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ANNEX COMPARATIVE ANALYSIS OF INTERNATIONAL STANDARDS OF FINANCIAL REPORTING AND SOLVENCY II IN SURANCE

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Abstract
In this paper, the most important regulation in insurance companies is analyzed in a comparative way, with a special focus on International Financial Reporting Standard (IFRS) 17 "Insurance Contracts". The main goal is to simplify these very complex issues as much as possible to "standards", which are more easily applied in the practice of insurance companies.
Keywords: Contractual margin of service, Expected cash flows, Harmonized risk, Discount rate, Contract margin of service, Solvency II.

1. INTRODUCTION

The insurance companies are used as part of financial reporting due to their nature of business - risk protection, and participation as "big players" in the financial market, the relevant standards: International Accounting Standards– IAS and International Financial Reporting Standards – IFRS. The characteristic International Financial Reporting Standards presented through the balance sheet in the insurance companies are shown in Table 1.

TABLE 1. TYPICAL IAS / IFRS IN INSURANCE

	IAS/IFRS
Assets	
Investments	IAS 39
Property	IAS 40
Investments contracts	IAS 18/30
Insurance contracts	IFRS 4 (1.1. 2021 IFRS 17)
Other assets	various
Equity and Liabilities	
Equity	IAS 32/39
Insurance liabilities	IFRS 4(1/1/ 2021 IFRS 17)*
Investment contract liabilities	IAS 39
Other liabilities	various

Source: Financial reporting, Core Reading. August 2010.*Author

It is clear from the table below that the International Financial Reporting Standard (IFRS) 4 "Insurance Contracts" is of great importance in insurance companies, i.e. International Financial Reporting Standard (IFRS) 17 "Insurance Contracts"(which will be applied 1/1/2021). This is in line with the nature of their business.

2. IFRS 4 "INSURANCE CONTRACTS"

A schematic illustration of the application of the IFRS 4 "Insurance Contracts" in insurance and reinsurance is shown in Figure 1.

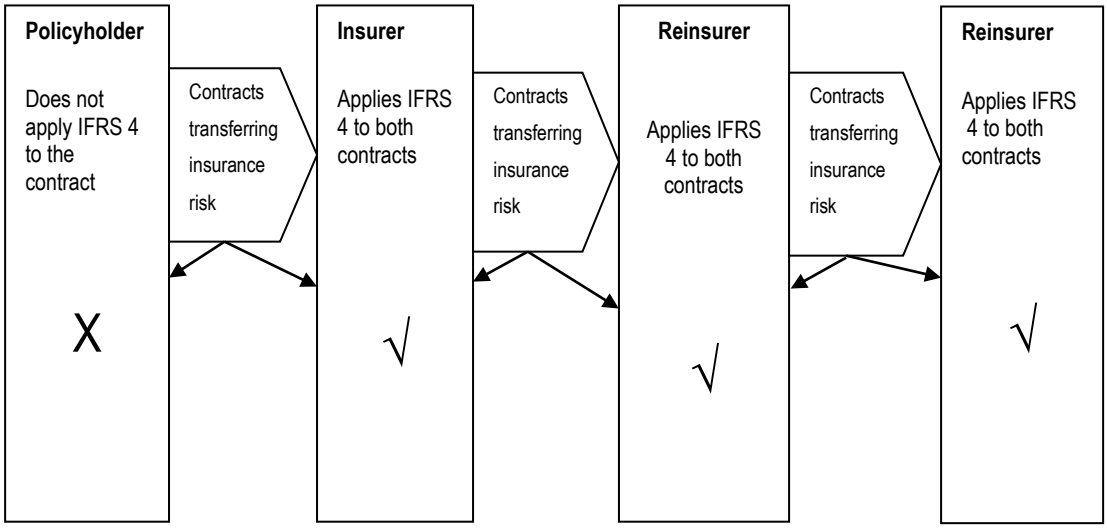

FIGURE 1. THE APPLICABILITY OF IFRS 4 TO THE PARTIES TO INSURANCE CONTRACTS
Source: KPMG (2004) Insurance Accounting under IFRS (https://math.illinoisstate.edu/krzysio/MAT480/Reading-17.pdf (June 6, 2016)

Three essential characteristics of IFRS 4 "Insurance contract" are the classification of insurance contracts, establishing liability adequacy test (LAT - Liability Adequacy Test) and disclosure. Using liability adequacy test verifies that the obligations under the insurance on a particular valuation day are sufficient to cover expected payments for future damage. In addition, insurance liabilities include loss reserves and unimpaired (transferable) premiums, deferred acquisition costs (if any) and intangible investments (See more details: Zsoldos, P., How to measure adequacy of technical provisions in general insurance - practical perspective, European Scientific Journal May 2014 / Special Edition, ISSN: 1857 - 7881 (Print) e - ISSN 1857 - 7431).

In other words:

LAT result = UPR - future acquisition costs - future damages - future troubles for damage treatment - future costs

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Where UPR stands for - Unearned Premium Reserve

If the estimated carrying amount of liabilities is not adequate to the estimated future cash flows, the difference is recognized as a gain or loss.

3. COMPARATIVE ANALYSIS OF THE IFRS 4 "INSURANCE CONTRACTS" AND THE IFRS 17 "INSURANCE CONTRACTS"

As previously mentioned, IFRS 17 "Insurance Contracts", which is to replace IFRS 4 "Insurance Contracts" at the beginning of 2021, was adopted in 2017. The following figure (2) shows the dynamics of preparation and application of the relevant standard in insurance companies.

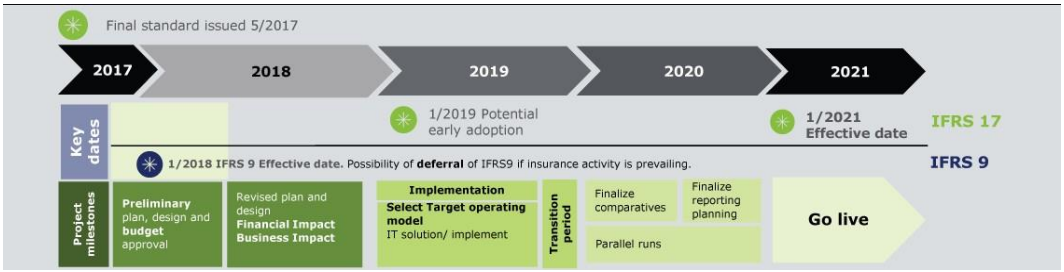

FIGURE 2. ILLUSTRATION OF THE DYNAMICS OF PREPARATION AND IMPLICATION OF IFRS 17
Source: IFRS 17 - Get started with preparation and implementation on time, https://www2.deloitte.com/en/en/pages/audit/articles/ifrs-news-2018-5.html (May 17, 2018)

There are significant differences between IFRS 4 "Insurance Contracts" and the IFRS 17 "Insurance Contracts" This is clearly shown in Table 2.

TABLE 2. ILLUSTRATION OF THE DIFFERENCE BETWEEN IFRS4 AND IFRS 17

IFRS 4*	IFRS 17
Premiums	Insurance revenue
Investment income	Incurred claims and expenses
Incurred claims and expenses	Insurance service result
Change in insurance contract liabilities	Investment income
Profit or loss	Insurance finance expense
(*) Common presentation in the statement of comprehensive income in applying IFRS 4. Note: Grey shading denotes line items on the balance sheet	Net financial result
	Profit or loss
	Discount rate changes on insurance liability (optional)
	Total comprehensive income

Source: General insurance: The broad-ranging implications of IFRS 17, http://www.theactuary.com/features/2017/06/the-wide-ranging-implications-of-ifrs-17/ (May 17, 2018)

The most significant differences are related to the income statement. The names of several positions have been changed. Thus, for example, the "premium" position has been replaced with "insurance income". A more detailed methodology for calculating profit or loss is the content of the income statement in the insurance. The following illustration in Figure 3 shows more clearly the significant differences between current IFRS, on one hand, and IFRS 17 BBA **(**Building Block Approach) and IFRS 17 PAA (Premium Allocation Approach), on the other hand.

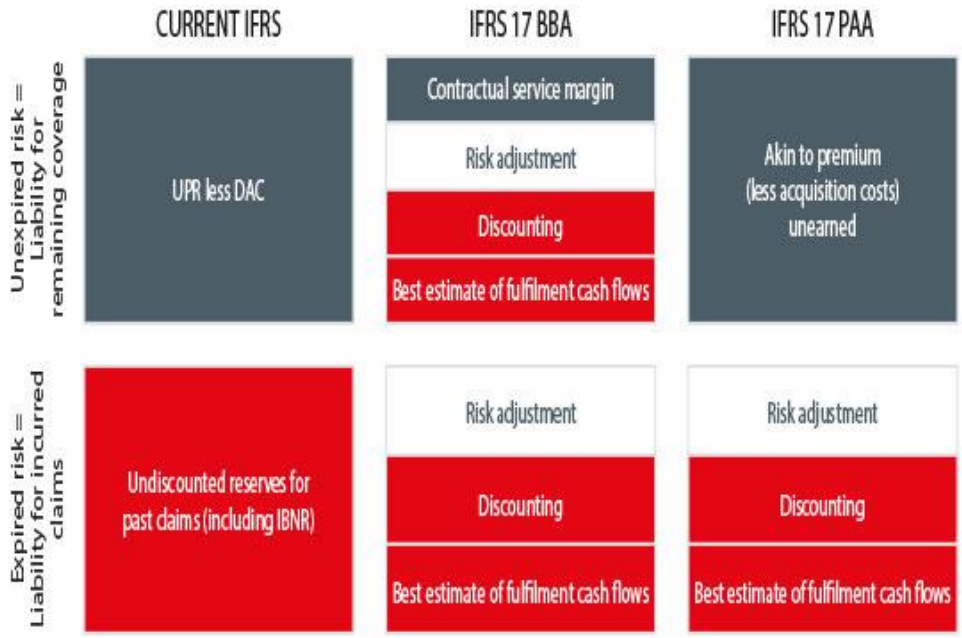

FIGURE 3. DIFFERENCES BETWEEN CURRENT IFRS AND IFRS 17 BBA, IFRS 17 PAA
Source: General insurance: The broad-ranging implications of IFRS 17, http://www.theactuary.com/features/2017/06/the-wide-ranging-implications-of-ifrs-17/ (May 17, 2018)

In a further presentation of the issues in question, we will illustrate stochastic and deterministic modeling of the overall obligations of the insurance companies with an example (Table 3).

TABLE 3. STOCHASTIC AND DETERMINISTIC MODELING OF THE OVERALL LIABILITIES OF INSURANCE COMPANIES

Scenario	Net cash inflows / (outflows), CU	Probability	Probability -weighted outcome, CU
1	(10,000)	5%	(500)
2	-	15%	-
3	5,000	7%	350
4	15,000	73%	10,950
Total		100%	10,800

Note: Currency units -CU
Source: In depth A look at current financial reporting issues, IFRS 17 marks a new epoch for insurance contract accounting, https://www.pwc.com/gx/en/audit-services/ifrs/publications/ifrs-17-marks-a-new-epoch-for-insurance-contract-accounting.pdf (May 17, 2018)

The data in the given table show that the total liabilities of the insurance company according to the deterministic model amount to CU 15,000 and according to the stochastic CU 10,800. IFRS 17 "Insurance Contracts" allows the application of stochastic modeling of the overall liabilities of insurance companies.

In sum, IFRS 17"Insurance Contracts" will replace IFRS 4"Insurance Contracts", which was adopted in 2004 with the intention of being a "transitional" standard, but has been used ever since. IFRS 4"Insurance Contracts" provided insurance companies the ability to maintain accounting by complying with national accounting standards, which resulted in a multitude of different approaches. IFRS 17"Insurance Contracts" will address the comparability problem arising from IFRS 4"Insurance Contracts", as it requires that all insurance companies keep accounting in a unique way so as to benefit both insurers and investors. This first true International Financial Reporting Standard for Insurance will help investors and others better understand the risk of the exposure of the insured and the financial position and performance of the insurance company.

4. OBJECTIVES AND CHARACTERISTICS OF THE IFRS 17 "INSURANCE CONTRACTS"

The main objectives of applying the IFRS 17 "Insurance Contracts" are: to improve the quality, transparency and comparability of the financial statements of insurance companies (at all levels: globally, regionally, nationally and by individual insurance companies). The definition of a contract, according to this standard (IFRS 17"Insurance Contracts"), is similar to the definition given by IFRS 4 "Insurance Contracts" which reads: - the insurer accepts a significant insurance risk by agreeing to pay compensation to the contractor if the uncertain future event negatively affects the contractor. The risk of insurance is every risk, except financial risk. The following illustration in Figure 4 shows the measurement model according to the IFRS 17 "Insurance Contracts".

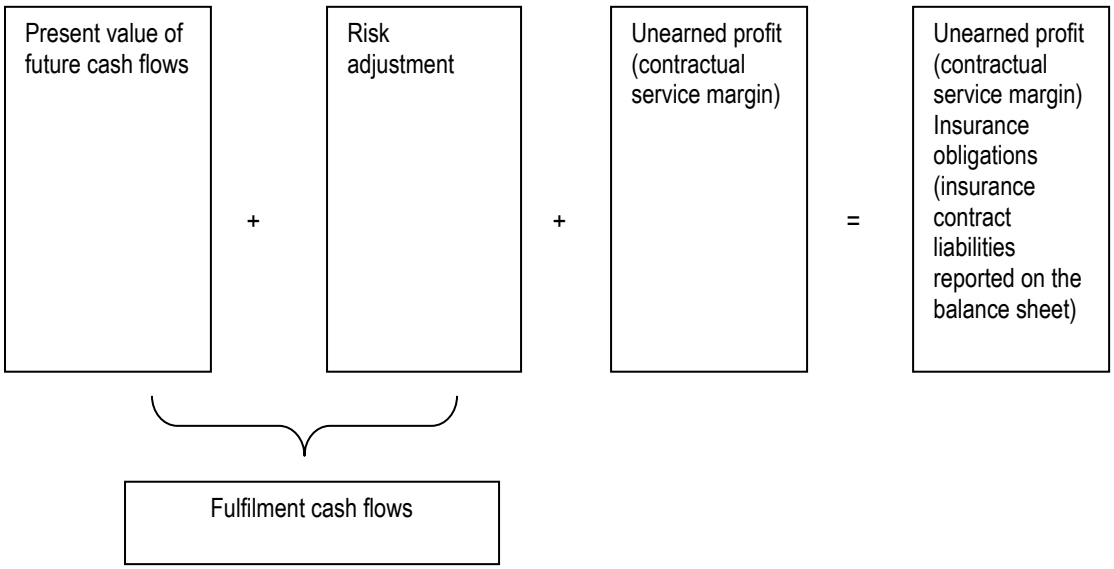

FIGURE 4. IFRS 17 MEASUREMENT MODEL

Source: IFRS 17 Insurance Contracts, https://www.ifrs.org/-/media/project/insurance-contracts/ifrs-standard/ifrs-17-project-summary.pdf (May 17, 2018)

In order to understand the characteristics and specifics of the IFRS 17 "Insurance Contracts" better, we will illustrate them schematically through the balances. An illustration of the measurement model according to IFRS 17"Insurance Contracts" through the balance sheet is given below (Table 4).

TABLE 4. ILLUSTRATION OF THE MEASUREMENT MODEL ACCORDING TO IFRS 17 THROUGH THE BALANCE SHEET

<table>
<tr><td colspan="4">Balance sheet</td></tr>
<tr><td colspan="4">Insurance contract liability</td></tr>
<tr><td colspan="2">Liability for remaining coverage</td><td rowspan="11">+</td><td>Liability for incurred daims</td></tr>
<tr><td colspan="2">=</td><td>=</td></tr>
<tr><td colspan="2">Fulfilment cash flows [1]</td><td>Fulfilment cash flows 1</td></tr>
<tr><td rowspan="2">Present value of future cash flows</td><td>Cash flows</td><td>Present value of future cash flows</td><td>Cash flows</td></tr>
<tr><td>Discount rates</td><td>Discount rates</td></tr>
<tr><td colspan="2">Risk adjustment</td><td rowspan="4">Risk adjustment [3]</td></tr>
<tr><td colspan="2">+</td></tr>
<tr><td colspan="2">Contractual service margin</td></tr>
<tr><td colspan="2">Profit from coverage to be provided in the future [2]</td></tr>
</table>

Notes:

[1] The fulfilment cash flows at current value are: cash flows, discount rates and risk adjustment are updated at each reporting to

[2] Changes in cash flows and in the risk adjustment that relate to coverage to be provided in the future adjust the margin of contractual service

[3] The release of risk adjustment in the liability for incurred claims reduces the claims incurred in the profit or loss

Source: IFRS 17 Insurance Contracts - the accounting model one page. https://www.ifrs.org/-/media/project/insurance-contracts/ifrs-standard/ifrs-17-accounting-model-a3-jan-2018.pdf (May 17, 2018)

The following illustration shows the modified measurement model according to the IFRS 17"Insurance Contracts" to the balance sheet balance (Table 5).

TABLE 5. ILLUSTRATION OF MODIFIED CONTRACTS WITH "VARIABLE FEE" ACCORDING TO IFRS 17

Modifications for contracts with a 'variable fee'				
Insurance contract liability				
Liability for remaining coverage		+	Liability for incurred daims	
=			=	
Fulfilment cash flows [1]			Fulfilment cash flows [1]	
Present value of future cash flows	Cash flows		Present value of future cash flows	Cash flows
	Discount rates			Discount rates
Risk adjustment			Risk adjustment [3]	
+				
Contractual service margin				
Profit from coverage to be provided in the future [2] (including changes in the variable fee)				

Notes:
[1] The fulfilment cash flows at current value are: cash flows, discount rates and risk adjustment are updated at each reporting to
[2] Changes in cash flows and in the risk adjustment that relate to coverage to be provided in the future adjust the margin of contractual service
[3] The release of risk adjustment in the liability for incurred claims reduces the claims incurred in the profit or loss
Source: IFRS 17 Insurance Contracts - the accounting model one page. https://www.ifrs.org/-/media/project/insurance-contracts/ifrs-standard/ifrs-17-accounting-model-a3-jan-2018.pdf (May 17, 2018)

The following illustration shows the measurement model according to the IFRS 17 "Insurance Contracts" through the Income Statement (Table 6).

TABLE 6. ILLUSTRATION OF THE MEASUREMENT MODEL ACCORDING TO IFRS 17 THROUGH THE PROFIT AND LOSS ACCOUNT

Profit or loss Insurance service result	
Insurance revenue	+ Revenue for coverage provided in the period
	+ Revenue for release of risk adjustment in the period
Insurance service expenses	- Expected claims and other insurance service expenses
	+/- Changes in cash flows and in the risk adjustment that relate to coverage provided in the period and in the past [2,3]
Insurance finance expenses	
- Unwind of discount rates	**+/- Changes in discount rates [1]**
Other comprehensive income (optional)	
Insurance finance expenses	+/- Changes in discount rates [1]

Notes:
1 The fulfilment of cash flows is at current value: cash flows, discount rates and risk adjustment are updated on each reporting date

2 Changes in cash flows and in the risk adjustment that relate to coverage provided in the period of time and in the past are recognized in profit or loss
3 The release of risk adjustment within the liability for incurred claims and claims incurred reduces profit or loss s
Source: IFRS 17 Insurance Contracts - the accounting model one page. https://www.ifrs.org/-/media/project/insurance-contracts/ifrs-standard/ifrs-17-accounting-model-a3-jan-2018.pdf (May 17, 2018)

The following illustration shows the measurement model according to the IFRS 17 "Insurance Contracts" simplified for short-term contracts (Table 7).

TABLE 7. ILLUSTRATION OF THE MEASUREMENT MODEL ACCORDING TO IFRS 17 - SIMPLIFICATIONS FOR SHORT-TERM CONTRACTS (OPTIONAL)

Simplifications for short-term contracts (optional) Insurance contract liability		
Liability for remaining coverage	+	Liability for incurred claims
=		=
Simplified measurement based on unearned premiums		Fulfilment cash flows Fulfilment cash flows [1]
		Cash flows (no need to discount if payments of claims due within one year)
		Risk adjustment[2]

Notes
1 The fulfilment of cash flows is at current value: cash flows, discount rates and risk adjustment are updated on each reporting date
2 The release of risk adjustment in the liability for incurred claims reduces the claimed claims in profit or loss
Source: IFRS 17 Insurance Contracts - the accounting model one page. https://www.ifrs.org/-/media/project/insurance-contracts/ifrs-standard/ifrs-17-accounting-model-a3-jan-2018.pdf (May 17, 2018)

The most significant changes in IFRS 17"Insurance Contracts" relate to the determination of the total liabilities of insurance companies. For the sake of better understanding, the overall liability insurance is shown schematically in accordance with the IFRS 17 "Insurance Contracts" (Figure 5).

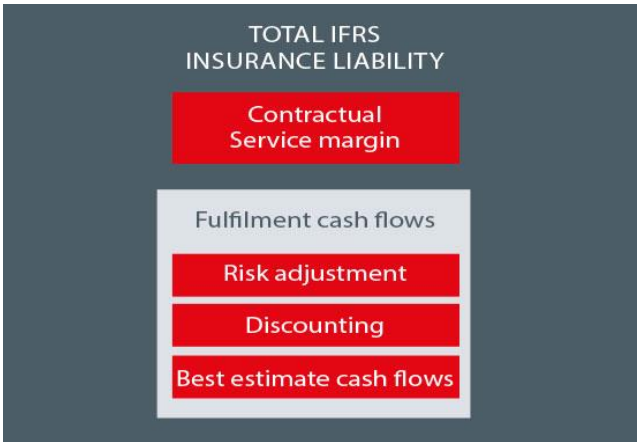

FIGURE 5. ILLUSTRATION OF TOTAL INSURANCE LIABILITIES ACCORDING TO IFRS 17
Source: General insurance: The broad-ranging implications of IFRS 17, http://www.theactuary.com/features/2017/06/the-wide-ranging-implications-of-ifrs-17/ (May 17, 2018)

The total insurance liabilities according to the new measurement model (IFRS 17"Insurance Contracts") therefore consist of realized cash flows (adjusted risk, discounting, best estimate of cash flows) and contracted service margins.

IFRS 17 "Insurance Contracts" brings significant changes. The balance sheet will not show premiums, unearned premiums, Deferred Acquisition Costs – DAC, Damage Reserves, and the like will be recognized by the "best estimate principle". Discounting of technical reserves is introduced, testing of profitability at conclusion of insurance contract and immediate recognition of profit in the profit and loss report, and depreciation of profits over the term of the insurance contract. Methodology of depreciation per unit of coverage is considered not fully explained. Accounts at the level of insurance policy are proposed, although it is not precisely prescribed how to contract insurance contracts according to criteria of similar risk, as well as the manner of managing insurance contracts. The actuarial perspective of analyzing data from retrospective to prospective is changing. The logic of accounting for insurance transactions is different. There is completely different content of the profit and loss report and significant changes in the content of the balance sheet and notes. The illustration below shows the content of the balance sheet according to IFRS 17"Insurance Contracts" (Table 8).

TABLE 8. BALANCE SHEET UNDER IFRS 17

Balance sheet according to IFRS 17 - *simplified presentation*		
	2016 (or 20XX)	2017 (or 20XX)
Financial assets		
Property and equipment		
Goodwill and other intangible assets		
Insurance contract assets		
Reinsurance contract assets		
Cash and cash equivalents		
Total assets		
Total equity		
Insurance contract liabilities		
Reinsurance contract liabilities		
Non- technical provisions		
Total liabilities and equity		

– All estimated future cash flows are recognized as assets and liabilities - but netted and disclosed in one balance sheet item

– All traditional balance sheet items are included actuarial reserves, unearned premiums etc., but being disclosed under the balance sheet item "Insurance contract liabilities"

Source: Information session on IFRS 17, https://www.helvetia.com/content/dam/os/corporate/web/en/home/investor-relations/overview/publications/presentation/2017/information-session-ifrs-17.pdf#page=32&zoom= auto, -50,522 (May 17, 2018)

Likewise, the illustration works, it is shown below and contains the income statement according to IFRS 17"Insurance Contracts" (Table 9).

TABLE 9. INCOME STATEMENT ACCORDING TO IFRS 17

Disclosure IFRS 17 Main elements of P & L		
	2016 (or 20XX)	2017 (or 20XX)
Insurance contract revenue (= "earned premium", excluding some savings components)		
Insurance service expenses (incurred claims / benefits / direct costs) Profit after tax		
Insurance service result		
Investment income		
Insurance finance expenses		
Net financial result		
Indirect costs		
Other income / expenses		
Profit before tax		
Taxes		
Profit after tax		

– Separate disclosure of the underwriting result (insurance service result) and net financial result
– Costs are allocated to the underwriting result (insurance service result) and the non-technical result

Source: Information session on IFRS 17, https://www.helvetia.com/content/dam/os/corporate/web/en/home/investor (May 17, 2018)

When IFRS 17 "Insurance Contracts" is applied, a significantly larger amount of data will need to be stored and processed. This requires the development of the information technology (IT) module for working with Contracted Margin services (CSM).

5. COMPARATIVE ANALYSIS OF THE IFRS 17 "INSURANCE CONTRACTS" AND SOLVENCY II

As it is well known, there are significant differences between the requirements of International Financial Reporting Standards (IFRS) and Solvency II. This is clearly shown in the illustration shown in Figure 6 below.

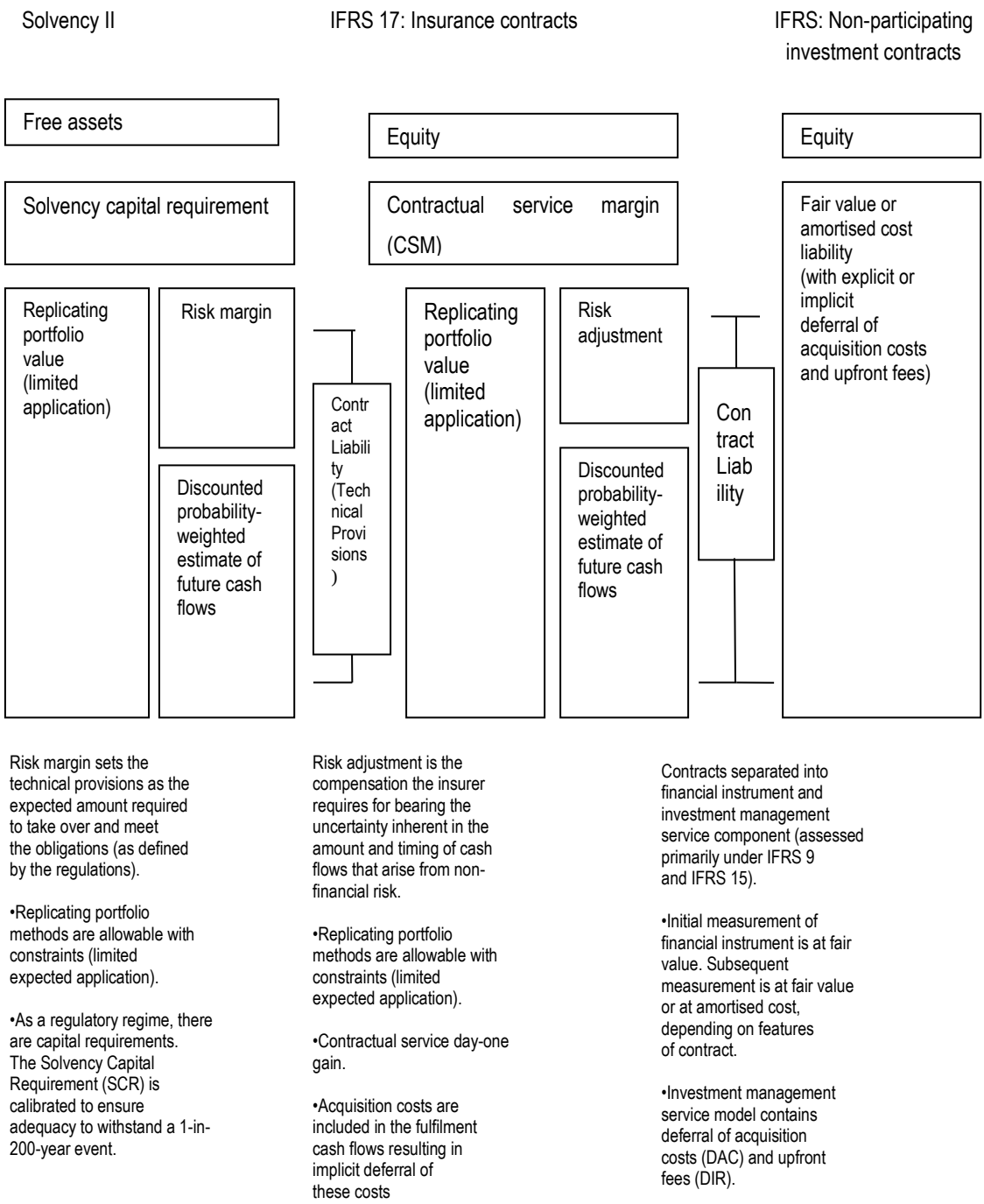

FIGURE 6. SOLVENCY II VERSUS IFRS REQUIREMENTS
Source. Using Solvency II to implement IFRS 17, September 2017 , https://www.pwc.pt/pt/industrias/seguros/pwc-using-solvencyII-IFRS17.pdf (May 17, 2018)

There are some similarities, but also significant differences in the area covered by the IFRS 17 "Insurance Contracts" and Solvency II. This is clearly shown in the following illustration (Table 10).

TABLE 10. ILLUSTRATION OF DIFFERENCES BETWEEN IFRS 17 AND SOLVENCY II

TOPIC	IFRS 17	SOLVENCY II
Recognition	Earliest of start of coverage and premium receipt (plus onerous contract test)	Date party to contract
Measurement model	Building Block Approach (BBA), or Premium Allocation Approach (PAA) for eligible contracts	No choice, cashflow approach more closely aligned to BBA under IFRS 17
Discount rate	Company-specific, principles-based	Prescribed
Risk allowance	Risk adjustment – no prescribed method	Risk margin – cost of capital approach is prescribed
Contractual service margin	Eliminates day-one gain (measure of unearned profit)	No similar concept, day-one gain taken immediately into own funds
Other comprehensive income (optional)	Isolates the impact of discount rate changes from the rest of the P&L	No similar concept

Source: General insurance: The broad-ranging implications of IFRS 17, http://www.theactuary.com/features/2017/06/the-wide-ranging-implications-of-ifrs-17/ (May 17, 2018)

Differences are reflected in recognition of premium income, model of measurement, discount rate, contract margin of services, and other comprehensive income. For example, when it comes to the discount rate, IFRS 17 "Insurance Contracts" requires a consistent risk and does not prescribe the method. On the other hand, Solvency II operates at margin risk and prescribes cost capital approach. It is considered that Solvency II measures are more precise and more comprehensive than the IFRS 17 "Insurance Contracts". An explicit liability with regard to uncertainty regarding the assessment of the probability of weighted cash flows is a common feature of both regulations. Solvency II prescribes one way to calculate the margin of risk, based on the cost of capital, while the IFRS 17 "Insurance Contracts" allows the insurer to choose a method based on the characteristics of the risk of an active portfolio. Solvency II requires that the budget is made on the basis of a hypothetical insurance company (scenario output value). In contrast, the IFRS 17 "Insurance Contracts" insists that the budget measures the aversion of its own risk in relation to the uncertainty of meeting its obligations (value scenario).

IFRS 17 "Insurance Contracts" refers to all contracts that meet the definition of the Insurance contract (depending on the degree of significance of the transferred insurance risk). Solvency II, however, relates to the overall business of an insurance company, (i.e., some contracts that are relevant to Solvency II are not for the IFRS 17 "Insurance Contracts" (for example, unit-linked contracts with a little additional insurance for case of death). (Unit-linked life insurance contracts are specific life insurance

contracts in which an insurance company carries only the risk of occurrence of an insured case, while the risk of investing funds is transferred to the insurer itself. The amount of risk will depend on the insurer itself and his willingness to risk, or more precisely, his function of utility) The emphasis is both on Solvency II and in the IFRS 17 "Insurance Contracts" on their own risk assessment and management.

Solvency II improves the competitiveness of the insurance product in terms of price and quality that tends to improve the level of protection of the insured and fulfil the solvency requirement of capital. IFRS 17 "Insurance Contracts" aims to apply uniform accounting standards for all types of insurance contracts, as well as to alleviate differences between existing insurance standards. IFRS 17 "Insurance Contracts" should contribute to improving the transparency of "image business" of the insurance company due to strict requirements for disclosing the achieved overall performance. Solvency II defines the risk-free rate as well as the liquidity premium, whereas the IFRS 17 "Insurance Contracts" does not define the liquidity limitation of premiums. Nevertheless, both regulations respect the risk of illiquidity. IFRS 17 "Insurance Contracts" takes illiquidity as a determinant of the current discount rate.

Profits are immediately recognized at the start of the Solvency II contract. IFRS 17 "Insurance contracts" recognize profits during the life of an individual insurance contract. The inclusion of general overheads is not allowed when estimating cash flows according to the IFRS 17 "Insurance contracts". Solvency II, however, has a different view in relation to the IFRS 17 "Insurance Contracts" when it comes to general overheads, as it requires their involvement in assessing, using the probability weighted cash flows, regardless of whether they result from fulfilling obligation under insurance contracts. IFRS 17 "Insurance Contracts" requires only the costs attributable to the fulfilment of these obligations to be included. A typical example of costs that are not included in accordance with the IFRS 17 "Insurance contracts" are the costs of product development and training. These costs are recognized in the income statement at the time they were incurred under the IFRS 17 "Insurance Contracts", which reduces initial earnings in Solvency II.

There are some similarities between the Solvency II and IFRS 17 "Insurance Contracts" that insurance companies should take into account in their practical implementation. Both approaches are based on the concept of fair value. Solvency II and IFRS 17 "Insurance Contracts" allow an insurance company to rely on its own assessment and management of the risks it faces in its business. For assets and liabilities, the current estimate of their value is used, which increases the "volatility" in the financial statements. The best estimate is used for future expected cash flows. Future cash flows are expected cash flows based on premiums, damages and other benefits for the beneficiary from the insurance contract. IFRS 17 "Insurance Contracts" requires an explicit and objective assessment based on the probability of future cash flows that will be realized during the fulfilment of an insurance contract by an

insurance company. The discount rate is obtained as a sum of the rate without risk and liquidity premium.

6. CONTRACTUAL SERVICE MARGIN

The Contractual Service Margin (CSM) is measured as the positive difference between the risk-adjusted present value of expected cash inflows and outflows at the time of the conclusion of insurance contracts (net inflow). At the very beginning of the insurance contract, it already shows its expected profitability over the entire duration. If loss is expected, i.e. the contractual margin of the service, it is recognized in the income statement (damaging contract). If, however, a gain is expected, that is a positive contracted margin of the service, it is recognized as a liability (undrawn profit). The contracted margin of service is, in other words, determined as the difference between the fairness of the insurance group of the insurance contract and the expected cash flows (See more details on the mathematical approach to treatment of IFRS 17: BJÖRN WIDING, JIMMY JANSSON, 2018) [1] In any case, it is necessary to develop an IT module for work with contractual service margin.

In the following example, we will show the allocation of the contractual service margin to the current and future periods (Table 11).

TABLE 11. THE ALLOCATION OF THE CONTRACTUAL SERVICE MARGIN

	Current period of time	Future period 1	Future period 2	Total
Contract 1	100,000	100,000	100,000	300,000
Contract 2	150,000	150,000	-	300,000
Total, CU	250,000	350,000		600,000
Total, percent	42%	58%		100%
Allocation of contractual service margin	CU420	CU580		CU1,000

Note: Currency units -CU

Source: In depth A look at current financial reporting issues, IFRS 17 marks a new epoch for insurance contract accounting, https://www.pwc.com/gx/en/audit-services/ifrs/publications/ifrs-17-marks-a-new-epoch-for-insurance-contract-accounting.pdf (May 17, 2018)

The given methodology is thus very simple. In our example, the agreed margin of service (CU = 1,000) for the current period is CU420 and in the future periods CU580.

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7. COMPARATIVE ANALYSIS OF IFRS 9 "FINANCIAL INSTRUMENTS" AND IFRS 17 "INSURANCE CONTRACTS"

Due to the complexity of the application for business activity International Financial Reporting Standard (IFRS) 9"Financial Instruments" implementation should be postponed until January 1 2021. This standard is oriented to: classification and measurement, depreciated value and impairment, and hedge accounting. It is bound to replace the International Accounting Standards (IAS) 39 "Financial Instruments: Recognition and Measurement". By applying the International IFRS 9 "Financial Instruments" and the IFRS 17 "Insurance Contracts", major changes in insurance are expected. Some insurance companies want to postpone the application of the IFRS 9 "Financial Instruments" to apply it in conjunction with the IFRS 17 "Insurance Contracts". This makes sense because of a certain "incongruity". The impact of the IFRS 9 "Financial Instruments" on performance before adopting new requirements for measuring obligations in insurance may be a challenge for some insurance companies. These changes will have a significant effect on insurance companies, especially those that now show assets with depreciation or significantly use the category of assets available for sale under International Accounting Standard (IFRS) 39 "Financial Instruments: Recognition and Measurement". It is considered that the main reasons for postponing the implementation of the IFRS 9 "Financial Instruments" are as follows: 1) temporary increase in accounting disagreement and the appearance of other sources "instability" and in the income statement, 2) confusing for users of financial reports, due to the contradictory nature of certain requirements of the IFRS 9 "Financial Instruments" and IFRS 4 "Insurance Contracts", and 3) the higher costs and efforts of the assembler (s) and the users of the financial statements.

Many insurance companies are certainly liable to suspend the application of the IFRS 9 "Financial Instruments" until the IFRS 17 "Insurance Contracts" on January 1, 2021 comes into force. However, those insurance companies that have the right to postpone the application of the IFRS 9 "Financial Instruments" will still need to meet minimum disclosure requirements starting with the compilation and disclosure of financial statements for 2018.

8. CONCLUSIONS

Based on the foregoing, the following can be summarized: According to many experts, the key feature of the IFRS 17 "Insurance Contracts" is the complexity and "non-compliance with other regulations. In view of this, it took thirteen years to define it, from the end of the first phase of the IFRS 4 "Insurance Contracts" (2004) to the publication of the IFRS 17 "Insurance Contracts" [2] (official version 2017). (Starting work on this project is 1997) The expected application period is four years and costs are

similar to Solvency II. The application of the IFRS 17 "Insurance Contracts" is closely related to the IFRS 9 "Financial Instruments", so that the beginning of the application of the IFRS 9 "Financial Instruments" will most likely be postponed until the beginning of the introduction of the IFRS 17 "Insurance contracts". It is considered that the application of the IFRS 17 "Insurance Contracts" is very useful for insurance, despite the great need for resources during its installation. The comprehensibility of the financial statements for all stakeholders, their comparability in different insurance companies, the transparency of risk and the inconsistency in accounting approaches will be increased, uncertainty in the insurance contract and obligations insurance companies and differences with Generally Accepted Accounting Principles (GAAP or U.S. GAAP). The model of the IFRS 17 "Insurance Contracts" will always be updated to "fresh" estimates and assumptions by providing relevant, complete information on changes in estimates and ensuring transparency of reporting on economic value, embedded options and guarantees. The risk will be measured up to date and the time value of the money will be included in the given model. A market-consistent assessment will give more objective information. It is, therefore, a standard whose estimated application costs are approximate as for Solvency II. IFRS 17 "Insurance Contracts" has previously been referred to as the second phase of the IFRS 4 "Insurance Contracts", but due to its complexity it now deserves a special treatment. The fact is that it will become effective on January 1, 2021.

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