ACTIVE STANDARD

INTERNATIONAL FINANCIAL REPORTING STANDARDS

IFRS 17

Insurance Contracts

Recognition, measurement, presentation and disclosure of insurance contracts — the General Model, Variable Fee Approach and Premium Allocation Approach — illustrated with worked USD case studies for a global audience, updated for IFRS 18.

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ROADMAP

What We Will Cover

Foundations & Core Principles

Objective, scope, and the key definitions behind an insurance contract

Recognition & Level of Aggregation

When contracts are recognised, and how they are grouped for measurement

Measurement Models

The General Model, Variable Fee Approach, and Premium Allocation Approach

Worked Illustrations

USD case studies applying each measurement model step by step

Presentation & Disclosure

How insurance contracts appear across the financial statements

Reinsurance & Transition

Reinsurance contracts held, and the three transition approaches

IFRS 4 vs IFRS 17

What changed, the implementation challenges, and the benefits

Key Takeaways

A concise summary of what matters most

PART I — FOUNDATIONS

Foundations & Core Principles

The objective and scope of IFRS 17, and the definitions that separate an insurance contract from an ordinary financial instrument.

FOUNDATIONS

Objective, Scope & Effective Date

- IFRS 17 Insurance Contracts replaces IFRS 4 and was issued by the International Accounting Standards Board (IASB); it is effective for annual periods beginning on or after 1 January 2023, with early application permitted.
- Objective: to ensure an entity provides relevant information that faithfully represents insurance contracts, giving users of financial statements a basis to assess the effect of those contracts on financial position, performance and cash flows.
- Scope: applies to insurance contracts issued (including reinsurance contracts issued), reinsurance contracts held, and investment contracts with discretionary participation features issued, provided the entity also issues insurance contracts.
- An insurance contract is a contract under which one party (the issuer) accepts significant insurance risk from another party by agreeing to compensate the policyholder if a specified uncertain future event adversely affects them.

FOUNDATIONS

Key Definitions I

Four terms establish whether significant insurance risk exists at all — the gateway test for the entire standard.

Insurance Contract

A contract under which the issuer accepts significant insurance risk from the policyholder, agreeing to compensate them on a specified uncertain future event.

Insurance Risk

Risk, other than financial risk, transferred from the policyholder to the issuer — must be significant for the contract to fall within IFRS 17.

Coverage Period

The period during which the entity provides insurance contract services, ending when all obligations relating to those services have expired.

Contract Boundary

Defines which cash flows relate to the existing contract versus a future contract — cash flows outside the boundary are excluded from measurement.

FOUNDATIONS

Key Definitions II

Three further building blocks recur throughout the standard — they form the backbone of every measurement model.

Fulfilment Cash Flows (FCF)

An unbiased, probability-weighted estimate of future cash flows, adjusted for the time value of money and financial risk, plus a risk adjustment for non-financial risk.

Risk Adjustment (RA)

Compensation the entity requires for bearing the uncertainty about the amount and timing of cash flows arising from non-financial risk.

Contractual Service Margin (CSM)

A component of the carrying amount representing unearned profit the entity will recognise as it provides insurance contract services in the future.

Insurance Acquisition Cash Flows

Cash flows arising from selling, underwriting and starting a group of contracts, directly attributable to the portfolio to which the group belongs.

Scope Exclusions & Separation of Components

- Excluded from scope: product warranties issued by a manufacturer, dealer or retailer (IFRS 15 / IAS 37); employee benefit plan assets and liabilities (IAS 19); residual value guarantees embedded in a lessee's or lessor's lease (IFRS 16); and fixed-fee service contracts where risk transferred relates primarily to the service itself.
- Financial guarantee contracts are excluded unless the issuer has previously asserted that it regards them as insurance contracts and has used accounting applicable to insurance contracts, in which case it may elect to apply IFRS 17 or IFRS 9.
- Combination of contracts: a set or series of contracts with the same or related counterparty is treated as a single contract if the overall commercial effect can only be understood by considering the contracts together.
- Separation of components: an entity separates from the host insurance contract any embedded derivatives meeting the IFRS 9 definition, distinct investment components, and distinct promises to transfer goods or non-insurance services accounted for under IFRS 15.

PART II — RECOGNITION

Recognition & Level of Aggregation

When an insurance contract enters the balance sheet, and how groups of contracts are structured for consistent measurement.

RECOGNITION

Initial Recognition — The Earliest of Three Triggers

An entity recognises a group of insurance contracts it issues from the earliest of the following three dates.

1

Start of Coverage Period

The beginning of the coverage period of the group of contracts.

2

First Payment Due

The date when the first payment from a policyholder in the group actually becomes due.

3

Group Becomes Onerous

For a group of onerous contracts, as soon as facts and circumstances indicate the group is onerous.

Level of Aggregation

Contracts are never measured one by one — IFRS 17 builds up from portfolios to annual cohorts to prevent profits and losses offsetting each other.

1
Identify PORTFOLIOS: contracts subject to similar risks and managed together

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2
Split each portfolio by PROFITABILITY: onerous at inception / no significant risk of becoming onerous / remaining contracts

›

3
Further divide into ANNUAL COHORTS: contracts issued no more than one year apart

›

4
Each resulting GROUP is the unit of account for CSM measurement

- This structure ensures a loss-making cohort of business cannot be masked by profitable business written in a different year — profits and losses are never offset across groups.
- A group of contracts, once established at initial recognition, is not reassessed after that date, even where facts and circumstances change.

RECOGNITION

The Contract Boundary

- Cash flows sit within the boundary of an existing contract if they arise from substantive rights and obligations that exist during the reporting period in which the entity can compel the policyholder to pay premiums, or has a substantive obligation to provide services.
- A substantive obligation to provide services ends when the entity has the practical ability to reassess the risks of the particular policyholder and can set a price or level of benefits that fully reflects those reassessed risks.
- It also ends when both of the following apply: the entity has the practical ability to reassess the risks of the portfolio, and the pricing of premiums up to the reassessment date does not reflect risks related to periods after that date.
- Getting the boundary right matters directly to measurement — cash flows outside the boundary are simply excluded from the fulfilment cash flows, regardless of whether the underlying policy document technically extends further.

PART III — MEASUREMENT

Measurement Models

Every group of insurance contracts is measured using one of three models — the choice depends on the nature of the contract, not the entity’s preference.

Overview of the Three Measurement Models

Dimension	General Model (GMM)	Variable Fee Approach (VFA)	Premium Allocation Approach (PAA)
Applies to	The default model for all insurance contracts	Contracts with direct participation features	Short-duration or simplification-eligible contracts
Eligibility test	None — the residual model	Clearly identified pool of underlying items + substantial share of returns + substantial variability	Coverage ≤ 1 year, or measurement would not differ materially from GMM
CSM behaviour	Accretes at locked-in discount rate; adjusted for non-financial changes	Adjusted for the entity’s share of fair value changes in underlying items	No explicit CSM tracked — simplified liability for remaining coverage
Typical use case	Long-duration life and health contracts	Unit-linked and with-profits / participating contracts	Property, motor, and other general short-tail insurance

General Measurement Model: The Three Building Blocks

The GMM carrying amount of a group of contracts is the sum of the fulfilment cash flows and the contractual service margin.

1. Estimates of Future Cash Flows

Unbiased, probability-weighted estimates of all future cash inflows and outflows within the contract boundary, using current assumptions.

2. Discounting for Time Value of Money

Cash flows are discounted using current rates that reflect the characteristics of the insurance contract cash flows, including their liquidity.

3. Risk Adjustment

An explicit adjustment for the uncertainty in the amount and timing of cash flows arising from non-financial risk, disclosed at a stated confidence level.

4. Contractual Service Margin

The residual unearned profit at initial recognition, set so the group of contracts shows neither profit nor loss on day one — losses are recognised immediately instead.

Fulfilment Cash Flows in Detail

- Estimates of future cash flows include premiums, claims, benefits, policyholder dividends, directly attributable expenses (claims handling, policy administration, acquisition costs), and an allocation of fixed and variable overheads directly attributable to fulfilling contracts.
- Estimates reflect the perspective of the entity, are current as at the measurement date, are explicit (not adjusted for risks already reflected elsewhere), and incorporate all reasonable and supportable information available without undue cost or effort.
- Discount rates are updated at each reporting date and must be consistent with observable current market prices, excluding factors that influence the observed rates but do not apply to the insurance contracts (such as an issuer’s own non-performance risk).
- Two techniques are permitted for deriving discount rates: a bottom-up approach (risk-free rate plus an illiquidity premium) or a top-down approach (yield on a reference portfolio, adjusted to remove factors not relevant to the insurance liability).

Risk Adjustment for Non-Financial Risk

- The risk adjustment reflects compensation the entity requires for bearing the uncertainty about the amount and timing of cash flows arising from non-financial risk, such as insurance and lapse risk — financial risk is excluded, since it is already captured in the cash flow estimates and discounting.
- IFRS 17 does not prescribe a single estimation technique; entities may use confidence-level (Value at Risk), cost-of-capital, or other actuarial techniques, provided the approach reflects the entity’s own degree of risk aversion.
- Whatever technique is used, the entity must disclose the confidence level to which the risk adjustment corresponds, translating it into a common, comparable metric across entities that may use different methods.
- The risk adjustment generally decreases over the coverage period as uncertainty about claims resolves, with the release recognised as part of the insurance service result rather than as investment return.

Contractual Service Margin: Initial & Subsequent Measurement

The CSM is not static — it rolls forward every period, absorbing new information before any of it reaches profit or loss.

1

Set at Inception

CSM = the amount that eliminates any day-one gain, floored at zero — a net loss is recognised immediately instead.

2

Accretes Interest

Interest is accreted on the CSM balance at the discount rate locked in at initial recognition of the group.

3

Absorbs New Estimates

Changes in estimates of future service (not past or current service) adjust the CSM rather than hitting profit or loss immediately.

4

Released to Revenue

A portion is released to insurance revenue each period based on coverage units, reflecting services provided in that period.

End-to-End Flow of the General Measurement Model

1
Identify the group of insurance contracts and confirm the contract boundary

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2
Estimate fulfilment cash flows: inflows and outflows, discounted to present value

›

3
Determine the risk adjustment for non-financial risk

›

4
Calculate the CSM (or recognise a loss immediately if the group is onerous)

›

5
Release CSM and risk adjustment to profit or loss as coverage is provided

›

6
Present insurance revenue, service expense and finance result under IFRS 17

- Steps 1–4 occur at initial recognition of the group; steps 5–6 repeat at every subsequent reporting date for as long as the group remains in force.

WORKED ILLUSTRATION — GMM

Case Study: General Measurement Model

FACT PATTERN

ABC Insurance Co. issues a 20-year life insurance policy and applies IFRS 17 using the General Measurement Model. All figures are illustrative and expressed in US dollars (USD) for a global audience.

Premiums received: USD 10,000,000 | PV of expected claims & expenses: USD 7,000,000 | Risk adjustment: USD 500,000 | Discount rate: 7.5% per annum.

SOLUTION

- Fulfilment cash flows = expected inflows (USD 10,000,000) less expected outflows and risk adjustment.
- Contractual Service Margin (CSM) = USD 10,000,000 − USD 7,000,000 − USD 500,000 = USD 2,500,000 (unearned profit).
- Because the CSM is positive, the contract is profitable at inception and no immediate loss is recognised — the USD 2,500,000 is deferred and released over the coverage period.

Case Study: CSM Release Over the Coverage Period

Year	Opening CSM (USD)	Interest Accretion @7.5%	CSM Released to Revenue	Closing CSM (USD)
Year 1	2,500,000	187,500	(343,750)	2,343,750
Year 2	2,343,750	175,781	(343,750)	2,175,781
Year 3	2,175,781	163,184	(343,750)	1,995,215
… continues to Year 20	…	…	…	0

- Illustrative straight-line coverage units are assumed for simplicity; in practice, release patterns reflect the actual quantity of benefits provided each period, which may vary by contract design.
- The interest accretion keeps the CSM growing with the time value of money, while the systematic release recognises profit as services are actually delivered — not when cash is received.

Variable Fee Approach: Features & Eligibility

The VFA is not a separate model so much as a modification of the GMM for contracts where the policyholder shares in investment performance.

Clearly Identified Pool

The contract must be linked to a clearly identified pool of underlying items — for example a unit-linked fund or a with-profits fund.

Substantial Share of Returns

The entity expects to pay the policyholder an amount equal to a substantial share of the fair value returns on those underlying items.

Substantial Variability

The entity expects a substantial proportion of any change in amounts payable to the policyholder to vary with the change in fair value of the underlying items.

CSM Adjusts With Fair Value

Unlike the GMM, the CSM is adjusted for the entity's share of changes in the fair value of underlying items, not merely accreted at a locked-in rate.

WORKED ILLUSTRATION — VFA

Case Study: Variable Fee Approach

FACT PATTERN

XYZ Insurance issues a 10-year investment-linked policy that meets the VFA eligibility criteria. All figures are illustrative and expressed in USD.

Premium received: USD 5,000,000 | Entity's fee: 20% of the fair value return on underlying assets | Expected annual return: 5% per annum.

SOLUTION

- Expected annual investment return on underlying assets = USD 5,000,000 × 5% = USD 250,000.
- Entity's variable fee for the year = 20% × USD 250,000 = USD 50,000 — this fee is what the CSM release ultimately reflects.
- If actual fair value returns differ from the 5% expectation, the CSM is adjusted for the entity's 20% share of that difference before any amount reaches profit or loss, cushioning short-term market volatility for the policyholder-facing result.
- Adjustments are made at each reporting date to reflect actual asset performance, keeping the CSM aligned with the entity's evolving share of the underlying pool.

Premium Allocation Approach: Eligibility & Simplifications

- The PAA is a simplified measurement approach, optional where the coverage period of each contract in the group is one year or less, or where the entity reasonably expects the resulting liability for remaining coverage would not differ materially from applying the GMM.
- The liability for remaining coverage (LRC) is measured broadly like the unearned premium reserve under IFRS 4: premiums received, less insurance acquisition cash flows, plus or minus amortisation, adjusted for any onerous contract loss component.
- An accounting policy choice allows insurance acquisition cash flows to be expensed immediately, rather than deferred, if the coverage period of contracts in the group at initial recognition is one year or less.
- Discounting of the LRC is not required if the entity expects the time between providing services and the related premium being received to be one year or less — a significant practical relief for short-tail business.
- The liability for incurred claims (LIC) is measured on the same basis as under the GMM in all three models — the PAA simplification applies only to remaining coverage, not to claims already incurred.

WORKED ILLUSTRATION — PAA

Case Study: Premium Allocation Approach

FACT PATTERN

DEF Insurance issues a one-year property insurance policy and applies the Premium Allocation Approach. All figures are illustrative and expressed in USD.

Premium received: USD 1,200,000 | Expected claims: USD 800,000 | Coverage period: 12 months, discounting not applied given the short duration.

SOLUTION

- Liability for remaining coverage (LRC) at inception = USD 1,200,000, released to insurance revenue proportionally over the 12-month coverage period — approximately USD 100,000 per month on a straight-line basis.
- As claims are incurred, amounts move from the LRC (implicitly) into the liability for incurred claims (LIC), measured using discounted, risk-adjusted expected cash flows consistent with the GMM.
- If, at any point, expected claims and expenses exceed the remaining premium, the contract becomes onerous and a loss component is recognised immediately — the PAA does not defer losses the way it defers profit.

PART IV — PRESENTATION & DISCLOSURE

Presentation & Disclosure

How insurance contracts flow through the statement of financial position, the statement of profit or loss, and the notes.

PRESENTATION

Statement of Financial Position

- An entity presents separately, in the statement of financial position, the carrying amount of portfolios of insurance contracts issued that are assets and those that are liabilities, and likewise for portfolios of reinsurance contracts held.
- Netting is permitted only within a portfolio — an asset portfolio and a liability portfolio are never combined for presentation, even where they relate to similar products.
- Each portfolio balance is the sum of the liability for remaining coverage (LRC) — covering future service and any loss component — and the liability for incurred claims (LIC), covering claims that have already occurred.
- Under IFRS 18 (effective for periods beginning on or after 1 January 2027), the classification principles for operating, investing and financing categories apply to insurers in the same way as other entities, without changing IFRS 17's recognition or measurement.

Insurance Revenue & Insurance Service Expense

- Insurance revenue reflects the consideration the entity expects to be entitled to in exchange for services provided in the period, excluding any investment component — premiums received are not simply recorded as revenue, as they were commonly presented under IFRS 4.
- Insurance service expenses comprise incurred claims and other directly attributable expenses, amortisation of insurance acquisition cash flows, losses on onerous contracts and subsequent reversals of those losses.
- The insurance service result (insurance revenue less insurance service expenses) is presented separately from the insurance finance income or expense, giving users a clean view of underwriting performance distinct from investment and discount-rate effects.
- Investment components — amounts an insurer must repay to a policyholder even if an insured event does not occur — are excluded from both insurance revenue and insurance service expense entirely, to avoid inflating top-line figures.

PRESENTATION

Insurance Finance Income or Expense — The OCI Option

- Insurance finance income or expense captures the effect of the time value of money, financial risk, and changes in these, on the measurement of the fulfilment cash flows and the CSM.
- An entity makes an accounting policy choice, applied consistently by portfolio: recognise all insurance finance income or expense in profit or loss, or disaggregate it between profit or loss and other comprehensive income (OCI).
- The OCI option is designed to reduce accounting mismatches with the related financial assets — where those assets are measured at fair value through OCI or amortised cost, presenting the liability's finance effect the same way keeps net income closer to the entity's actual economic result.
- For contracts measured under the VFA, an additional "risk mitigation option" allows specific hedging relationships to be reflected, addressing accounting mismatches from derivatives used to manage financial risk.

DISCLOSURE

Disclosure Requirements

IFRS 17's disclosure package is extensive by design — the standard trades measurement simplicity for transparency about judgement.

Reconciliations

Roll-forward from opening to closing balance for the LRC, the LIC, and the CSM, separately by measurement component.

Methods & Inputs

Discount rate yield curves, the confidence level for the risk adjustment, and the techniques used to derive both.

Sensitivity Analysis

How profit or loss and equity would be affected by reasonably possible changes in key actuarial assumptions.

Risk Exposures

Insurance, credit, liquidity and market risk exposures, together with concentrations of risk and how they are managed.

PART V — REINSURANCE & TRANSITION

Reinsurance, Transition & Comparison

Reinsurance contracts held, how entities moved onto IFRS 17, and how the new standard compares with the one it replaced.

Reinsurance Contracts Held

- Reinsurance contracts held are accounted for separately from the underlying insurance contracts they relate to — an entity never nets a reinsurance asset against the gross insurance liability it covers.
- Measurement broadly mirrors the GMM, GMM, VFA or PAA logic used for the underlying contracts, but the CSM on a reinsurance contract held represents the net cost or net gain of purchasing reinsurance, not unearned profit from providing a service.
- Where a reinsurance contract held covers losses on onerous underlying contracts, the entity recognises a loss-recovery component, adjusting the reinsurance CSM and offsetting part of the underlying loss immediately — avoiding a mismatch where the gross loss is recognised but the offsetting recovery is deferred.
- Cash flows within the boundary of a reinsurance contract held include ceded premiums, expected recoveries, and any experience-based commissions, discounted and risk-adjusted consistently with how the entity measures the underlying business.

TRANSITION

Transition Approaches

Entities transitioning to IFRS 17 for in-force business at the transition date used one of three approaches, in a specified order of preference.

1

Full Retrospective

Apply IFRS 17 as if it had always applied, using the same requirements as for any new accounting policy — required unless impracticable.

2

Modified Retrospective

Use reasonable and supportable information, applying specified permitted modifications to approximate the full retrospective outcome where it is impracticable.

3

Fair Value Approach

Determine the CSM (or loss component) as the difference between the IFRS 13 fair value of the group and its fulfilment cash flows at the transition date.

COMPARISON

Key Differences Between IFRS 4 and IFRS 17

Dimension	IFRS 4	IFRS 17
Measurement basis	Varied widely by local GAAP; often historical or locked-in assumptions	Current, discounted, explicitly risk-adjusted at every reporting date
Profit recognition	Frequently front-loaded or inconsistent across entities	Spread over the coverage period through the CSM as services are provided
Discounting	Often not required for insurance liabilities	Required, using current market-consistent discount rates
Comparability	Low cross-entity and cross-jurisdiction comparability	A single global measurement framework improves comparability
Revenue presentation	Premiums typically recorded as revenue, including investment components	Insurance revenue excludes investment components entirely
Onerous contracts	Addressed through a liability adequacy test	Explicit loss component on initial recognition, with a CSM floor of zero

Key Implementation Challenges

Measurement Complexity

Applying three models correctly requires close collaboration between actuarial and accounting expertise.

Data & Systems

Legacy policy administration systems often need costly upgrades to capture data at the required granularity.

System Integration

Actuarial and finance systems must be integrated for accurate, auditable calculations and reporting.

Operational Change

Closer, ongoing collaboration is required between finance, actuarial and IT teams throughout each close.

Disclosure Volume

Detailed reconciliations and profitability disclosures by group demand new reporting infrastructure.

Regulatory Variability

Country-specific regulatory interpretations and prudential filings add a further layer of complexity.

Benefits of Implementing IFRS 17

Enhanced Transparency

Consistent, current measurement makes insurers' results comparable across entities and borders.

Improved Reporting Quality

Explicit assumptions and disclosures give a clearer, more decision-useful picture of financial performance.

Accurate Profit Recognition

The CSM aligns profit with service delivery rather than with cash receipt timing.

Greater Investor Confidence

A globally consistent framework reduces the analytical adjustments investors previously had to make.

Alignment with Other IFRS

Closer consistency with IFRS 9 and IFRS 15 reduces one-off accounting mismatches at the group level.

Better Risk Insight

Explicit risk adjustment and sensitivity disclosures sharpen risk management and capital decisions.

SUMMARY

Key Takeaways

Significant Insurance Risk Is the Gateway

No contract falls within IFRS 17 unless it transfers significant insurance risk from policyholder to issuer.

Groups, Not Individual Contracts

Portfolios split by profitability and annual cohort ensure losses never hide behind unrelated profits.

Three Models, One Objective

GMM, VFA and PAA all aim for a current, risk-adjusted measurement — they differ only in eligibility and mechanics.

The CSM Is the Heart of the Standard

Unearned profit is deferred and released as services are delivered, never recognised on day one.

Presentation Separates Underwriting from Finance

Insurance revenue and service expense are shown apart from insurance finance income or expense.

A Genuine Step Up from IFRS 4

Current measurement, mandatory discounting and global comparability address IFRS 4’s longstanding weaknesses.

ABOUT THE AUTHOR

A Career Built on Making IFRS Understandable

BD

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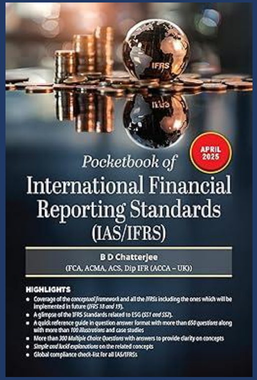

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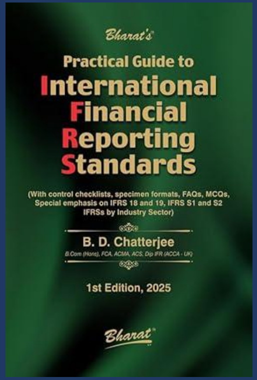

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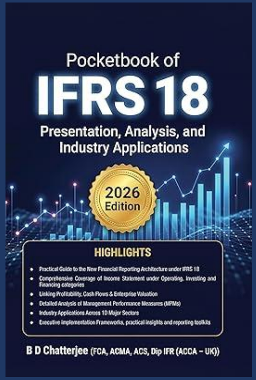

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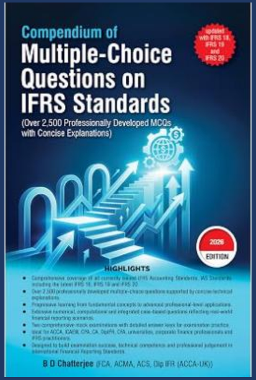

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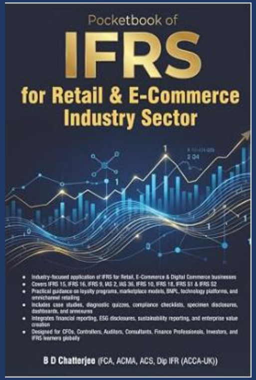

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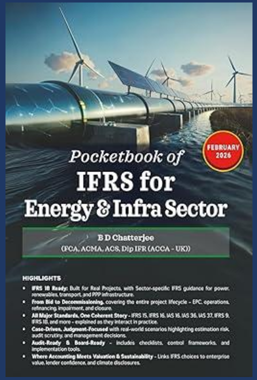

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