



International Financial Reporting for Insurers: A Collaborative Effort of Actuaries and Accountants

By Carlos Arocha

The purpose of financial reporting is to evaluate the degree to which a firm's accounting captures its underlying business reality. But financial reporting is being overhauled, and we as actuaries need to keep up. The Society of Actuaries (SOA) has several resources—webinars, books, podcasts, this newsletter (and the Financial Reporting Section's)—to help actuaries stay abreast of new developments.

The SOA recently added a new title to its book offerings: *International Financial Reporting for Insurers (IFRI)* (available in print and digital editions). The book presents a comprehensive analysis of the fundamentals outlined in key International Financial Reporting Standards (IFRS). Although the book focuses on IFRS 17, "Accounting for Insurance Contracts," *IFRI* discusses accounting for the entire insurance entity, not just accounting for insurance policies. There is no existing practice of IFRS 17, since its effective date has been pushed to Jan. 1, 2022. However, the book covers what the application of IFRS 17 is likely to be.

IFRI is aimed at actuaries involved in financial reporting. It is a valuable tool to help actuaries understand the fundamentals of key nonactuarial components in the international reporting environment. One added benefit is the inclusion of several spreadsheets that are provided to illustrate the underlying financial reporting principles.

A collaborative effort, the book was written by 21 authors—actuaries, accountants and other professionals with many years of relevant experience—and was edited by Tom Herget¹ and Jim Milholland, two long-standing volunteers with the SOA.



Further, the work was vetted by a team of reviewers to ensure accuracy and clarity. Much of the writing was accomplished in several full-day face-to-face meetings. All the volunteers deserve a standing ovation for their fine work.

The 400-page book is organized into 20 chapters:

1. Introduction and Background
2. Overview of Insurance Contract Accounting
3. Risk, Classification, Unbundling, Recognition, Derecognition, and Contract Boundary
4. General Model
5. Contracts With Participating Features
6. Premium Allocation Approach
7. Reinsurance Contracts Held
8. Onerous Contracts
9. Fair Value Concepts
10. Financial Assets and Liabilities
11. Derivatives and Hedge Accounting
12. Service Contracts
13. Income Taxes
14. Other Assets
15. Other Liabilities

- 16. Equity, Changes in Policies and Estimates, and Correction of Errors
- 17. Business Combinations and Transfers of Contracts
- 18. Transition
- 19. Presentation
- 20. Disclosure

Each chapter highlights changes under IFRS 17 in that area of accounting once it is implemented. The spreadsheet illustrations help bridge theory and practice.

ACTUARIES AS BUSINESS ADVISORS

IFRS 17 represents a major transformation in financial reporting for insurers. Whereas in the past the finance department of an insurance company was able to prepare financial statements with somewhat limited involvement from the actuary, under IFRS 17, it will be virtually impossible to construct an income statement without actuarial input. For example, revenue made up primarily of gross written premium could be obtained from transactional records. Under IFRS 17, instead of premium it will be necessary to compute an “insurance service result.” This item is really an actuarial calculation that involves present value estimates of risk-adjusted cash flows.

Most entries in the income statement and the balance sheet will involve actuarial input. This could be an outstanding opportunity for actuaries to become advisors to the business, as an imminent integration of actuarial and finance functions is expected. In addition, the use of performance metrics and resorting to business analytics tools and techniques (including visualizations and dashboards) will contribute to the understanding of key profitability drivers and will help the insurance company gain insight into business performance.

For further information about *IFRI*, please visit the [SOA's Publications webpage](#). ■



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ENDNOTE

- 1 Herget was also the editor of *US GAAP for Life Insurers*, 2nd ed. Schaumburg, Ill. Society of Actuaries, 2006.