SOLVENCY II BETWEEN IFRS 4 AND IFRS 17

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Abstract

The application since 2005 of the Financial Reporting Standard 4 - Insurance Contracts (International Financial Reporting Standard 4-IFRS 4) has brought through its objectives, improvements, clarifications, but also requirements regarding the detailed financial presentations of the respective contracts. However, this standard was only a first phase of a larger project to address insurance and to present insurance contracts in the financial statements, being only an interim standard, which allowed insurance companies a new, high-quality framework of the use of different specific accounting practices . This application, accompanied by the fact that the standard does not address issues related to the accounting and presentation of financial assets held and financial liabilities issued by insurers, has made it increasingly difficult to understand and compare the results reported by insurance companies for different end-users.

On the other hand, the application of 2016 as the first year of reporting of the Solvency II Directive by the European insurance market, led most players in this market to take additional measures in relation to the management of balance sheet assets and liabilities, with the risks assumed in the eligibility of own funds and not on the least, the investment policy.

Consequently, the appearance in March 2017 of the new Financial Reporting Standard 17 - Insurance Contracts (International Financial Reporting Standard IFRS 17), applicable from January 1, 2021, brings significant changes, the new standard proposed to treat into a unitary way the insurance contracts, regardless of the applicable jurisdictions, while assuring the users of the financial statements of the effect that the contracts in question have the quality and relevance of the financial position and performance, as well as of the cash flows.

The present study aims to analyze on the one hand how the new IFRS 17 harmonizes with the evaluation and reporting methods imposed by Solvency II but also the specific treatment and preparatory measures adopted by the main players of the European insurance market, in this transition period in financial reporting in this industry .

Keywords: IFRS 4, IFRS 17, Solvency II, differences between IFRS and Solvency II, IFRS versus Solvency II, impact of IFRS 17, comparisons between IFRS 4 and IFRS 17 .

JEL classification : G22, M41, G28, G32.

Introduction

The most important single revolution in the insurance industry began in 1950 when the authors pointed out first of all principles of matching assets to liabilities and consistent liability assessment (Haynes & Kirton, 1952, Redington, 1952, Skerman, 1973, 1984). It is believed that the earlier work of 1984 preceding the current assessment techniques, being also the precursors of the solvency framework (Hue and other II , 2019). Other papers (Foroughi, 2012) provide an analysis of how recent financial crises have affected investment decisions in the insurance industry.

EU Regulation on Solvency II, applied from the year 2016 is based on meassuring the risk for a period of one year, based on a certain probability of loss. Therefore, the Solvency Capital Requirement (SCR) is calculated as a loss of 99.5% over a period of one year. Some authors believe that this approach puts more pressure on short-term volatility than on long-term problems. Although some pro-cyclical effects may be reduced , being recognized the importance of long-term debt, intro measures taken by Solvency II are considered too rigid and too prescriptive (Hue and others , 2019). However, the own risk and solvency assessment ("ORSA"), according to Solvency II, allows companies to use their own customized analyzes, with the option to develop long-term modeling to establish their investment strategy (Hue et al., 2019).

The concern of pro-cyclicality that could be provided by a coherent framework on the market was highlighted in connection with the solvency of insurers (Foroughi , 2012). One possible outcome would be for insurers to sell higher-risk assets to finance lower-risk asset purchases. Some possible mitigation strategies would be: a multi-matrix system and not just market valuation; the efficient market hypothesis, which cannot be confirmed in the financial crisis; more regulatory flexibility during the financial crisis; meeting the capital requirement for a consistent period of time (Foroughi , 2012).

Even if the benefits Solvency II are well addressed (creating a clearer picture of the European insurance sector) industry specialists concerned about the risk that such standards do not provide equal effects for all insurance companies and introduce additional cost for industry that could affect prices (Hue and others, 2019). Other concerns relate to the fact that the investor perspective is not taken into account by the Solvency II system, generating more confusion in assessing the performance and ability to pay dividends (Watson , 2017). "Unfortunately, for the insurance industry, the Solvency II and IFRS projects are moving in different directions for the foreseeable future and alone will not meet the requirements of investors." (Watson , 2017).

Since 1973 a major effort was made to develop a more relevant financial framework, high quality and also more transparent through the International Financial Reporting Standards (IFRS) [1] . The first specific standard for insurance, IFRS 4: Insurance Contracts, was issued in 2004. Prior to this IFRS , various methods and treatments were used by most of the insurance companies, most of them on the basis of national regulations and consequently, they have led to the production of financial information that is difficult to compare and understand. In 2002, the IASB (International Accounting Standard Board , the issuer of the accounting standards) has decided to split the project related to insurance contracts in two phases - I and II. Phase I aimed to define insurance contracts, in order to develop a specific standard for insurance (IFRS 4 Insurance Contracts) and the

same time to ensure the consistency with other standards (in principal with IAS 39 Financial Instruments: Recognition and measurement and IAS 32 Financial Instruments: Presentation). Phase II has entered a more sophisticated approach in the recognition, measurement and detailing of the insurance contract (Abdallah and others, 2018) and therefore new insurance standards IFRS 17 were issued in 2017 and will be implemented with 2021.

According to the researchers, ".. companies that voluntarily adopt IFRS, report the more conservative and less revenue management experience, with greater relevancy value " compared to those applying systems local GAAP (Barth et al., 2008). A study conducted in 15 countries U. E., which assessed the impact of the mandatory adoption of IFRS, reinforces the impact on managing the reduction of earnings and the increased quality of accumulation (Chen et al. 2010). Other consequences of post-IFRS adoption periods are greater smoothing of earnings and better presentation quality, plus a significant reduction in the cost of equity (LI, 2010).

The criteria that allow a positive market reaction to the adoption of IFRS are: the annual reports to be audited by Big 4, the geographical location of the countries expected to experience a greater improvement in the quality of financial bonds , thanks to IFRS, companies operate in a field with a high level of law enforcement (Comprix et al., 2003).

Another study on the European insurance industry tested the reaction of investors in this industry to the adoption of IFRS in general, and the conclusion was that this is “positive and significant” (Abdallaha, Abdallaha et Salamaa, 2018). However, '… non-life insurance investors react more positively to events leading to the adoption of IFRS, compared to those of life insurance companies, indicating the importance of IFRS in achieving greater transparency where the level of information asymmetry is high. However, the positive response is not consistent with all events, which may reveal an investor concern about the dilemma of whether the benefits of adopting IFRS (ie comparability and transparency) outweigh the costs (ie increased audit fees and / or managerial discretion) (Abdallaha, Abdallaha and Salamaa 2018).

The current transitional period from IFRS 4 to IFRS 17 is challenging. IFRS 4 allows local practices to act and because its impact was given conformances, bringing greater consistency and detail. IFRS 17 is more "harder" and brings an important set of changes, hence it is considered by some as similar to the impact of the regime Solvency II. Additional actuarial experience, more complexity in the financial function, incremental implementation costs, more operational flexibility are the expected results of implementing IFRS 17. All of this “could be detrimental to the overall comparability of financial performance across companies” (Graham Coutts, head of Fitch Ratings).

The following expected effects of IFRS 17 adoption are:

- in financial reporting: principles for recognizing profit and a higher degree of detail;
- in the tax legislation: it is estimated that the determination of an insurer's tax will deviate from a legal basis;
- in product design: substantial changes in the design of insurance products, premium pricing, offer of insurance policies, a better understanding of the risks and uncertainties associated with individual business lines or portfolios;
- in data management and IT: rethinking actuarial models, professional training of staff and possibly recruiting several experts;

- reporting regulators: re-evaluation of the leverage of patterns solvency (discount rate adjustment, risk adjustment, etc.) (L. Muller , 2017).

1. Transition from IFRS 4 to IFRS 17

Issued by the I.A.S.B. in March 2004 as an interim standard, first dedicated to insurance, IFRS 4 - Insurance contracts subsequently went through several stages: change in scope (change in accounting for financial guarantee contracts, in August 2005), revision of application guidelines (in December 2005), as well as changes in connection with the IFRS 9 - Financial Instruments standard (entered into force after January 1, 2018).

The stated objective of IFRS 4, as and the first phase of the interim of this standard, referred to the financial reporting of the insurance contracts, having as scope on the one hand the insurance and reinsurance contracts issued and owned and on the other hand the financial instruments issued (representing the discretionary participation feature - CPD, ie contractual right to receive, in addition to single guaranteed benefits other additional benefits).

Thus, the standard allows or requires the separation of the components belonging to the insurance itself (which will be treated in accordance with IFRS 4) from the components belonging to the depository part of the contract (which will be treated in accordance with IFRS 9). In this sense, IFRS 4 requires in connection with the embedded derivative instruments: the separation of these instruments in the host contract, their valuation at fair value and the inclusion of the respective changes in fair value in the entity's profit or loss. The new IFRS 17 standard, issued under the same name - Insurance contracts, which will replace IFRS 4, coming into force on January 1, 2021 (but allowing subsequent application), has as main objective the provision of supply by companies of relevant information that accurately represent the contracts issued, so that users of financial statements can assess the effect that those insurance contracts have on their financial position, financial performance and cash flows.

Regarding the scope, IFRS 17 applies to insurance and reinsurance contracts issued, reinsurance contracts held as well as to investment contracts with C.P.D. issued. However, the standard does not apply to producers 'or traders' guarantees (treated under IFRS 15 - Revenues from contracts with customers) or to employee benefit plans (applicable being IAS 19 standards - Employee benefits, IFRS 2 - Share-based payment and IAS 26 - Accounting and reporting of pension plans).

The separation of the components from an insurance contract under IFRS 17 treatment involves the issuing entity going through the following stages:

- application of the IFRS 9 standard in order to determine the existence of derivative instruments incorporated in the insurance contract and which will have to be separated;
- the separation of the eventual investment component existing in the insurance contract - host, if that component is distinct;
- separation from the insurance contract - the host of any promise to transfer to the client distinct goods or services that are not insurance services (which will be treated separately in accordance with IFRS 15).
- finally, to apply the IFRS 17 standard to all the remaining components of the insurance contract - host.

In consequence, the comparative analysis of the two standards may be summarized as follows:

Table no. 1. Comparative analysis of the main provisions related to the standards related to insurance contracts (author's own analysis).

<table>
<tr><td></td><td colspan="2">Standards - Insurance contracts</td></tr>
<tr><td></td><td>IFRS 4</td><td>IFRS 17</td></tr>
<tr><td>release</td><td>2004</td><td>2021</td></tr>
<tr><td rowspan="2">objectives</td><td rowspan="2">standardization of the way of financial reporting of insurance contracts</td><td>providing relevant information related to the types of contracts</td></tr>
<tr><td>the superior evaluation of the users of the effects of the insurance contracts on the financial statements</td></tr>
<tr><td rowspan="4">field of application</td><td rowspan="2">insurance and reinsurance contracts issued and held</td><td>insurance and reinsurance contracts issued</td></tr>
<tr><td>reinsurance contracts held</td></tr>
<tr><td rowspan="2">financial instruments issued with CPD</td><td>investment contracts with CPD issued</td></tr>
<tr><td>exceptions: guarantees and benefit plans</td></tr>
<tr><td rowspan="4">component separation</td><td rowspan="2">of deposit (IFRS 9)</td><td>derivative instruments (IFRS 9)</td></tr>
<tr><td>investment components</td></tr>
<tr><td rowspan="2">insurance (IFRS 4)</td><td>transfer promises (IFRS 15)</td></tr>
<tr><td>treatment of remaining components (IFRS 17)</td></tr>
</table>

Returning to the IFRS 4 standard, it brought as a novelty at the date of adoption, the performance of the debt adequacy test, as an essential part of the recognition and measurement of the debts of insurance companies. The debt adequacy test was defined as the assessment of the need for the carrying amount of a liability associated with insurance contracts to be increased (or acquisition costs and intangible assets to be reduced) based on an analysis of future cash flows.

Performing this test involved the following application principles:

- the evaluation at the end of the reporting period if the debts related to the contracts are adequate, through current estimates of the future cash flows;
- if the book value of the associated debts minus deferred acquisition costs minus intangible assets is inadequate, the difference is recognized in profit/loss.

However, we must also mention the influence and amendments to IFRS 4 by the adoption after January 1, 2018, of IFRS 9 - Financial Instruments, which allowed, but without imposing - as a temporary derogation - the application of IAS 39 to financial instruments - recognition and measurement) until January 1, 2021 (similar to the effective date of the new IFRS 17).

Consequently, the adoption of the new IFRS 9 standard influenced the rules for the application and measurement of the deposit component (defined as the contractual component that is not accounted for as a derivative instrument in accordance with IFRS 9 and which would fall under IFRS 9 if it were an instrument separately), as well as the discretionary participation feature (defined as a contractual right to receive in addition to the guaranteed benefits, additional benefits, based on performance, profitability, profit or

loss of the company). Rules for the application and recognition in the case of discretionary participation feature are shown as follows:

Table no. 2. Comparison of the assessment of discretionary participation feature

<table>
<tr><th colspan="2">IFRS 4 - DISCRETIONARY PARTICIPATION FEATURE</th></tr>
<tr><th>in insurance contracts</th><th>in financial instruments</th></tr>
<tr><td>- identify / separate the discretionary participation characteristic</td><td>- if it classifies as debt, apply test of debts adequancy</td></tr>
<tr><td>- identifies the guaranteed element (may / is not obliged to recognize); it is classified as a debt / component of equity</td><td rowspan="2">- if it classifies as separate component of equity, debt should not be less than the value resulting from the application of IFRS 9 to the guaranteed element</td></tr>
<tr><td>- apply IFRS 9 for the embedded derivative</td></tr>
</table>

Also, as a rule regarding the reclassification of financial assets, when the accounting policies regarding the debts associated with the insurance contract are modified, it is allowed but not required to reclassify the financial assets, in order to measure at fair value through profit or loss.

From this point of view, the new IFRS 17 standard brings as new, main features of an insurance contract, the fact that it combines the characteristics of a financial instrument with those of a service contract, requiring the separate presentation of the results of insurance services separately from financial income and expenses related to insurance. These features have been implemented in the principles of application of IFRS 17, imposing or recommending the following rules:

- separation from insurance contracts of:
  - o instruments embedded derivatives specified;
  - o direct investment components;
  - o distinct enforcement obligations.
- separate presentation of:
  - o insurance income ;
  - o expenses with insurance services;
  - o financial expenses related to insurance.
- from the evaluations performed to result:
  - o the valuation of the debt related to the remaining obligation to be executed, according to IFRS 15 - Revenues from contracts with clients;
  - o measuring the liability for damages incurred in accordance with IAS 37

Provisions, contingent liabilities and contingent assets.

Other characteristics transposed at the level of principles regarding the application of IFRS 17 are the following:
- combining the current valuation of future cash flows with the recognition of profit during the period in which the services are provided; thus, insurance companies will also recognize and measure groups of insurance contracts at a discounted value adjusted for the risk of future cash flows, based on all available and observable information, thus causing an increase in debt and a decrease in balance sheet assets;

- the profits or losses will be recognized during the contractual period and at the same time as it emerges from the incidence of risks.
In this respect, companies of insurance will have to establish the level of aggregation of contracts of insurance through the following steps:
- identification of insurance contract portfolios;
- the division of the portfolio of insurance contracts issued in at least:
  - a group of contracts which are for consideration at initial recognition;
  - a group of contracts which at initial recognition are not likely to become subsequently for consideration;
  - a group consisting of contracts remaining in the portfolio.

This marks the first difference and at the same time the improvement of the standard regarding the insurance contracts, by increasing the degree of detail of the analysis of the respective contracts, by establishing and dividing them in the portfolios of insurance contracts. In order to fulfill this requirement, the entities in the field of their insurance will apply the following rules regarding the recognition of contracts and the financial effects generated by them:

- to recognize a group of insurance contracts which it issues from the first of the following:
  - the beginning of the coverage period;
  - the date from which the first payment of a client in the group becomes due;
  - the date from which the group of insurance contracts becomes for a fee;
- to recognize an asset or liability for any cash flows related to the insurance contracts acquisition;
- to include only insurance contracts issued until the end of the reporting period.

Thus, in the case of the evaluation at the initial recognition, the insurance company must evaluate the groups of insurance contracts at the total value of:
- treasury flows of execution (estimates and adjustments to financial and non-financial risks);
- margin service contract (defined as a component of the asset or liability for group insurance contracts, which represents the non-collected profit which the entity would recognize as providing services in the future); in other words, the respective margin represents the profit from the group of insurance contracts that has not yet been recognized in profit or loss because it refers to the future service that will be provided according to the group contracts.

The subsequent evaluation of the book value of a group of insurance contracts is performed at the end of the reporting period by calculating the amount between:
- the remaining hedging debt (execution cash flows related to future services and the contractual service margin of the group at that date)
and
- the debt for the compensations incurred (the execution cash flows related to the previous services allocated to the group at that date).

In addition, the entity shall recognize income and expenses for certain changes in the carrying amount of the liability, as set forth below:

Table no. 3 Recognition of income and expenses for changes in the accounting amount of the debt under IFRS 17.

<table>
<tr><td colspan="2">RECOGNITION OF INCOME / EXPENSES FOR CHANGES IN THE ACCOUNTING VALUE OF THE DEBT:</td></tr>
<tr><td>for the remaining coverage:</td><td>for damages incurred:</td></tr>
<tr><td>- income from insurance - for debt reduction for remaining coverage due to services provided during</td><td>- expenses insurance services - to increase debt as a result of damages and costs incurred during the period, excluding components invest and hold</td></tr>
<tr><td>- expenses with insurance services - for group contracts losses for consideration and for the resumption of such losses</td><td>- expenses with insurance services - for any subsequent changes in the cash flows of execution related to the indemnities incurred and the expenses incurred</td></tr>
<tr><td colspan="2">- financial income or expenses related to their insurance - for the effect of the time-value of money and the effect of financial risk</td></tr>
</table>

Also, within the approach based on the allocation of the insurance premium, the assessment of the debt for the remaining coverage is performed at the book value as follows:

Table no. 4 Debt measurement for remaining coverage, according to IFRS 17.

<table>
<tr><td colspan="4">ASSESSMENT OF DEBT FOR REMAINING COVERAGE</td></tr>
<tr><td colspan="2">at initial recognition:</td><td colspan="2">at the end of each subsequent reporting period:</td></tr>
<tr><td>(+)</td><td>premiums</td><td>(+)</td><td>the book value at the beginning of the reporting period</td></tr>
<tr><td>(-)</td><td>cash flows related to the acquisition of insurance</td><td>(+)</td><td>any amounts related to the amortization of future cash flows related to the acquisition of insurance recognized as an expense during the reporting period</td></tr>
<tr><td rowspan="3">(+) / (-)</td><td rowspan="3">any amount resulting from the derecognition at that date of the asset / liability and recognized in connection with the acquisition of insurance</td><td>(+)</td><td>any adjustment to a financing component</td></tr>
<tr><td>(-)</td><td>the amount recognized as insurance income for the coverage provided during that period</td></tr>
<tr><td>(-)</td><td>any paid investment component</td></tr>
</table>

Consequently, the importance of a more accurate and accurate estimation of future cash flows is noted, and in this sense the IFRS 17 standard imposes the following rules:

- the inclusion in the evaluation of a group of insurance contracts of all cash flows that fall within the limits of each contract in the group;

- the impartial incorporation of all reasonable information and available demonstrations, without costs or unjustified efforts regarding the value, placement in time and uncertainty of the respective flows, by estimating the expected value (probability weighted average) of the whole range of possible results;
- reflecting the perspective of the entity (consistent with market prices).

2. Harmonization of IFRS 17 with Solvency II

Current solvency regime Solvency II, implemented in the European Union by adopting two Directives, 2009/138 / EC and the respective 2014/51 / EU, since 2016, as first reporting year, set new standards for the risk management and investment, but also in relation to pricing and the profitability of insurance. Classification of own funds (basic single , auxiliary and surplus) and their correlation with capital requirements on the one hand and the assumed risks from the insurance contracts issued on the other hand, was a very important goal of the insurance companies, in order to ensure an optimal financial balance. Thus, the main direction laid set of Solvency II cover the following areas: assessment and management of assets and liabilities, calculation and recording of technical reserves, determination, classification and eligibility of own funds, investment policy.

It should be noted that, on the assessment of the assets and liabilities, Solvency II requires to record them at fair value also in the financial reporting standards, in the sense that it will perform at the amount that could be traded /transferred/settled the items related, between interested parties, under objective and normal conditions of competition.

It should also be mentioned composition of own funds:
- base own funds (FPB) - composed of surplus assets over liabilities and the subordinated liabilities;
- auxiliary own funds (FPA) - composed of the share capital, guarantees and mandatory legal commitments;
- surplus funds (FSP) - accumulated profits for clients and beneficiaries,
provided that the own funds component excludes surplus funds.

Also should be taken into account the ranks granted to own funds:
- rank 1 funds (R1) - consisting of available and priority FPB and FSP ;
- rank 2 funds (R2) - consisting of priority FPB and FPA with maturity;
- rank 3 funds (R3) - the rest of the funds,
this classification indirectly influencing the policy of financial investment of the insurance companies as well of the management of these funds, dependent on the solvency requirement, given the condition determined is the minimum capital requirement.

Another important chapter of Solvency II refers to the risk modules taken into account in order to determine the solvency capital requirement . In this regard, the allocation of such risks on balance sheet items of a company insurance as well setting the source of own funds, can provide a complete picture of the necessary framework for an optimal management of assets and liabilities, the influence of these risks being as follows:
- market risks and counterparty usually acts on financial investments in assets, indirectly influencing the share capital and accumulated profits, which in turn are the source of ancillary and surplus funds taken into account in the calculation of SCR, according to Solvency II;

- underwriting, counterparty and operational risks, which usually act on receivables and reserves related to reinsurance assets, indirectly influencing insurance provisions, technical reserves and reinsurance liabilities and which in turn constitute the source of basic funds taken into account in the calculation of MCR, according to Solvency II..

An analysis of the links between the IFRS 17 standard and the Solvency II solvency regime, may have as a starting point precisely the treatment related to the risks assumed based on the insurance contracts issued. In this sense, IFRS 17 generally requires detailed presentations (but having in the subsidiary the related analyzes) as follows:
- presentation of information on risk concentrations, including a description of how they are determined, as well as the common characteristics of these risks (type of insured event, currency, area);
- performing a sensitivity analysis showing how profit or loss and equity would have been affected by changes in possible risk exposures at the end of the reporting period, both for insurance risk and for each type of market risk;
- presentation of real claims against the previous estimates at the undiscounted value of claims;
- presentation of the maximum exposure of the entity to credit risk at the end of the reporting period;
- presentation of the description of the way in which the entity manages the liquidity risk.

In conclusion, the basis for conclusions drafted by the International Accounting Standards Board should be mentioned, in connection with the analysis of existing regulations used by insurers, in the sense that they could be the basis of the provisions of IFRS 17 for financial reporting purposes. Thus, although the provisions of Solvency II provide for a measurement consistent with current market conditions and implicitly with the provisions of IFRS 17, they are focused on the solvency position of entities and not on the reporting of financial performance over time (implemented by IFRS 17 through margin contractual service).

3. IFRS 4 - Solvency II - IFRS 17. Analysis of the current situation

In order to analyze the current situation related to the implementation by European insurers of the new IFRS 17 standard, in the conditions of adopting the Solvency regime starting with 2016 and the accounting treatment, financial reporting of the existing standard, IFRS 4, we proceeded to select the largest European insurers by the value of assets held at the end of 2018:

Table no. 6 Top European insurers by of assets value (amounts in billions of USD).

Top European insurers	2018
Allianz SE (Germany)	1095.78
Axa (France)	1069.18
Prudential plc (UK)	664.56
Legal & General Group plc (UK)	651.57
SPA General Insurance (Italy)	608.27

According to the information collected from the financial statements published for the financial year 2018, the measures and concerns of the respective companies regarding the adoption of the IFRS 17 standard are the following:
- Allianz SE (Germany) - n / a;
- Axa (France)
o integration into the annual activities of the Audit Committee of the revision of IFRS 17 and the expected impact;
o the company considers that the adoption of IFRS 17 may significantly affect the accounting treatment applicable to obligations to customers;
o the company is eligible for the exemption from the application of IFRS 9 until the date of implementation of IFRS 17 (January 1, 2021), subject to the postponement of this date by the I.A.S.B. and the U.E. until January 1, 2022;
o The implementation of the mentioned standards within the group is in progress, the company's management evaluating the impact of their adoption.
- Prudential plc (UK)
o IFRS 17 is expected to change the periodicity of the recognition of profit according to IFRS;
o The implementation of the standard will bring changes in the IT, actuarial and financial systems and will also have an impact on the company's expenses;
o The Group is currently reviewing the complex requirements of the standard and considering the potential impact of adoption.
o The Group meets the eligibility criteria for the temporary exception under IFRS 4, in connection with the adoption of IFRS 9 and consequently postponed the adoption of IFRS 9;
o The Group assessed the impact of IFRS 9 and also the implementation of this standard in close connection with IFRS 17;
o The Group initiated a program to implement IFRS 17 and IFRS 9, responsible for establishing accounting policies and developing methodological applications, establishing processes and controls, obtaining data and implementing changes in actuarial and financial systems;
o The Group will issue financial statements in accordance with IFRS, as well as interim financial statements until the date of adoption of IFRS 17.
- Legal & General Group plc (UK)
o The Audit Committee regularly reviews the progress of projects implementing the new standards, in particular IFRS 17 and key decisions regarding their implementation, including those expected in relation to the impact on results and the approach to transitional disclosures;
o The Group mobilized a project to assess the financial and operational implications of the standard, and work will continue throughout 2019, to ensure technical compliance and to develop the system capacity needed to implement the standard.
- Assicurazioni Generali SPA (Italy)
o The Group developed and implemented the "Finance NEXT" program (Navigating to a Transformation of Excellence) with the aim of optimally coordinating the implementation plans of the new IFRS standards (IFRS 9 for investments and IFRS 17 for insurance contracts) and to intensify the reporting processes in line with the new regulatory deadlines; this will allow the group to manage in an integrated manner the new regulatory obligations that will have a major impact in the future.
o In 2019, analysis sessions were organized on the impact of the future adoption of IFRS 9 and IFRS 17 on the insurance sector (Insurtech);

o The Group expects the impact of the adoption of IFRS 17 (together with IFRS 9) to be material, in particular in relation to the classification and measurement of financial instruments.

In the case of the Romanian insurance market, the latest data published by EIOPA for the second quarter of last year, regarding the balance sheet elements of the profile companies showed a concentration of approximately 52% of investments (other than those related to unit-linked contracts) in the balance sheet assets, in similarity and in accordance with the related technical reserves from the balance sheet liability, the summary of the balance sheet data being presented below:

Table no. 7. Cumulated amounts related to balance sheet items reported by Romanian companies, according to EIOPA.

mil. Euro

Romania's Balance Sheet_EIOPA	**2019 Q3**
Investments (other than unit-linked)	2418.12
Assets held for unit-linked contracts	764.87
Recovery and receivables re insurance	806.76
Available in bank accounts	247.44
Other assets	409.76
Total active	**4646.95**
Technical reserves (except unit-linked)	2079.37
Technical reserves for unit-linked contracts	750.23
Deposits from reinsurers	189.66
Reinsurance debts	164.51
Excess of assets over liabilities	1061.77
Other liabilities	401.41
Total liabilities	**4646.95**

On the other hand, the data reported by the same companies for the level and rate of solvency under Solvency II are as follows:

Table no. 8. Data reported in accordance with Solvency II by Romanian insurance companies for the third quarter of 2019.

Solvency II Romania_EIOPA	*mil. Euro*	Ratio
Total available own funds - SCR	1127.26	-
Total eligible own funds - SCR	1121.05	1.72
SCR	628.50	
Total available own funds - MCR	1110.20	-
Total eligible own funds - MCR	1052.01	3.94
MCR	263.00	

In an own analysis of the adjustments made by the first five companies from a pilot group of Romanian insurance companies, following the publication of information with special purpose for 2011, in order to reconcile the statutory balance sheets - in accordance with Order 3129/2005, with that information - compliant with IFRS, resulted in the following restatement differences:

Table no. 9 . Balance sheet adjustments made by the pilot group of Romanian insurance companies in 2011 (million lei).

Balance Sheet Item	Statutory	IFRS	Differences	Reason	Variation
AFFILIATES PARTICIPATIONS	3	19	16	IAS 39	533%
BONDS	353	329	-24	IFRS 9	-7%
RESERVES/REINSURANCE PART	243	183	-60	IFRS 4	-25%
RECEIVABLES	443	369	-74	IFRS 1	-17%
BANK ACCOUNTS	21	44	2. 3	IFRS 1	110%
BANK DEPOSITS	40	20	-20	IFRS 1	-50%
OTHER ASSETS	343	339	-4	-	-1%
TOTAL ACTIVE	**1446**	**1303**	**-143**	**-**	**-10%**
SHARE CAPITAL	182	200	18	IAS 29	10%
CAPITAL PREMIUMS	86	170	84	IAS 29	98%
REPORTED RESULT (from IFRS)	-95	-350	-255	IFRS 1	268%
CLAIMS RESERVE	494	539	45	IFRS 4	9%
CATASTROPHE RESERVE	17	0	-17	IFRS 4	-100%
OTHER LIABILITIES	762	744	-18	-	-2%
TOTAL LIABILITIES	**1446**	**1303**	**-143**	**-**	**-10%**

Following the extension of this analysis to the pilot group question (Istrate, Badea, 2015), there was an average adjustment of balance sheet assets and liabilities determined according to Order 3129/2005, of -3.97%.

Returning to the current situation, represented by the balance sheet of Romanian companies in September 2019, there is an almost perfect balance between, on the one hand, investments - other than unit-linked and, respectively, separately, assets held for unit-linked contracts (both positions in the assets of the companies, in the total amount of 3,182.99 million Lei) and on the other hand the related liabilities, represented by the technical reserves constituted based on the effects of the previously mentioned assets (in the total amount of 2,829.60 million Lei). It should also be noted that these balance sheet positions hold a majority share of more than 60% of the balance sheet assets and liabilities, respectively, which may lead to a significant risk in connection with possible restatement adjustments in the event of the adoption of IFRS 17. Another qualitative argument refers to the fact that the new IFRS 17 standard will determine, by applying the related principles and rules, together with two other standards: IFRS 15 and IAS 37, an increase in the technical reserves from liabilities, simultaneously with the reduction of assets for investment in assets , the two balance sheet items show a slight imbalance: assets represent 68.50% of assets, while related technical reserves represent 60.89% of liabilities).

Estimation of any adjustments can be made by:
- internal valuation of financial assets (after having previously been separated from the insurance component);
- the evaluation of the future cash flows that these assets will generate (based on the concluded contracts or based on the estimates on the financial markets, depending on the risk category in which they are included);
- re-evaluation of the related technical reserves, based on the data obtained as a result of the previously mentioned evaluations.

On the other hand, there is the amount related to the excess of assets over liabilities, in the amount of RON 1,061.77 million, generally represented by equity, at a level almost similar to the own levels eligible for SCR and MCR, according to Solvency II. However, IFRS 17 does not directly influence this balance sheet component, moreover, the respective surplus is included in the category of basic own funds in the calculation of Solvency II, while the accumulated profits for customers and beneficiaries (reflected in the balance sheets by the balance sheet equation ,, assets, financial investments = technical reserves ") are included in the category of surplus funds.

4. Conclusions

The initial conclusions resulting from the comparative analysis between the two standards, IFRS 4 and IFRS 17 are the following:
- the general detailing and the qualitative punctuation in the new standard of the provisions of the IFRS 4 standard, noting the clarification of most of the aspects mentioned in the old standard;
- emphasizing the importance of separating other contractual components attached to insurance contracts, so as to allow users to more easily assess the different components of issued contracts and at the same time the effects of these components on the issuer's financial statements;
- the different treatment of other contractual components, other than those related to insurance.

The new IFRS 17 standard proposes a more detailed approach to insurance contracts, while a much more careful separation of the contractual components, which may accompany

traditional insurance contracts. At the same time, IFRS 17 groups insurance contracts into groups, based on insurance portfolios, insisting on the evaluation of future cash flows generated by these contracts.

The possible effects on the Romanian insurance market of the application of IFRS 17, simultaneously with the reporting in accordance with Solvency II, can be materialized in a much more careful evaluation of financial assets and investments, especially of assets related to unit-linked contracts, in consistent with the increase in related technical reserves, due to the revaluation of future cash flows generated, this restatement will have possible consequences on the data reported according to Solvency II.

In conclusion, Solvency II regulations focus on the solvency of insurers, leading to decisions taken by third parties in a manner strictly related to the ability of those entities to be solvent, while decisions made on the basis of information provided by IFRS 17 are based on considerations related to the reporting of profits or losses in appropriate periods of time.

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