IFRS 4 Phase II

EY has developed an insurance business impact accelerator tool (IBIAT) to enable our clients to evaluate the key challenges of implementing IFRS 4 Phase II. This is the most significant change to impact insurance companies since International Financial Reporting Standards were introduced as a global standard for reporting requirements.
**Business challenge**

IFRS 4 Phase II will revolutionize the way in which insurance contracts will be reported.

The release of the revised Exposure Draft on IFRS 4 Phase II marks a major milestone in the IASB’s efforts to standardize and improve accounting for insurance contracts globally. The revised ED takes into account the re-deliberations of the IASB, many of which were held with the Financial Accounting Standards Board (FASB).

The new standard is expected to increase the potential for balance sheet and income statement volatility when considered with the impact of IFRS 9. Implementation will require significant investment from insurers.

Assessing your capability to report and manage business performance under Phase II will help to develop an effective road map when the standard goes live.

Insurers are currently incurring significant costs in implementing Solvency II. Balancing the level of alignment and dissimilarities between the new regulatory regime and the new financial reporting requirements will test the limits of change management and the use of limited, scarce resources.

**EY’s gap assessment approach**

In a workshop environment, our accelerator tool will help identify the key impacts and challenges your organization will face (including Solvency II considerations), and formulate an initial approach to implementing the standard across all key business functions. This includes:

- Accounting policy options
- Process and controls
- Data management
- Actuarial modeling
- Systems and IT

The tool takes your experts through a series of carefully constructed questions to capture your current capability gap and benchmark it in terms of what is required to close the gap. The assessment is supported by our accounting, data, process and IT specialists, who have deep insight into the IASB deliberations. They have conducted similar impact assessments with a number of our largest insurance clients, identifying options and solutions in each of these areas.

**Benefits**

EY has been engaged by many large insurance companies using IBIAT to consider the practical challenges and potential solutions to help inform an implementation strategy. Our tool helps identify the key similarities and differences alongside your Solvency II implementation strategy. It has enabled our clients to address the immediate touch points with their Solvency II programs and provide an initial view of the business impact that Phase II will introduce to their organizations. The tool is also flexible to address standalone insurance entities and large insurance groups across different product lines.

Upon completion of the assessment, we will provide an executive briefing report prioritizing the key issues and recommendations. IFRS 4 Phase II will require a significant change to your organization’s reporting processes and systems. Early identification of the impacts will enable you to develop an optimal implementation strategy, including synergies with your existing Solvency II project.

Our tool will also highlight the interaction between the IFRS 9 model for financial assets and the insurance contract liabilities model.
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