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The impact of the application of the International Accounting Standard (IFARS 17) on the financial reporting of Iraqi Insurance companies

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Abstract

The problem of recognizing companies to use several different accounting practices for insurance contracts, which makes it difficult for users to understand and compare the information, is one of the most important contemporary problems in accounting thought,

. Studies and research in the field of accounting show that the accounting treatment used in accordance with the international standard (IFRS 4) is one of the fundamental reasons for the exacerbation of the global financial crisis

.

This paper aims to study and analyze the requirements of IFRS 17(Insurance contracts) and to identify the most important changes that it made to the accounting treatment of the insurance contracts comparing with IFRS 4, and then to list the expected effects of applying the measurement models and presentation mechanisms contained in the Standard on the Alliance Insurance financial statements, which would help the insurance companies to respond positively and adapt early with these effects.

Finally, the study revealed important expected impacts of applying the Standard

requirements on the company's financial statements, which were represented in an increase of the assets and liabilities level figured in the Balance sheet statement, and a decrease in profits level in the income statement.

aim is to enhance the relevance and transparency of insurance companies' financial statements by introducing significant changes to the accounting treatment of insurance contracts

Keywords: IFRS 17; Insurance contracts Iraqi , Insurance companies

introduction

The insurance sector, as one of the vital sectors, has recently witnessed significant variations in the preparation and presentation of insurance companies' financial statements, as well as

sharp variations in the quality and reliability of their financial performance. This is due to the absence of unified accounting principles and policies that ensure correct accounting treatment of insurance contracts.

Considering that these statements are a link between the insurance company and other parties using them, and a primary source of information that the latter benefit from, the International

Accounting Standards Board, after nearly 20 years of work, issued and launched a standard specific to insurance accounting, represented by International Financial Reporting Standard 17 (IFRS 17), to be the beginning of a new era of accounting in insurance companies, whose requirements came to address the shortcomings and avoid the problems that accompanied the application of International Financial Reporting Standard 4(IFRS 4)., by introducing a group of different techniques to measure insurance contracts and represent them in the financial statements accurately and transparently.

Research problem:

In May 18,2017, the Board completed its project on insurance contracts with the issuance of IFRS 17 (Insurance Contracts). which is effective for periods beginning on or after January 2023, replacing IFRS 4 , and sets out principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of IFRS 17..

The aim is to enhance the relevance and transparency of insurance companies' financial reporting by introducing significant changes to the accounting treatment of insurance contracts. Therefore, the problem of this study can be presented in the following question:

“What is the impact of applying the requirements of IFRS 17 on the financial reporting of Iraqi Insurance companies ?”

To address this problem, it is necessary to answer that question

Research objective:

In light of the research problem and its concepts, the main objective of the research is: According to the International Financial Reporting Standard 17 (IFRS17) entitled (Insurance Contracts),The main objective of the study is to study and analyze the requirements of IFRS 17 in terms of the measurement models and presentation mechanisms that insurance companies must follow under this standard, in addition to identifying the most important changes that the standard introduced to the accounting treatment of insurance contracts compared to IFRS 4, and the expected effects of these changes to Improve Financial reporting in Iraqi insurance companies .

Research hypotheses:

There are several fundamental changes and differences in the accounting for insurance contracts between the requirements of applying the two standards (IFRS 4& IFRS 17), the most important of which is the separation and consolidation of insurance contracts, their recognition, and their financial reporting of Iraqi insurance companies.

In light of the research problem, objectives and importance, the research hypotheses are as follows:-

"The application of the International Financial Reporting Standard 17 (IFRS17) entitled (Insurance Contracts) expected lead to improve Financial Reporting , Recognition and Measurement to Improving the financial reporting of Iraqi insurance companies " .

Importance of the study

Insurance contracts are one of the business activities that have received significant accounting attention due to their important considerations in accounting treatment processes, especially after the increasing cases of failure and bankruptcy of many major insurance companies. What increases the importance of the study is the modernity and complexity of the standard, which means that presenting ideas and theoretical foundations for its expected effects before the mandatory application date (January 1, 2023) will enable insurance companies to take the necessary measures to adapt to the standard and address the challenges they may face.

First: The theoretical framework of the study

Description of the IFRS 17

IFRS 17, 'Insurance Contracts', represents a fundamental change in accounting for insurance contracts, introducing a more comprehensive principles-based approach to replace the existing fragmented approach adopted under IFRS 4.

IFRS 17 applies to insurance contracts regardless of the entity that issues them, and so it does not apply only to traditional insurance entities. IFRS 17 is mandatory for annual reporting periods beginning on or after 1 January 2023, with restatement of comparatives for the previous reporting period (that is, from 1 January 2022 for calendar year-ends).

The goal of IFRS 17 is to ensure the provision of reliable data reflecting insurance contracts so that users of financial statements can assess the effect of insurance contracts on the company's financial position, performance and cash flows (IASB, 2017).

International financial reporting standards classify financial assets and insurance contracts separately. IFRS 9 – Financial Instruments applies to financial assets, while IFRS 17 applies to insurance contracts (IASB, 2018).

Insurance contracts contain the features of a financial instrument and a service contract, but they also contain long-term volatility of cash flows. According to the IASB (2017), in order to enable the transparency, comparability and usefulness of this data, the basic features of the IFRS 17 Standard are:

Features of the IFRS 17 :-

• measuring the present value of future cash flows and recognizing profits during the period of service provision

• separate presentation of income (including insurance income) or expenses from the provision of insurance services from financial income or insurance expenses

• allocation of financial income or expenses as profit or loss or recognition of a part of financial income or expenses in other comprehensive income

• classification of insurance contracts as contracts under which the company

assumes a significant part of the risk from the policyholder and compensates for damage if an insured event occurs that has a negative impact on the policyholder

• sharing insurance contracts from certain embedded derivatives and different investment components or performance obligations

• grouping of contracts into groups (which will be recognized and measured) on:

- fulfillment cash flows - those for which the present value of future cash flows is risk-adjusted and contains all available data harmonized with market data
- contractual service margin – the amount of unearned profit of the contract group

• recognition of a profit from a group of insurance contracts during the period of service provision from the contract or, if that group is in loss or starts to generate losses, prompt recognition of a loss from a group of insurance contracts

• publication of data that enable users of financial statements to assess the effect that contracts (within the framework of IFRS 17) have on the company's financial position, performance and cash flows.

IFRS 17 defines an insurance contract as: “A contract whereby one party (the issuer of the contract) accepts to assume significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder in the event of an uncertain future event (the insured risk) that adversely affects theIt can be said that IFRS 17 was formulated or came to achieve a number of objectives, the most important of which are:-

IFRS 17 objectives :-

- Improving the quality of financial reports and providing more transparent and comparable information in local and international insurance companies, (Lunkic,2018, p 33)

- Unifying insurance accounting practices by establishing consistent rules for the recognition, measurement, presentation and disclosure of insurance contracts

within the scope of the standard (Ibrahim, 2018, p. 9);

- Enhancing the stability of the most risky global insurance economy through the adoption and implementation by insurance companies of international accounting harmonization requirements.

As a result of the difference in the nature of insurance companies' activities and their fields from one country to another, the standard has established a specific scope that includes the contracts to which it applies as follows (IASB, 2017, p. 09):

- Insurance contracts, including reinsurance contracts issued by the Company;
- Reinsurance contracts held by the insurance company;
- Investment contracts with optional participation features, provided that they are also issued for insurance contracts.

The application of the new Standard leads to numerous changes for insurance companies. Companies will have to analyze all insurance contracts (that is, primarily contracts with a maturity of less than a year that contain conditions on the premium distribution approach), consider all the options that IFRS 17 offers (for example, the possibility of renewal or experience evaluation), evaluate the accounting treatment of contracts with maturity longer than one year, evaluate the efficiency of the distribution of portfolios and groups, evaluate the criteria for determining complex contracts or groups, and adapt the IT system and the financial reporting system to better monitor groups that are subject to different criteria (BDO, 2021).

According to the IASB (2017), the application of the Standard covers:
a) insurance and reinsurance contracts issued by the company
b) reinsurance contracts held by the company

c) investment contracts with features of direct participation issued by the company, if it also issues insurance contracts.

These contracts, according to the standard, may include one or more components that fall within the scope of another standard, such as containing, for example, an investment component, a service component, or both together (IASB, 2017, :11). Therefore, companies should analyze the insurance contract to determine whether it includes non-insurance components that require separation and treatment in accordance with the requirements of other standards. The standard

distinguished between three non-insurance components that must be treated separately if they meet a set of conditions, namely (PWC,2017 : 6))

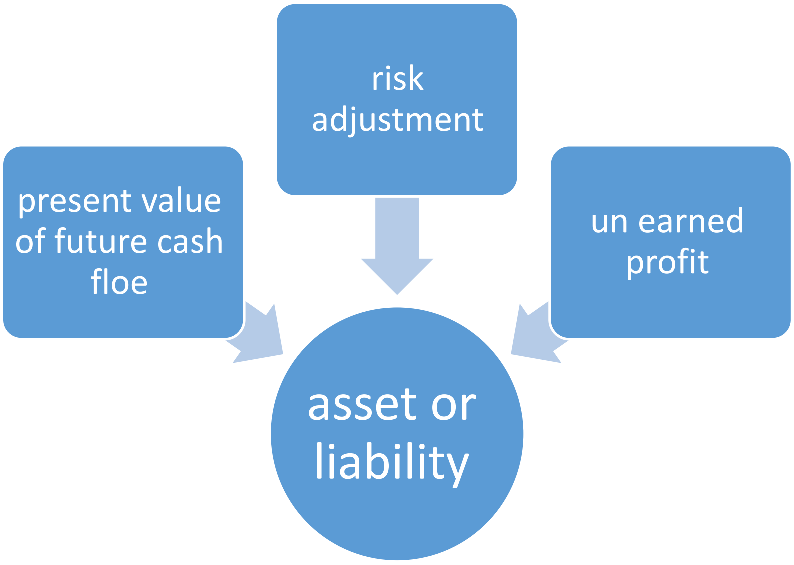
IFRS 17 core requirements

All insurance contracts measured as the sum of:

- Fulfilment cash flows
  - Present value of probability-weighted expected cash flows
  - Plus an explicit risk adjustment for insurance risk

- Contractual service margin
  – The unearned profit from the contrac

Core requirement of IFRS 17



What is IFRS 17?

One accounting model for all insurance contracts in all IFRS jurisdictions , IFRS 17 and IFRS 4—have the same definition , but they differ in :

To improve comparability

IFRS 4 – a lack of comparability	IFRS 4 – a lack of comparability
Lack of comparability among insurers • IFRS companies report insurance contracts using different practice **Non-uniform reporting within groups** Insurance contracts of subsidiaries are consolidated using different practices	• A new framework will replace huge variety of accounting treatments
Inconsistency with other industries • Revenue include deposits	• Revenue will reflect the services provided, and exclude deposits, like any other industry

• Revenue reported on a cash basis ,	

To improve financial information

IFRS 4 – little transparent or useful information	IFRS 17-More **transparent or useful information**
Lack of useful information about insurance obligations • Use of old or outdated assumptions • Options and guarantees not fully reflected in measurement of insurance contracts • Time value of money not considered when measuring liabilities for incurred claims • Use of 'expected return on assets held' as discount rate	• Current assumptions regularly updated • Options and guarantees fully reflected • Estimated future payments to settle incurred claims reported on a discounted basis. Discount rate reflect characteristics of the insurance liability - risks not matched by assets will be reflected in the accounts
Lack of transparency about profitability • Revenue recognized on a cash basis Use of many non-GAAP measures	• Unearned profit recognized as the insurance coverage is provided Additional metrics to evaluate performance will be available

Second :- Applied study of a sample of insurance companies :-

Characteristics of the research sample members:

It is clear from the analysis of the questionnaire answers presented in Table No. (1) that about 36% of the sample members hold a master's degree, and this indicates the bank's dependence on holders of higher degrees in most aspects of its work, and that the majority of them specialize in accounting, where they constituted a percentage (57%), and the reason is due to the degree of the subject's relationship and its connection with that specialization.

Through the previous data, it is clear that the research sample has sufficient knowledge and experience, which makes it able to understand the axes of the questionnaire and answer them objectively. The following table shows the demographic variables of the research:

Table (1)

Characteristics of the sample members :-

Details	items	F	%
Qualification	**PHD**	**4**	**14**
	Master	**10**	**36**
	BA	**8**	**29**
	Diploma	**6**	**21**
Total		**28**	**100%`**
Scientific specialization	**Accounting**	**16**	**57**
	Finance	**2**	**7**
	Management	**5**	**18**
	Economic	**5**	**18**
Total		**28**	**100%**

Analysis and discussion of the results of the study:-

The data in Table (2) regarding the arithmetic mean and standard deviation, as the highest mean of the sample members agree that IFRS 9 seeks to increase the use of fair value in the accounting measurement, as it reached (4.031). It has an impact on many paragraphs, whether by recognition or measurement, and the arithmetic ranges between (3.746 - 3.365) and the lowest paragraph with an arithmetic mean (3.190). It is a heterogeneous mixture.

Table (2)

Analysis of Results

Item	Stand.Dev.	Mean
The application of IFRS 17 Insurance Contracts', has no effect on net income	1.015	3.746
There is an impact of applying IFRS 17 " Insurance contracts" the opening balances of the retained earnings of insurance companies listed on the Iraqi stock Exchange	0.895	3.476
Accounting for insurance contracts under the standard (I F R S 4) is complex and difficult to implement.	0.921	3.634
The classification of financial assets contained in the standard depends on the intention of the management which leads to the classification based on personal judgment of the management , which makes it difficult to achieve comparability.	1.053	3.619
Relying on mixed measurement in measuring the value of insurance contracts, which makes it difficult to achieve compilation m as the insurance contracts under the standard that will become a heterogeneous mixture.	1.105	3.190
The standard changed the categories of classification and measurement of financial assets, as it made the classification categories into two categories only.	1.052	3.365
The standard also specifies the basis for applying the business model and cash flow characteristics to financial assets to determine whether they are measured at depreciable cost or at fair value	1.162	3.41
Standard N0.17 indicated that the embedded derivatives should not be separated if the host is an asset within the scope of the Standard, in addition to evaluating hybrid contracts that include one or more embedded derivatives as a single unit according to the terms specified by the Standard.	0.927	3.413
According to the standard, the impairment requirements were changed as the standard replaced the actual credit losses model, which existed under IFRS 4, with the expected credit losses model.	1.035	3.730
It seeks to increase the use of fair value in the accounting measurement.	0.943	4.031

To complete the study and test the hypothesis of the study variables, as shown in the table below:

Finally, the data of Table (3) shows the influence relationship between susceptibility, security, privacy and

organizational effectiveness, and the data of this table indicate that the f-value of these variables is significant at the level ($P<0.05$) of 35.976, which indicates acceptance of the study hypothesis.

Table (3)

Hypothesis Testing

	Model	Sum of Squares	Df	Mean Square	F	Sig.
Hypothesis	Regression	7.446	1	7.446	35.976	. 000
	Residual	12.626	61	. 207	-	-