



MASTERING BALANCE SHEET: NAVIGATING SOLVENCY & PUBLISHED REPORTING

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- Introduction
- Objectives of Solvency and Published Reporting Basis
- Key Difference in Reporting Basis
- Market Observations
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Solvency Reporting Before IFRS 17

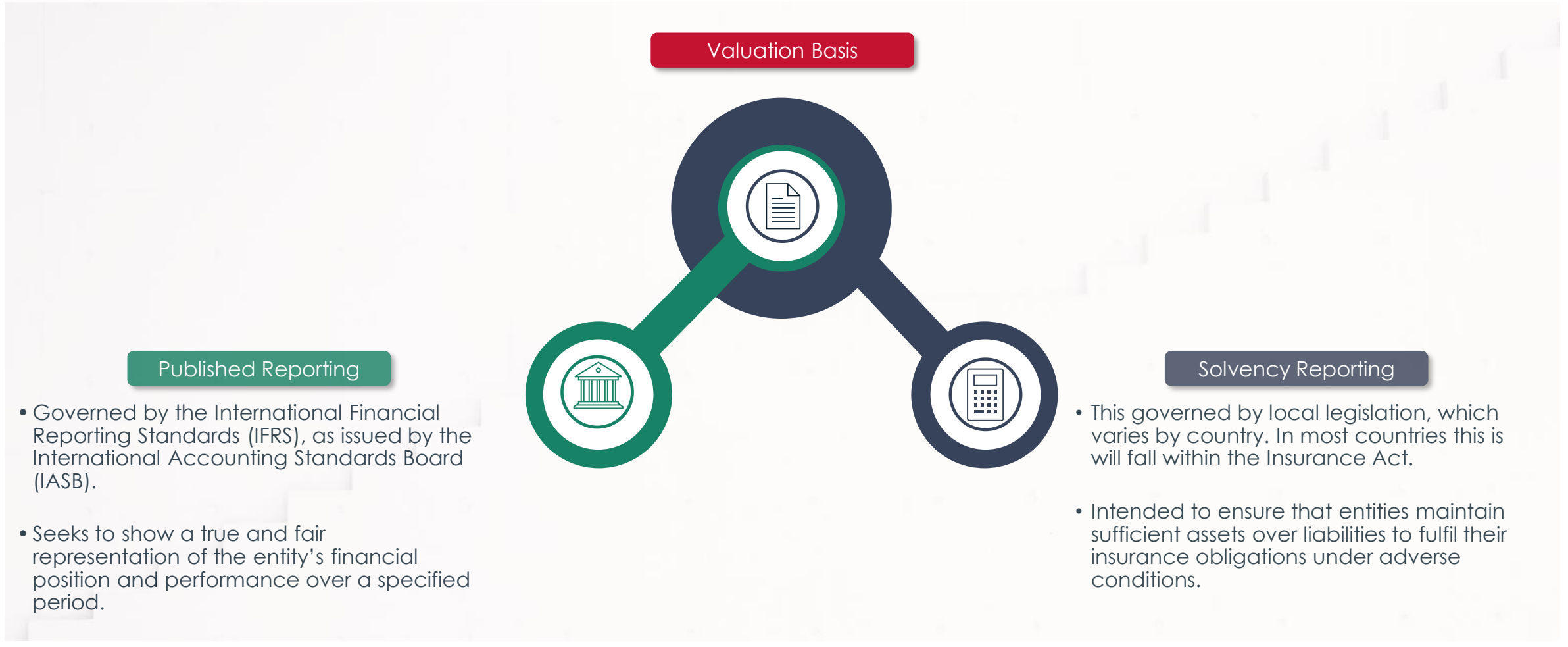
- Liabilities used for solvency reporting were similar to those used for IFRS 4 reporting for some frameworks.

Transition from IFRS 4 to IFRS 17

- IFRS 4 is replaced by IFRS 17 for financial periods commencing on or after 1 January 2023.

Uncertainty regarding the impact on Solvency Reporting

- There is uncertainty on whether IFRS 17 based balance sheet should be used for demonstrating insurance solvency and regulatory capital returns with or without modification, or a separate balance sheet should be created.



OBJECTIVES OF REPORTING BASIS



Published Reporting

Ensures faithful representation of measurement and performance of insurance contracts.

Enable users of financial statements to assess the impact on:

- Entity's financial position,
- Performance; and
- Cash flows

Emphasis is placed on the income statement.

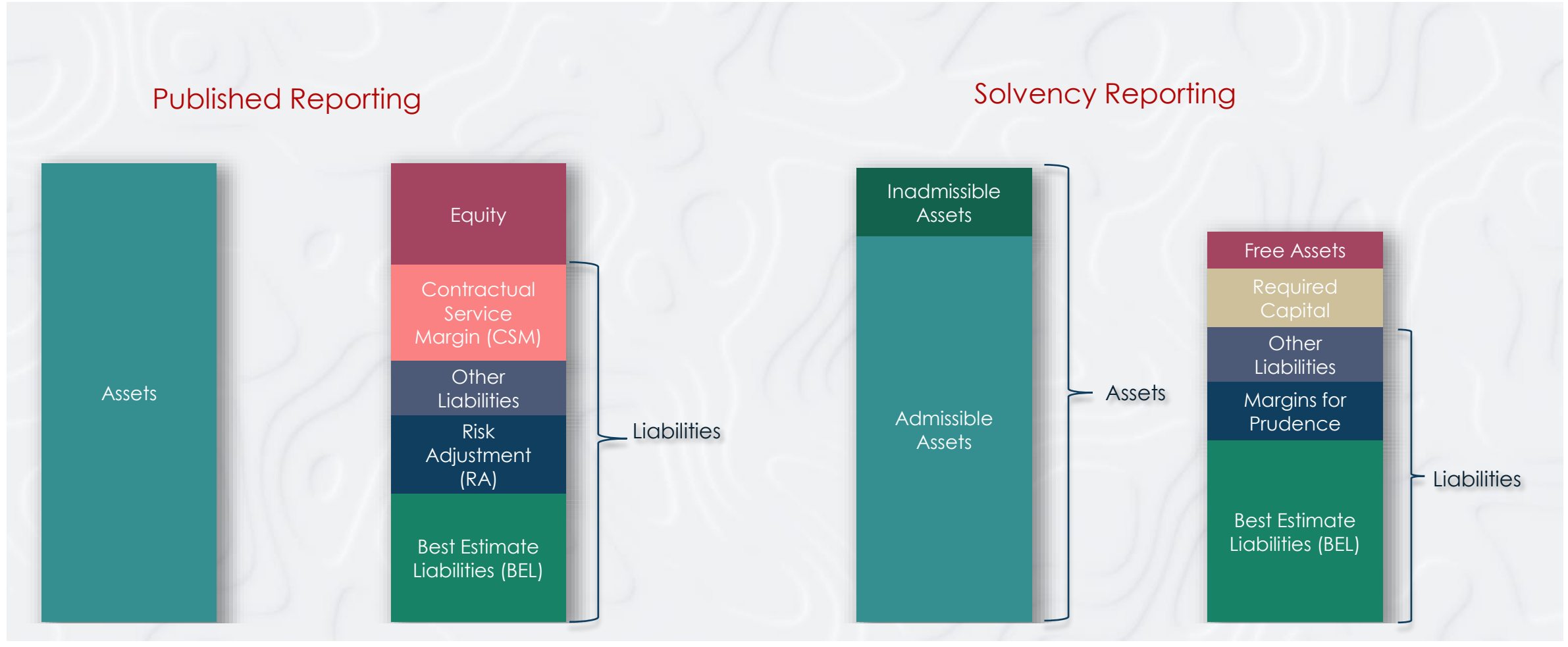
Solvency Reporting

Ensures ability to meet insurance contract obligations as they fall due.

Maintain adequate margins and capital to absorb uncertainties in the liabilities. This contributes to the stability of the insurance industry.

Emphasis is placed on the balance sheet.

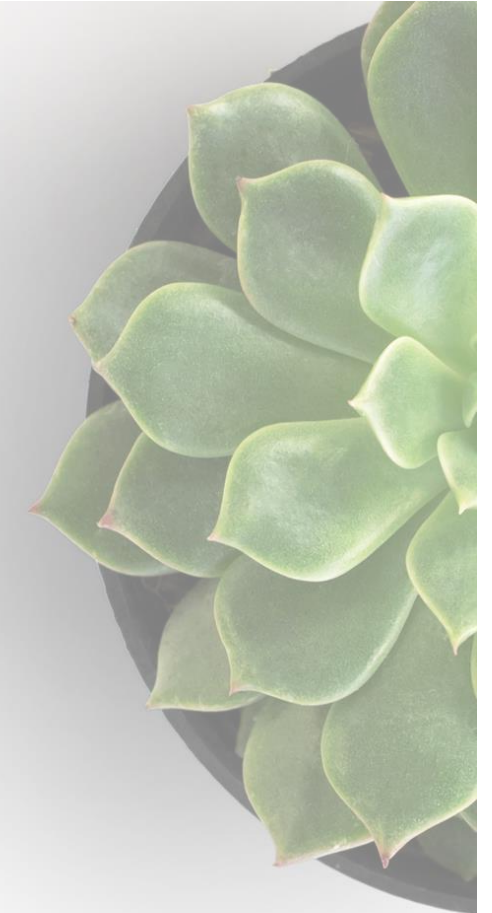
KEY DIFFERENCES IN REPORTING BASIS



KEY DIFFERENCES IN REPORTING BASIS



Variable	Published Reporting	Solvency Reporting
Scope	IFRS 17 covers “Insurance Contracts”	Covers all licensed business of the insurer
Valuation of Assets	Fair value	Excludes non-realizable assets
Valuation of Liabilities	Fair value and Contractual Service Margin (CSM)	Best estimate plus provisions for adverse deviations
Capital Requirements	None	Includes additional capital adequacy requirement
Balance Sheet Components	Assets and liabilities, including Best Estimate Liability (BEL), Risk Adjustment (RA), and CSM	Assets and liabilities, including BEL, Risk Margins, and Capital Requirements



IFRS17 REPORTING FOR SOLVENCY PURPOSES



Advantages

- Established models, systems, and processes
- Audited amounts
- Quantitative information already included

Challenges

- CSM does not align with solvency objectives
- Non-attributable costs may threaten solvency

Utilising IFRS 17 with some adjustments can significantly cut costs, making the operation and management of insurance more efficient. However, regulators should make adjustments with the objectives of solvency reporting in mind, ensuring that the financial stability of companies remains a priority.

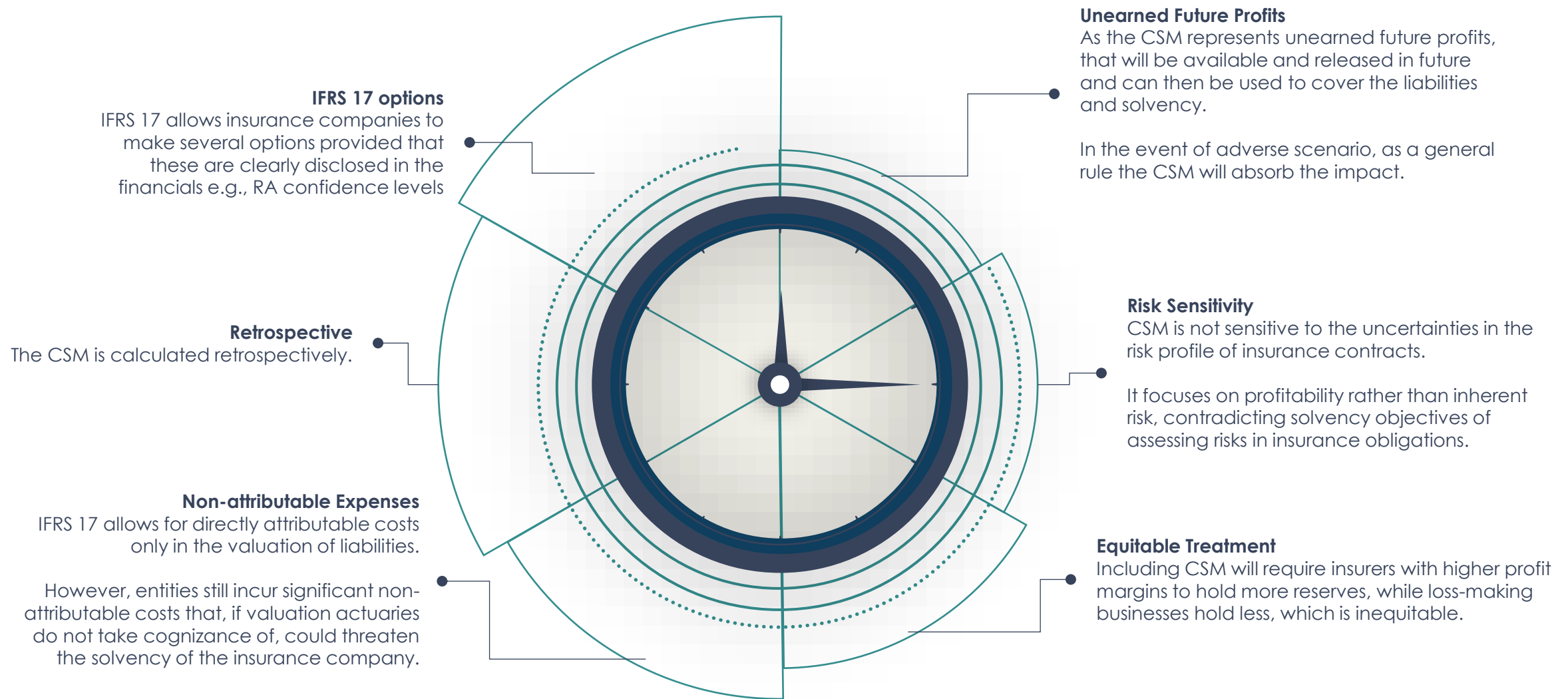
ELEMENTS OF IFRS 17 NOT SUITABLE FOR SOLVENCY



- The CSM plays a crucial role in the deferral of revenue and profit recognition in financial reporting.
- It provides a buffer that absorbs changes in assumptions and offsets increases or decreases in liabilities and spreads the impact of these over future reporting periods.
- A pertinent question is whether the CSM can be used as a liability proxy for the solvency capital requirement for solvency purposes?



LIMITATIONS OF THE CSM IN SOLVENCY REPORTING



MARKET OBSERVATIONS



MARKET OBSERVATIONS: ZAMBIA



- Solvency balance sheet must comply with the Insurance Act of 2021 and Insurance (General) Regulation of 2022.
- Liabilities are calculated based on the best estimate assumptions with the prescribed margins (similar to the IFRS 4 valuation).
- Changes in solvency valuation methodology may require legislation amendments (i.e., approvals by the parliament).

MARKET OBSERVATIONS: SOUTH AFRICA & ZIMBABWE



- The framework used is the Solvency Assessment and Management (SAM) which became effective from July 2018.
- The approach is risk-based capital regime (similar to Solvency II).
- Liabilities are based on market-consistent principles and consist of the best estimate liability and the risk margin.



- The framework used is the Integrated Capital and Risk Programme (ZICARP) which became effective from June 2021.

MARKET OBSERVATIONS: NIGERIA & GHANA



- Insurance Reform Bill 2024 sets legislative framework for RBC regime.
- Life insurers must meet solvency capital requirements based on N 15 billion minimum and risk-based capital determined by NAICOM.
- While the draft regulation does not specify the calculation approach for RBC liabilities, the Financial Reporting Council of Nigeria mandates IFRS-compliant financials, and NAICOM requires submission of IFRS 17 calculated liabilities/returns.



- Solvency Framework requires liabilities calculated based on IFRS.
- Capital Requirements: Greater of GHS 10 million, Volume Based Solvency Requirement (VBSR), and Management Expense Solvency Requirement (MESR).
- VBSR involves stress scenarios based on product type, MESR is 25% of management expenses.
- The RBC proposal suggests using IFRS for asset and liability valuation under RBC to leverage existing systems and reduce additional calculation burdens. It acknowledges that adjustments may be necessary, such as deducting goodwill.



MARKET OBSERVATIONS: KENYA



- IFRS 17 quarterly and annual reporting template was introduced by the Insurance Regulatory Authority (IRA).
- Solvency balance sheet is calculated based on an IFRS 17 basis.
- Capital Requirement is determined by the greater of KES 400 million, 5% of IFRS 17 liabilities and risk-based capital minimum.

MARKET OBSERVATIONS: MAURITIUS



- The framework is based on the Insurance (Returns) rules and stresses test guidelines produced in December 2024.
- Liabilities for remaining coverage and incurred claims consists of the BEL and RA.
- The guidelines allows insurers to include the CSM as part of the available capital.
- Inclusion of the CSM enhances solvency ratios and aligns with global standards.
- Capital requirements are determined by the stress test guidelines and minimum capital of Rs 25 million and 13 weeks of operating expenses.

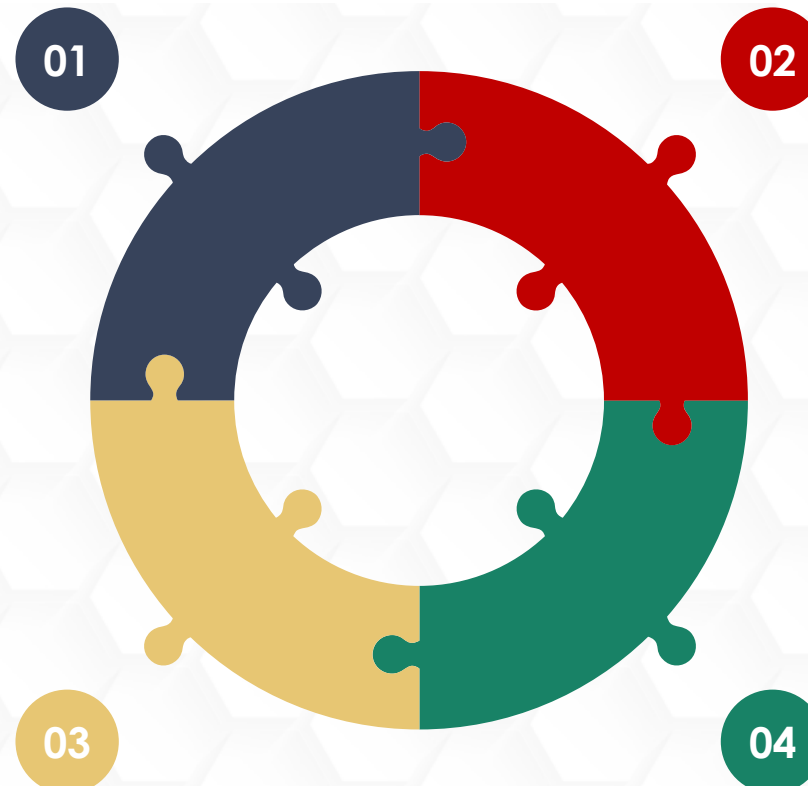


There are fundamental differences between the objectives of IFRS reporting and solvency balance reporting.

- IFRS 17 reporting focuses on providing a transparent and consistent valuation of insurance contracts for performance measurement.
- Solvency reporting focuses more on ensuring the financial stability and solvency of insurance companies from a regulatory standpoint.

There are several elements of the IFRS 17 balance sheet that are not suitable for the objectives of solvency reporting.

- The CSM is not consistent with regulatory objectives.
- IFRS 17 allows for directly attributable costs only in the valuation of liabilities.



Using IFRS 17 balance sheet for solvency reporting offers several advantages for insurers.

- Established models, systems, and processes to calculate liabilities.
- IFRS 17 balance sheet is audited, which can lead to reduced audit costs when it is reused.
- Utilizing IFRS 17 with some adjustments can significantly cut costs, making the operation and management of insurance more efficient.

Regulators should consider making adjustments with the objectives of solvency reporting in mind, ensuring that the financial stability of companies remains a priority.

THANK YOU



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QUESTIONS?

