भारतीय बीमा विनियामक और विकास प्राधिकरण
INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY OF INDIA

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IFRS in Insurance and Pensions

1. At the outset, I thank the Institute of Actuaries of India for inviting me to deliver the Keynote Address at this One Day Seminar titled **"IFRS in Insurance and Pensions"**. I commend the Institute for choosing this topic as IFRS has not only become one of the most discussed and deliberated in business, professional and regulatory circles in recent times but also there is a perceptible growing need towards convergence to one global accounting language across the world. India, being an important player, in the evolving world economy, investments both inbound and outbound in various sectors including insurance would be of a high magnitude, has to appropriately and adequately respond to international trends.

2. You may be aware that the discussions at the G20, post 2008 crisis, has amongst others, focused on issues relating to accountancy, such as:
   a. **reducing the complexity of accounting standards** for financial instruments
   b. **provision for loan loss**,
   c. **factoring credit information**,
   d. improvement in standards for provision of "**off-balance sheet exposures**"
   e. **clarity and consistency in the application of standards**,
   f. Moving towards one set of high quality **global accounting standards**, evolved with active involvement of all stakeholders including the emerging markets.
   g. This would mean an evolution of IFRS **responding to various diverse needs** on an '**on-going'** basis.

3. In this backdrop, during the last few years there have been a number of initiatives by Government of India, ICAI, IRDA, RBI, MCA and other regulators in India and a broad consensus had been agreed to seek convergence with IFRS rather than adoption with a view to meeting the particular contextual needs. A road map for implementation of IFRS equivalent standards in a phased manner had also been drawn up. However, the implementation towards convergence with IFRS in various sectors has been deferred for a variety of reasons even as IFRS in its present form stands substantially assimilated in the extant accounting standards in India.

4. In doing so, **IRDA shall remain committed to** the primary objective of **protection of policyholders' interest while facilitating the development of the insurance sector**. The accounting regulations for the insurance sector is premised on insurer based per se and the evolving IFRS on insurance contracts is premised on the insurance contract accounting calling for suitable convergence. I may add that the present regulations have taken on board the extant IFRS suitably and they may be revisited to seek further comfort with any changes in IFRS since, if necessary.

5. **IRDA remains supportive of suitable convergence with IFRS but not by tweaking the current practices** and inter-alia **till the following factors are put in place**.
   a. **Critical standards for our sector**, viz., Financial Instruments and Insurance Contracts have to be finalized and put in place well in advance of the implementation date;
   b. Required **amendments to laws** to facilitate implementation of IFRS to be carried out well before the date of implementation; and
   c. **Tax and other issues** to be fully addressed
   d. As the Act and Regulations mandate Insurers to fulfill **rural, social sector and Investing in Infrastructure projects**, any change brought that could impact the business operations or its accounting can never ignore such mandatory requirements.
   e. There are unique features like mandatory **limits on expenditure** by Insurers, **Insurance being a product that is not available on credit in our country, the Forex regulations linked to the re-insurance requirements etc.,** all of which are very fundamental to the Insurance business have to be duly factored in the new paradigm.

6. There are a significant number of issues relating to this Exposure Draft on insurance contracts, some of which are :

   a. **Separate accounting mechanism** for non-life insurers as discounting of the assets/liabilities and residual margin mechanism for non-life insurance companies are different. This would imply that short-term contracts are discounted at short term rates and long-term contracts at long term rates.
   b. Expected **volatility in the Profit/Loss** of an insurance contract due to the provisions in the Exposure Draft relating to discount rate, risk margin, residual margin, etc.
   c. The **computation of Residual Margin** is to be done on portfolio basis and not at each policy level
   d. **Recognition of profit/loss of reinsurance**: no profit should be recognized at the inception of the contract. However, any loss on reinsurance contract should be recognized at inception.
   e. **Unbundling of insurance contracts** which have investment component and service component: Currently in India Unit Linked products and Pension products contain both Insurance and Investment features. However, the Exposure Draft provides that an insurer shall not unbundle components of a contract that are closely related to the insurance

coverage specified in the contract. IRDA feels that ‘closely related to the insurance coverage’ is a vague term and unbundling should not be permitted if the insurer recognizes all obligations through the currency of the contract.

7. IRDA is committed to ensure that the insurance sector in India maintains the highest standards in operations, risk management, products and services and in financial reporting comparable with the best practices in the world. To this end, we must move towards convergence to IFRS in financial reporting. However, any move to a paradigm shift in financial reporting requires careful consideration of a number of factors. The factors include:

   a. **Critical standards** like financial instruments and Insurance Contracts to be revised and made effective
   b. **Taxation** and other laws to be amended to address IFRS principles
   c. **Implementation infrastructure** to be developed and maintained
      i. **Education and training**,
      ii. **Availability** and accreditation of **valuers, actuaries**, etc.
      iii. **Changes to IT systems**,
   d. Investor and **user education** in interpreting the output of the new reporting framework
   e. **Regulatory mechanisms** to be redesigned **for effective oversight**

8. As Insurance is a sensitive sector and over the last decade the sector has grown rapidly and the existing regulatory mechanisms have been functioning well, **any shift in financial reporting framework would require careful consideration of various factors and in particular to the nuances of the insurance sector**. We need to be conscious of the times when **public confidence and credibility of the financial services sector globally is at low ebb**. We particularly cannot forget in some of the developed economies that the **global financial crisis was also triggered by an erosion of public confidence** in the condition of the financial services industry. We have, therefore, to tread cautiously and be circumspect and hasten slowly in implementing the changes. Hence the underlying philosophy is ‘festina lente’ i.e., hasten slowly.

9. As you reflect on the observations made by me in this address, I am sure you will agree that the **insurance sector cannot move to IFRS converged financial reporting till such time the Banks implement IFRS standards and the revised standard on Insurance Contracts is ready and is initially examined contextually**. I reiterate that IRDA remains committed and supportive of best practices. Seminars like this will help in identifying the challenges and evolving strategies for us to move ahead with clarity.

10. My best wishes to you for a successful program and I thank you once again for the opportunity.