Insurance: in or out of the 'too difficult' box?

Is IFRS 17 insurance accounting too difficult to implement, and what are the costs, challenges, and market reactions associated with its adoption globally?

This study by Sudipta Basu and Martin Grace (University of Iowa), published in Accounting and Business Research, examines the complexity, costs, and perceptions surrounding IFRS 17, a new international insurance accounting standard. IFRS 17 aims to improve transparency and comparability but introduces a principles-based, technical framework demanding significant changes to insurer reporting processes. Audit committees and managers face a steep learning curve requiring sophisticated understanding of actuarial models and financial reporting.

The study reviews insurance accounting difficulties and details IFRS 17's technical elements, including contract grouping, measurement models, and risk adjustments. Cost implications are analyzed using auditing fee changes after Sarbanes-Oxley Act (SOX) and Model Audit Rule (MAR) compliance, with impacts varying by insurer size, complexity, and ownership. Smaller insurers and mutuals face higher relative costs.

Using event study methodology, the paper assesses investor reactions to IFRS 17 announcements globally. Most events, including issuance and amendments, elicited negative market responses, indicating concerns over costs and transparency. Delays were generally received positively.

The authors conclude that while IFRS 17 is complex and costly, it is not 'too difficult' to implement for most insurers, especially larger firms with actuarial expertise. Market skepticism likely reflects uncertainties about costs and strategic impacts rather than the standard itself. The paper stresses audit committee vigilance and anticipates staggered cost incidence across the industry.

MAJOR TAKEAWAYS:

- IFRS 17 implementation involves complex actuarial and reporting challenges, demanding significant expertise and system upgrades.
- Auditing and compliance costs increase, especially for smaller and more complex insurers, reflecting uneven industry impact.
- Investor reactions to IFRS 17 announcements are generally negative, indicating market uncertainty about costs and transparency.

WHO NEEDS TO KNOW:

- Insurance Company Executives
- Auditors
- Investors

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