

# IFRS 17 Insurance Contracts

## Introduction

On May 19, 2017, the International Accounting Standards Board (the IASB) issued IFRS 17 *Insurance Contracts* which replaces IFRS 4.

The previous IFRS on insurance contracts, IFRS 4, was an interim standard that allowed entities to use a wide variety of accounting practices for insurance contracts, reflecting national accounting requirements and variations of those requirements.

## Why a new Standard?

The differences in accounting treatment across jurisdictions and products made it difficult for investors and analysts to understand and compare insurers' results. Most stakeholders, including insurers, agreed on the need for a common global insurance accounting standard even though opinions varied as to what it should be.

Long-term and complex insurance risks are difficult to reflect in the measurement of insurance contracts. In addition, insurance contracts are not typically traded in markets and may include a significant investment component, posing further measurement challenges. Some previous insurance accounting practices permitted under IFRS 4 did not adequately reflect the true underlying financial positions or the financial performance of these insurance contracts.

To address these issues, the IASB undertook a project to make insurers' financial statements more useful and insurance accounting practices consistent across jurisdictions.

## The key principles

The key principles in IFRS 17 are that an entity:

- (a) identifies as insurance contracts those contracts under which the entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain; future event (the insured event) adversely affects the policyholder;
- (b) separates specified embedded derivatives, distinct investment components and distinct performance obligations from the insurance contracts;
- (c) divides the contracts into groups it will recognise and measure;
- (d) recognises and measures groups of insurance contracts at a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information plus (if this value is a liability) or minus (if this value is an asset) an amount representing the unearned profit in the group of contracts (the contractual service margin);
- (e) recognises the profit from a group of insurance contracts over the period the entity provides insurance coverage, and as the entity is released from risk; if a group of contracts is or becomes loss-making, an entity recognises the loss immediately;

The key principles in IFRS 17 are that an entity (*continued*):

- (f) presents separately insurance revenue, insurance service expenses and insurance finance income or expenses.
- (g) discloses information to enable users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of the entity. To do this, an entity discloses qualitative and quantitative information about:
  - (i) the amounts recognised in its financial statements from insurance contracts;
  - (ii) the significant judgements, and changes in those judgements, made when applying the Standard; and
  - (iii) the nature and extent of the risks from contracts within the scope of this Standard.

## Effective date

An entity shall apply IFRS 17 for annual reporting periods beginning on or after 1 January 2021. If an entity applies IFRS 17 earlier, it shall disclose that fact.

Early application is permitted for entities that apply IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* on or before the date of initial application of IFRS 17.

IFRS 17 is published together with illustrative examples and an explanation of the Board's basis for conclusions. For more information on the project please see the [IFRS 17 project page](#) on the IFRS Foundation's website. Watch the Foundation's debrief [video](#) and read the [project summary](#) and [fact sheet](#) here.