

Current Issues in General Insurance (8th CIGI)

Regulatory Updates on Ind AS 117

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Agenda

- Introduction to Indian Accounting Standards (Ind AS)
- Benefits of Ind AS/IFRS
- Key changes from IGAAP
- Initiatives taken by IRDAI for implementation
- Implementation Approach
- Policy Choices
- Way Forward

Introduction: Indian Accounting Standards (Ind AS)



- Ind AS are Indian financial reporting standards aligned with IFRS
- MCA has notified:
 - Ind AS 109 (Indian convergence of IFRS 9) in Feb, 2015
 - Ind AS 117 (Indian convergence of IFRS 17) in Aug, 2024
- Ind AS is implemented in all sectors other than Banking & Insurance from 2016-17
- Banking and Insurance Co's shall apply the Ind ASs as notified by RBI and IRDAI respectively as per Rule 5 of Companies (Indian Accounting Standards) Rules, 2016
- Ind AS is implemented in NBFCs from 2018-19. However, RBI is yet to implement Ind AS in Commercial banks
- MCA through its notification dt. 28th Sep, 2024 allowed insurers to continue using Ind AS 104 for consolidation of financial statements by their parent companies

Ind AS 117/IFRS 17 (Insurance Contracts)



Applies to entities that issue

- insurance contracts,
- reinsurance contracts it holds,
- investment contracts with discretionary participation features, provided the entity also issues insurance contracts

Establishes principles for

- recognition,
- measurement,
- presentation, and
- disclosure of insurance contracts

Benefits of Ind AS/IFRS

Comparability

- Across jurisdictions/ Industries
- Subsidiaries reporting under same standards

Transparency

- Robust disclosures requirements
- Fair Value measurement of assets/liabilities

Management Decisions

- Enhanced quality of information to Management
- Insights for better risk management

Stakeholders Interest

- Informed decision making for Investors
- Better inputs for Analysts and Credit Rating Agency

Access to Foreign Capital

- Global stock exchange requirements
- Open doors to wider pool of foreign investor

Key changes from Current Approach (IGAAP)



Ind AS 117/ IFRS 17

- Granular grouping
- Revenue recognition is based on the service provided
- Immediate recognition of losses on onerous contracts
- Reinsurance is presented separately
- More detailed and granular level disclosures required

Ind AS 109 / IFRS 9

- New requirements for classification and measurement of financial instruments
- Impairment model based on expected credit losses rather than incurred losses

Initiatives Taken

IRDAI has constituted dedicated IFRS Mission mode team in June, 2022



Nudging the Industry

Expert Committee

Gap Assessment

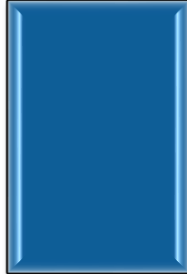
Proforma Financials

Continuous Capacity Building

Nudging the Industry



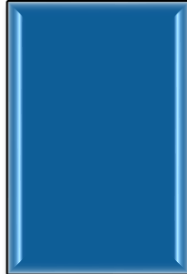
Dedicated Steering Committee at each Insurer



Questionnaire to identify insurer's preparedness levels



Continuous interaction with Insurers



LI/ GI council forum for continuous deliberation



Facilitated Industry interaction with IT vendors



Continuous Capacity building

Expert Committee



Representation from Insurers/ICAI/IAI/IRDAI

Key Interpretations

- Recommendations on key areas of interpretation (best practices)
- Possible Guidance Notes & Education Material from IAI and ICAI

Proforma Financial Statements

- Recommendation on proforma financial statement
- Recommendation on Financial Disclosures

Implementation

- Recommendations on issues & concerns arising out of transition activities
- Other issues on implementation of Ind AS/IFRS

Gap Assessment

One of the key stage in implementation of Ind AS in insurance sector

Standard Template

- Prepared in consultation with Expert Committee
- Assessment of data, system, processes and resources
- Strategy for addressing all the gaps along with timelines

Gaps

- Data gaps
- IT systems (CSM engine)
- Significant changes in presentation and disclosures

Gap assessment completed by all the insurers.

Average time taken for completion of Gap Assessment Report by insurers is 4-6 months

Key gaps identified

- Level of Aggregation: Existing lines of business, System development, Onerousity testing
- Contract Boundary: Contracts where the contract boundary may be different from the coverage period, Reinsurance contracts
- Risk Adjustment: Confidence interval, Reinsurance contracts
- Discount Rate: Illiquidity Premium
- Measurement Model: General Measurement Model/Premium Allocation Approach
- Transition Approach
- Expense Allocation: Acquisition, Attributable and Non-Attributable
- Other Ind AS: Ind AS 116 – Leases

Approach Note & Proforma Financial Statements



- Prepared in consultation with Expert Committee
- To facilitate smooth implementation process
- Standard proforma formats to enhance comparability
- Qualitative disclosures for capturing significant judgements and methodologies
- Feedback from Industry
- Letter issued to all insurers on submission of proforma financials

Implementation Approach

- Endeavour to implement Ind AS (including Ind AS 117) for insurers in India at the earliest
- Globally during transition phase proforma financial statements are prepared
- Benefits envisaged of mandated Proforma financials:
 - Impact assessment of Ind AS on financial position compared to current reporting
 - Comparing the financial performance and policy choices among insurers
 - Valuable insights for issuance of guidance
- Insurers to prepare and submit Ind AS compliant proforma financial statements in a phased manner

Phases	Criteria
Phase 1	Listed, In process of listing, AUM > Rs. 35,000 Cr (basis FY 2023)
Phase 2	Rs. 10,000 Cr < AUM ≤ Rs. 35,000 Cr
Phase 3	AUM ≤ Rs. 10,000 Cr

Implementation Approach

Proforma financials to be signed by the Appointed Actuary and CFO of the insurer

Limited review or audit by an independent Chartered Accountant and an independent Actuary

Timelines relaxation for new insurers (commencing business from calendar year 2024 onwards), submission after 180 days of one year of business

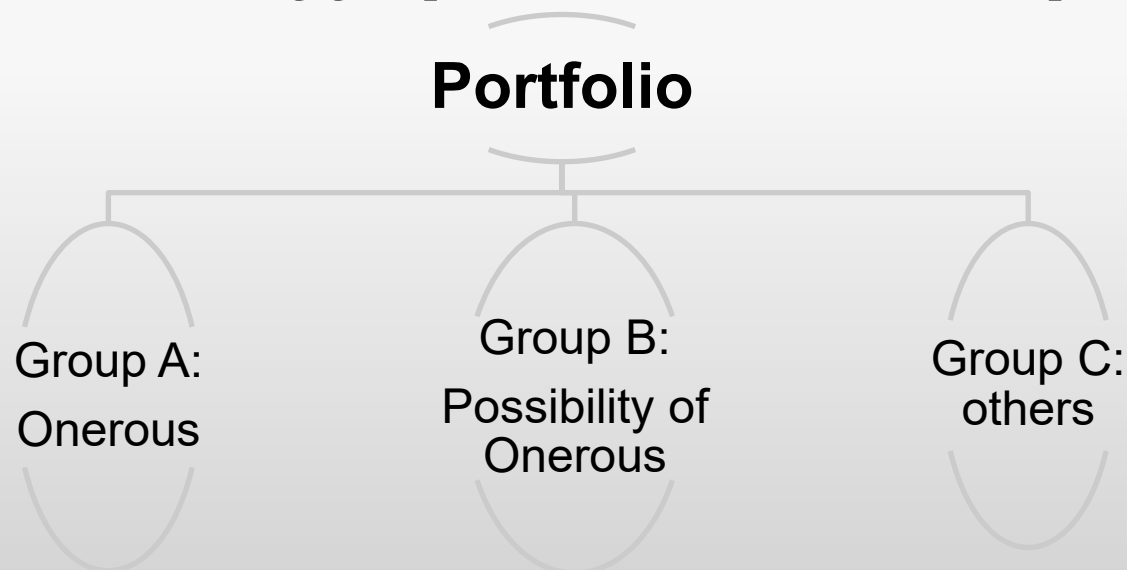
Option of early submission of proforma for phase 2 and phase 3 insurers

Current financial statements (IGAAP) for all Regulatory purposes during period of proforma financials submission.

Key Policy Choices in Proforma 1

Level of aggregation

- Portfolios of contracts: similar risks and managed together
- Portfolio into following group of contracts on the basis of profitability:



- Contracts issued more than one year apart not to be included in the same group

Insurers have been asked to ensure compliance with minimum segments prescribed under proforma guidelines

Measurement Model

General measurement model

- Default Model
- 4 building blocks: Future Cash flows, discounting, risk adjustment, contractual service margin

Premium allocation approach

- Optional,
- Permitted for short duration, or
- Where contracts are “Reasonable approximation” of GMM

Variable fee approach

- Mandatory to use VFA if insurance contracts meet the eligibility criteria
- e.g. ULIP contracts

While most general insurers have applied the Premium Allocation Approach (PAA) in Proforma 1 using high-level assumptions, Proforma 2 is expected to substantially improve in aligning with the standard requirements, utilizing more detailed and accurate methodologies

Risk Adjustment

Ind AS 117

- Ind AS 117 specifies the principles providing flexibility in choosing estimation technique

Possible estimation techniques

- Quantile/percentile (Confidence level)
- Cost of capital (CoC)
- Explicit Margins

Insurer Choices

- Confidence level (65th to 75th percentile)
- CoC (Current methodology as per IEV)
- Margin (10% to 15% in different segments)

Discount rate

Ind AS 117

- Bottom Up: Risk free rate + Illiquidity premium
- Top Down: Yield on reference portfolio – Expected default

Insurer Choices

- Bottom up approach – All insurers
- Risk-free yield: govt. bond yield curve published by FIMMDA/ FBIL/CCIL
- Some insurers have not considered Illiquidity premium loading for proforma 1

Other Policy Choices

Majority general insurers have used either fully/modified retrospective approach

All contracts are considered within scope of Ind AS 117

Investment components, embedded derivatives & goods and non-insurance services are non-distinct and hence no separation required

Policy tenure is considered as contract boundary

Earned premium method is used to determine coverage units

Way Forward

IRDAI

- Review and analysis of proforma submissions alongside comparative assessment of policy choices
- Issuance of updated guidelines for proforma 2 submissions
- Conducting discussions and consultations with relevant departments
- Identification and implementation of necessary amendments to existing regulations, circulars and guidelines

IAI

- Discussions on key aspects and challenges related to Ind AS implementation
- Organize training sessions and seminars focused on Ind AS
- Foster engagement with councils and other professional bodies

Insurers

- Ensure readiness of systems and resources for implementation
- Facilitate both internal and external training programs and workshops
- Develop and maintain technical and position papers on relevant topics
- Ensure timely and accurate regulatory submissions

Thank You

