respondents saying that they will outweigh implementation costs. Fewer than one-third believe similar benefits would arise from adopting the revised standards on financial instruments.

- **Boardroom understanding of change is low** – Fewer than one-third of boards are highly aware of the sweeping changes that will hit their businesses over the next three to four years.

- **Standards are better for investors** – One of the drivers for reform has been the financial crisis and the need for investors to better understand the information provided to them by insurers. Industry professionals have complained that the old rules made valuing insurance businesses difficult given their fragmented nature. Over half of insurers (54 percent) believe that the new set of accounting standards should improve this situation.

• **Global framework proves elusive** – Since the FASB and IASB have issued their own rules for the accounting of both insurance contracts and financial instruments, the industry had been denied the holy grail of truly global standards. The majority in the industry would still like to see this goal achieved, even it means reaching a compromise between the two approaches.

Conclusion

As anticipated in our FSI Review August 2013 issue, which provided the overview of the IFRS 4 Phase II model, the EIU survey confirms that the approach taken by the industry is not to wait for a final standard to be issued prior to undertaking an impact analysis and assessment of how the new rules will affect their organizations.

It is clear that the industry will use 2014 to develop and further refine their implementation strategies.

Whilst the survey shows a high level of confidence that insurers can implement the requirements within the 3 year time frame, the impact of the change will be material and the task of managing the resources needed for the implementation in an effective manner to comply with the future requirements demands calls for immediate attention: 58 per cent of the insurers interviewed by the EIU have said that they have started. We expect the rest of the market to follow in 2014.

To download the full report and learn more of Deloitte's insights on Phase II, please see the attached link
http://www2.deloitte.com/global/en/pages/financial-services/articles/insurance-ifrs-survey.html

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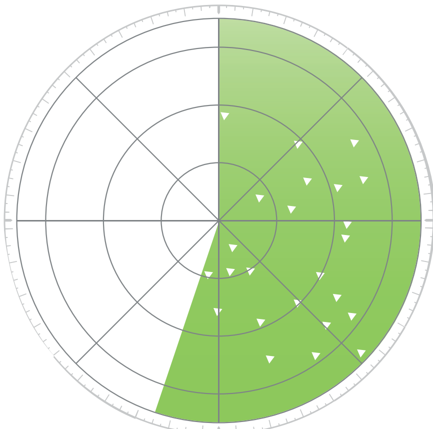
INSURERS PREDICT THE **AVERAGE BUDGET FOR THE CHANGES REQUIRED** AS A RESULT OF IMPLEMENTING THE STANDARDS WILL BE BETWEEN

Source: Economist Intelligence Unit

NEW STANDARDS BETTER FOR INVESTORS

One of the drivers for reform has been the financial crisis and the need for investors to better understand the information provided to them by insurers. Industry professionals have long complained that the old rules made valuing insurance businesses difficult.



54%

of Insurers believe that the new set of IFRS/US GAAP accounting standards will give a better picture of their business that will be relevant for investors' economic decision

Source: Economist Intelligence Unit

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