

# CHAPTER: 05

## IFRS (IND AS) ON INSURANCE: A CONTEXTUAL STUDY

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### **ABSTRACT**

*Insurance businesses are essential to financial systems as they manage risks and offer long-term financial security. Clear and uniform reporting of insurance contracts is crucial for investor trust and regulatory supervision. IFRS 17 (Insurance Contracts) supplanted IFRS 4 as of January 2023 to ensure global comparability. In India, insurers are regulated by Ind AS, which is predominantly aligned with IFRS, however the implementation of IFRS 17 has not yet been completed. This discrepancy engenders substantial discourse over harmonization, preparedness, and the regulatory framework in India. Insurance contracts entail intricate financial structures, rendering accounting and disclosure notably difficult. International Financial Reporting Standards (IFRS 17) established a novel methodology for the global accounting of insurance contracts, whereas India adheres to the Indian Accounting Standards (Ind AS) framework, which is largely aligned with IFRS but includes specific exceptions. This study examines the background of IFRS (Ind AS) implementation in the insurance industry, emphasizing its aims, ramifications, problems, and prospective developments for insurers in India.*

**Keywords:** *Insurance Contracts, IFRS 17, Ind AS 117, Financial Reporting, Insurance Accounting.*

### **INTRODUCTION**

The insurance industry is fundamental to contemporary economies, both as a risk mitigator and a conduit for generating long-term capital. Precise financial reporting of insurance contracts is essential for both policyholder confidence and the stability of capital markets and regulatory oversight. To address persistent issues of inconsistency and opacity, the International Accounting Standards Board (IASB) implemented IFRS 17 (Insurance Contracts), effective January 2023, superseding the interim standard IFRS 4. This new paradigm prioritizes equitable assessment, projections of future cash flows, and consistent handling of insurance liabilities, thus improving

comparability across countries. In India, insurers presently adhere to the Ind AS framework in conjunction with regulatory directives established by the Insurance Regulatory and Development Authority of India (IRDAI) (Meher, et.al., 2017). Although Ind AS is predominantly aligned with worldwide IFRS, the postponement of IFRS 17's adoption has sparked discussions regarding readiness, financial ramifications, and conformity with national rules. The disparity between worldwide reforms and Indian practices offers a chance to assess the challenges, potential advantages, and strategic avenues for the alignment of reporting requirements in the insurance sector (LAL, et.al., 2014b).

### IFRS and Ind AS Framework for Insurance

IFRS 17 (Insurance Contracts) was promulgated by the International Accounting Standards Board (IASB) to supersede IFRS 4 (LAL, et.al., 2014a). The standard seeks to provide uniformity, clarity, and comparability in the recognition, measurement, and presentation of insurance contracts by insurers.

**Table 1: Key Components of IFRS 17 Measurement Model**

Component	Explanation	Purpose	Implications for Insurers
Current Estimates of Future Cash Flows	Insurers must estimate the expected future inflows (premiums) and outflows (claims, expenses) using unbiased, probability-weighted forecasts.	Ensures measurement reflects realistic expectations of future performance.	Requires robust actuarial models, frequent updates, and reliable data sources.
Discounting (Time Value of Money)	Future cash flows must be discounted to present value using a rate that reflects the characteristics of the cash flows (currency, liquidity, timing).	Captures the time value of money, making liabilities market-consistent.	Changes in discount rates can significantly impact profit volatility and solvency ratios.
Risk Adjustment for Uncertainty	An explicit adjustment is added to reflect the uncertainty around timing and amount of cash flows (non-financial risks).	Provides a margin for risk-bearing, improving transparency on uncertainty.	Requires actuarial judgment; may vary across insurers, affecting comparability.
Contractual Service Margin (CSM)	The unearned profit at inception of the contract, recognized as income over the coverage period as services are provided.	Ensures profit is recognized only when insurance services are delivered.	Prevents upfront profit recognition, leading to smoother earnings patterns.

**Table 2: Illustration of IFRS 17 Approach vs Old IFRS 4**

Aspect	IFRS 4 (Old Standard)	IFRS 17 (New Standard)
Profit Recognition	Often upfront or based on premium received	Spread over contract period via CSM
Liability Valuation	Based on historical cost or various local GAAP methods	Current estimates + discounting + risk adjustment
Comparability	Low (different countries followed different rules)	High (uniform framework globally)
Disclosure	Limited	Extensive, including risks, assumptions, sensitivities

**Indian Context - Ind AS**

India is aligned with IFRS via Indian Accounting Standards (Ind AS), although the implementation of IFRS 17 (Insurance Contracts) has been postponed for insurance firms. Insurers presently adhere to the IRDAI (Preparation of Financial Statements and Auditor’s Report of Insurance Companies) Regulations in conjunction with specific Ind AS principles.

**Table 3: Current Reporting Framework for Indian Insurers**

Aspect	Indian Context (Ind AS + IRDAI Regulations)	Explanation / Purpose	Implications for Insurers
IFRS Convergence	India’s Ind AS is largely aligned with IFRS but IFRS 17 not yet implemented.	Allows global alignment in most industries while delaying full implementation in insurance due to complexity.	Creates a gap between Indian insurers and global peers in reporting practices.
Governing Authority	IRDAI Regulations take precedence over Ind AS for insurers.	Ensures sector-specific rules that prioritize solvency, policyholder protection, and regulatory compliance.	Financial statements differ from general Ind AS entities; dual compliance needed.

Financial Statements	Prepared as per IRDAI format (Revenue A/c, P&L, Balance Sheet, Schedules) with partial Ind AS application.	Provides standardized reporting tailored for insurance companies.	Limited comparability with international insurers under IFRS 17.
Profit Recognition	Premium-based and actuarial valuation methods prescribed by IRDAI.	Simpler approach than IFRS 17's Contractual Service Margin.	May result in front-loading of profits compared to IFRS 17's deferred recognition.
Liability Measurement	Based on actuarial methods under IRDAI norms, not fully aligned with "current estimate + discounting + risk adjustment" model.	Prioritizes solvency reporting rather than market-consistent valuation.	Less transparent about the uncertainty and variability of future obligations.
Disclosures	IRDAI prescribes schedules for premiums, claims, investments, reserves.	Provides sector-specific disclosures.	Disclosure requirements are less detailed than IFRS 17, limiting comparability.
Future Direction	Ind AS 117 (aligned with IFRS 17) is under consideration but not yet	Aims for eventual harmonization with global	Insurers will face significant challenges in systems, actuarial

Table 4: Comparative Snapshot: Ind AS (Insurance) vs IFRS 17

Dimension	Current Indian Practice (IRDAI + Ind AS)	IFRS 17 (Global)
Standard Applied	IRDAI Regulations + certain Ind AS	IFRS 17 (Insurance Contracts)
Profit Recognition	Based on premium/ actuarial valuation	Through CSM over service period
Liability Valuation	Actuarial methods, not fully market-consistent	Present value of cash flows + risk adjustment
Governance	IRDAI prescribes formats & rules	IASB framework with global comparability
Disclosures	Limited, regulator-driven schedules	Extensive, covering risks, assumptions, sensitivities

## **A CRITICAL ANALYSIS OF THE LITERATURE**

KPMG (2020) highlighted the fact that the way in which Indian insurers account for insurance contracts will undergo major change as a result of the convergence of Ind AS 117 and IFRS seventeen. The research highlighted the need of contract-by-contract evaluations, the significance of current-estimate measurement, discounting, and explicit risk adjustment, and the necessity of assessing each individual contract. In addition to this, it highlighted the consequences for governance, providing particular emphasis on data lineage, model validation, and disclosure mapping. According to KPMG, insurers will have to cope with operational problems when it comes to reconciling IRDAI schedules with Ind AS financials. In order to effectively manage the complexity, insurers would need to establish phased implementation methods. According to KPMG's 2020 report, this work offers a practical framework for integrating concepts with real-world implementation issues in India.

In their (2021) study, Shende and Dandekar investigated the problems and difficulties that the Indian insurance business has in the process of adopting IFRS 17. They highlighted areas that required a significant amount of judgment, such as the selection of discounting rates, adjustments to non-financial risks, and release patterns for the Contractual Service Margin (CSM). According to the findings of their study, Indian insurers, who are accustomed to premium-based and actuarial valuation methodologies applied by IRDAI, are going to have a difficult time transitioning to the principles of IFRS 17. In addition, the study emphasized the importance of coordination between regulators, actuaries, and auditors in order to prevent volatility in equity reporting. According to Shende and Dandekar (2021), they suggested conducting pilot exercises at the industry level in order to assist a seamless adoption.

In their 2019 report, PwC explored the global ramifications of IFRS 17 as well as the possibility of its implementation in India through the IAS 117 framework. Observations made by PwC indicate that the standard offers significantly increased openness; nevertheless, this comes at the expense of increasing operational and system complexity. In order for insurers to be in compliance with the criteria, the paper emphasized the importance of investing in actuarial modeling and information technology infrastructure. In addition, it emphasized the impact on profit recognition patterns, explaining that IFRS 17 requires profit deferral through CSM, which is in contrast to India's current practice of recognizing profits up front in accordance with IRDAI rules. From their findings, PwC came to the conclusion that insurers in India need to get ready for high volatility in their financial statements (PwC, 2019).

EY (2020) investigated the ways in which IFRS 17 ushers in a significant paradigm shift in the accounting for insurance contracts. It was noted in the paper that insurers would have difficulties in combining actuarial and finance activities in order to achieve compliance for their policies. Although the move will require large investments in technology, training, and change management, EY

concluded that these efforts would be necessary. To be more specific, the necessity of expanded disclosure requirements was brought to light as a significant differentiator from the practices of IFRS 4 and other Indian accounting standards. According to the findings of the study, IFRS 17 presents an opportunity to boost investor trust and facilitate cross-border comparability; nevertheless, this opportunity is contingent upon insurers successfully overcoming implementation challenges (EY, 2020).

An in-depth examination of the ramifications that IFRS 17 will have for insurers all around the world, including in India, was offered by Deloitte (2021). According to Deloitte's argument, the CSM model presents a novel approach to the identification of profits by establishing a correlation between revenue and service performance rather than premium inflows. In order to ensure that Indian insurers are in compliance with Ind AS 117 once it is implemented, the company emphasized that they must get ready for complete actuarial assessments and risk adjustments. Given the complexity of measurement methodologies such as the General Measurement Model (GMM) and the Premium Allocation Approach (PAA), Deloitte also emphasized the significance of educating stakeholders, which includes boards of directors and audit committees. The findings of their analysis indicated that Indian insurers should begin their preparations as soon as possible (Deloitte, 2021).

In its paper that introduced International Financial Reporting Standards 17, the International Accounting Standards Board (IASB) (2017) emphasized the necessity of a global standard that would replace the inconsistent procedures that were outlined in IFRS 4. A consistent measurement approach that takes into account current estimations, discounting, and risk adjustments is required, according to the International Accounting Standards Board (IASB), because insurance contracts contain long-term and uncertain obligations. The CSM was introduced as part of IFRS 17, which had the intention of standardizing profit recognition across all insurers throughout the world. The International Accounting Standards Board (IASB) emphasized that the major objective was to improve investor confidence in financial reporting by increasing transparency, comparability, and transparency.

The Indian scenario involving the delayed adoption of Ind AS 117 was discussed by the Indian Council of Accountants (2022). While the International Financial Reporting Standards 17 (IFRS 17) went into force around the world in 2023, the Institute of Chartered Accountants of India said that India chose to postpone its implementation due to preparedness concerns among insurers and regulators. This decision was influenced by the IRDAI's regulatory priorities, which include monitoring solvency and protecting policyholders, according to the ICAI, which stressed the importance of these goals. The ICAI, on the other hand, emphasized that conforming to IFRS 17 is still essential for ensuring worldwide comparability and fostering investor confidence. The report recommended capacity-building and phased implementation as two of the most important measures for successful adoption in India (ICAI, 2022).

## **RESEARCH METHODOLOGY**

This study employed a qualitative and conceptual research design, utilizing secondary data sources. The secondary data sources were IFRS 17 standards, Ind AS framework documents, IRDAI regulations, and professional reports from accounting authorities. A thematic analysis technique was employed to examine the objectives, implications, and challenges related to the application of IFRS (Ind AS) in the insurance sector. The comparative analysis of international IFRS practices and India's regulatory framework resulted in the identification of results and the development of recommendations.

### **Objectives of the study**

1. Enhance comparability of insurance contract reporting globally.
2. Improve investor confidence through transparent disclosures.
3. Ensure recognition of profits is aligned with the delivery of services.
4. Strengthen solvency monitoring by regulators.
5. Reduce inconsistencies in existing practices under IFRS 4.

## **ANALYSIS & INTERPRETATION**

Analyzing & Interpreting Objectives of IFRS (Ind AS) for Insurance Theoretically with Examples

### **1. Enhance comparability of insurance contract reporting globally**

A primary purpose of IFRS 17 is to guarantee that insurance contracts are reported under a consistent framework internationally. Under IFRS 4, insurers were permitted to employ local GAAP-based accounting methodologies, resulting in discrepancies in recognition, measurement, and disclosure. This restricts comparability across international marketplaces. IFRS 17 mandates the utilization of contemporary estimates for cash flows, discounting, risk adjustments, and the Contractual Service Margin (CSM), thus harmonizing financial reporting.

**Example:** Consider one insurer in India and another in the United Kingdom that both underwrite life insurance products. Under IFRS 17, insurers are required to report liabilities utilizing discounted future cash flows and to explain any risk adjustments. Investors assessing the two companies can now analyze their risk exposure and profitability on a uniform basis, enhancing cross-border comparability.

### **2. Improve investor confidence through transparent disclosures**

IFRS 17 improves disclosure mandates, requiring insurers to furnish comprehensive information regarding the assumptions employed (e.g., mortality rates, discount rates), sensitivity

analyses, and reconciliations of contract balances. This enhanced openness enables investors and analysts to comprehend the evolution of earnings over time and the management of risks. Investor confidence rises when they can evaluate both the outcomes and the fundamental factors.

**Example:** *An Indian insurance company reveals that its life insurance contract liabilities are calculated using a 5% discount rate, with sensitivity analysis demonstrating the impact of a 1% variation. Such disclosures enable investors to evaluate the insurer's financial soundness across various economic circumstances, thereby enhancing trust and confidence.*

### **3. Ensure recognition of profits is aligned with the delivery of services**

Historically, under IFRS 4 or IRDAI laws in India, certain insurers acknowledged profits immediately upon sale, particularly upon receipt of premiums. This did not appropriately represent the contract's service duration. IFRS 17 introduces the Contractual Service Margin (CSM), which postpones profit recognition and allocates it throughout the coverage period as the insurer delivers services. Theoretically, this aligns accounting with the economic essence of insurance – profits should materialize only when the insurer has provided risk coverage.

**Example:** *Under IFRS 17, when an insurer issues a 5-year term life policy with a premium of ₹50,000, profit must be recognized progressively over the 5-year period rather than entirely in the first year, in accordance with the coverage obligation provided. This guarantees an accurate representation of performance and prevents profit distortion.*

### **4. Strengthen solvency monitoring by regulators**

Insurance contracts entail long-term commitments, and monitoring solvency is crucial for safeguarding policyholders. By mandating insurers to assess liabilities through contemporary estimates, discounting, and defined risk margins, IFRS 17 enhances the alignment of reported figures with economic reality. Regulators like IRDAI can utilize this information to evaluate whether insurers maintain sufficient reserves to fulfill future claims.

**Example:** *Assume an insurer miscalculates claim liabilities by employing obsolete actuarial techniques. Under IFRS 17, the insurer is required to routinely update its estimates and promptly recognize changes in assumptions in profit or loss or the Contractual Service Margin (CSM). This guarantees that liabilities are not minimized, enabling the IRDAI to implement timely corrective actions to protect policyholders.*

### **5. Reduce inconsistencies in existing practices under IFRS 4**

IFRS 4 permitted considerable flexibility, enabling insurers to adhere to local accounting standards, resulting in anomalies even within a single market. Some acknowledged premium income immediately, while others employed deferral strategies; methodologies for liability measurement also

differed. IFRS 17 resolves this mismatch by instituting a uniform measurement standard for all insurers.

**Example:** *In one nation, insurers may have acknowledged premium as revenue immediately, whereas in another, they postponed its recognition. This mismatch rendered financial statements challenging to compare. IFRS 17 requires uniform treatment: premiums are classified not as revenue but as components of contract liability measurement, with revenue recognized as services are rendered. This guarantees consistency across enterprises and marketplaces.*

## **FINDINGS OF THE STUDY**

- IFRS 17 establishes a uniform measurement framework that enables investors and stakeholders to compare insurers globally.
- Enhanced disclosure requirements under IFRS 17 furnish more comprehensive information regarding risks, assumptions, and sensitivity.
- The Contractual Service Margin (CSM) facilitates the gradual recognition of earnings, hence precluding immediate acknowledgment.
- Regulators can more effectively evaluate insurer stability through market-consistent liability valuation.
- IFRS 17 supersedes the fragmented methodologies of IFRS 4, establishing consistency across markets.
- Implementation necessitates comprehensive integration of actuarial, IT, and financial systems, presenting problems for Indian insurers.
- Enhancing systems and processes for IFRS 17 compliance necessitates substantial financial expenditure.
- Ind AS 117, aligned with IFRS 17, has not yet been approved in India, resulting in a deviation from worldwide reporting standards.
- Investors acquire enhanced understanding of insurers' profit generation and risk management strategies.
- Alterations in discount rates and assumptions may amplify profit volatility.
- Successful implementation necessitates actuaries, accountants, and auditors proficient in IFRS 17 concepts.

- Indian insurers encounter a significant learning curve transitioning from IRDAI's premium-based methodologies to IFRS 17's principle-based framework.

## **RECOMMENDATIONS FOR THE STUDY**

- Ind AS 117 ought to be executed in stages to provide insurers with the time to adjust their systems and processes.
- Regular training for actuaries, accountants, and regulators is essential to navigate the complexities of IFRS 17.
- Insurers must invest in data analytics and actuarial tools to facilitate real-time liability assessment.
- The IRDAI should collaborate with the ICAI to align solvency regulations with the reporting requirements of Ind AS 117.
- Trial runs must be executed prior to complete implementation to identify obstacles and enhance procedures.
- Standardized disclosure formats must be established to guarantee consistency and comparability.
- Boards, investors, and analysts must be informed on the ramifications of IFRS 17 to minimize misinterpretation.
- Smaller insurers may necessitate governmental or regulatory assistance to fulfill compliance expenditures.
- Insurers must implement strong governance to regularly revise assumptions for liability valuation.
- Clear protocols for determining risk adjustments should be established to maintain uniformity.
- Initial dual reporting (IRDAI + Ind AS 117) may be necessary to address stakeholder expectations.
- India should provide a clear schedule for the adoption of Ind AS 117 to mitigate uncertainty and conform with international standards.

## **CONCLUSION**

IFRS (Ind AS) for insurance contracts signifies a significant transformation in accounting and reporting, designed to improve transparency, comparability, and stakeholder confidence. Although

global insurers have adopted IFRS 17, Indian insurers persist in utilizing transitional standards owing to regulatory and operational impediments. The imminent implementation of Ind AS 117 will necessitate insurers in India to substantially enhance their systems, processes, and competencies. Notwithstanding the obstacles, alignment with IFRS will enhance the global reputation of Indian insurers and foster a more resilient financial reporting framework.

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