Insurance companies seek early implementation of IFRS from govt

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Insurance companies have sought early implementation of the International Financial Reporting Standards (IFRS) from the government. The move would help insurers in India in shifting towards a risk-based solvency and supervision regime.

The request was made when the government had sought suggestions on amendments to the Indian Insurance Companies (Foreign Investment) Rules, 2015, that impose certain restrictions on insurers with foreign investment over 49 per cent.

The industry has been seeking clarity on the implementation of IFRS, as its timeline has been deferred by the Insurance Regulatory and Development Authority of India (Irdai), said a senior government official.

“Insurance companies have been keen on the early implementation of IFRS. It will not require them to maintain or reserve anything extra,” he added. The adoption of the new accounting standards will help in moving towards a risk-based solvency and supervision regime, which will be “easier and attractive” to foreign investors, said the official.

This will further boost foreign capital in the insurance sector, he added. The government is likely to take up the issue with Irdai.

Currently, India follows the old solvency standards where insurers have to hold a percentage of reserve as capital. Insurance companies have to maintain a solvency margin - the extent to which insurer’s assets exceed its liabilities - of 150 per cent, irrespective of the risks the promoter entities carry or the liabilities that arise from the pricing of policies.

If insurance companies or their parent units are listed abroad, they need to have an IFRS balance sheet, said Rajesh Dalmia, a partner at EY India.

Foreign companies that have joint ventures (JV) with Indian insurance companies have to maintain two sets of balance sheets - IFRS as mandated by their respective countries, and another especially for their JV in India, said Dalmia.

“Early implementation of IFRS 17 is advisable. It will offer a true reflection of an insurer’s balance sheet. Right now, life and non-life insurance acquisition expenses pinch balance sheets, whereas globally, these expenses can be deferred,” said Dalmia.

Implementing global practices in the country will help in attracting more investments from foreign players, said Vikas Gupta, a partner at Nangia & Co LLP.

Since new norms require foreign-owned insurance companies to maintain a solvency margin of 180 per cent if they declare a dividend, the shift to IFRS will help foreign investors with easier repatriation of profits, added Gupta.

However, the government official quoted earlier said there are many challenges in the implementation of the new accounting standards. Although some major players are ready for the transition, the industry-wide application of the new accounting standards is slow, added the official.

“Although India can’t implement the new accounting standards as early as the global deadline of January 1, 2023, it shouldn’t be any later than April 2025,” said Dalmia.

This will help in establishing comparability among insurers the world over, and their balance sheets will give potential investors a true picture, he added.

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