



# IFRS 17 – Insurance Contracts: How to Properly Record Insurance Contracts in Financial Statements

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# IFRS 17 – Insurance

## Contracts: How to Properly Record Insurance Contracts in Financial Statements

IFRS 17 is the **global standard for insurance contract accounting**, replacing IFRS 4. It aims to provide **transparent, consistent, and comparable financial information** for insurance contracts.

For insurers, accurate recording under IFRS 17 is crucial — it affects profit recognition, balance sheets, and overall financial reporting. This article explains **how to properly record insurance contracts** in line with IFRS 17 and provides practical guidance for businesses.

## Understanding IFRS 17

IFRS 17 applies to:

- Insurance contracts issued
- Reinsurance contracts held
- Certain investment contracts with discretionary participation features

The standard's goal is to make **financial statements reflect the real economics** of insurance contracts, including cash flows, risks, and timing of profits.

Unlike IFRS 4, IFRS 17 uses a **principles-based approach**, focusing on current estimates rather than historical cost.

## Key Components of IFRS 17 Accounting

Insurance contracts under IFRS 17 are measured using a **current value model**, with four main components:

# 1. Expected Future Cash Flows

Estimate all inflows and outflows related to the contract, including:

- Premiums received
- Claims and benefits paid
- Acquisition and administration costs

Assumptions should be **reasonable, supportable, and updated regularly**.

## 2. Discounting

Future cash flows are discounted to reflect:

- The **time value of money**
- Market-consistent interest rates
- Liquidity characteristics of the contract

This ensures that liabilities are reported at **present value**, giving a realistic picture of obligations.

## 3. Risk Adjustment for Non-Financial Risk

Represents the **compensation the insurer requires** for taking on uncertainty in timing and amount of cash flows.

It is **explicitly shown** in the liability to enhance transparency.

## 4. Contractual Service Margin (CSM)

The CSM is **unearned profit**. It is deferred and recognized as revenue **over the coverage period**, ensuring profit is matched with the provision of insurance services.

Expected losses are recognized immediately.

# Recording Insurance Contracts in Financial Statements

## Initial Recognition

Recognize the insurance contract liability **when coverage begins or the first premium is due**, whichever is earlier.

At this stage, record:

- Present value of expected future cash flows
- Plus risk adjustment
- Minus contractual service margin

This forms the **liability for insurance contracts** on the balance sheet.

## Subsequent Measurement

At each reporting date:

- Update assumptions for future cash flows
- Adjust for actual experience vs. expected
- Release CSM as services are provided

Changes are separated into:

- **Insurance service result** (profit/loss from underwriting)
- **Insurance finance income or expenses** (financial effects)

# Presentation in Financial Statements

## Statement of Financial Position

Insurance contracts are presented as either:

- **Assets** (if net receivable)
- **Liabilities** (if net payable)

# Statement of Profit or Loss

Results are split into:

- **Insurance service result**
- **Insurance finance income/expenses**

This structure **clarifies operational performance** versus financial effects.

# Disclosure Requirements

IFRS 17 also increases **disclosure expectations**. Companies must show:

- Amounts recorded in financial statements
- Significant judgments and assumptions
- Nature and extent of insurance risks

Clear disclosures enhance **stakeholder trust** and compliance transparency.

# Best Practices for Businesses

To comply effectively:

- Align actuarial, finance, and IT teams
- Document assumptions and methodologies clearly
- Review and update models regularly
- Invest in training and system readiness

Early preparation reduces **errors, misstatements, and implementation risks**.

# Conclusion

IFRS 17 transforms insurance accounting by emphasizing **current estimates, risk adjustments, and systematic profit recognition**. Proper application ensures financial statements are accurate, comparable, and useful for decision-making.

Businesses that understand and implement IFRS 17 correctly not only comply with global standards but also **gain clearer insight into their insurance operations and financial health**.



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