

IFRS 4. Insurance Contracts

Insurance Contracts applies, with limited exceptions; to all insurance contracts, including reinsurance contracts that an entity issues and to reinsurance contracts that it holds.

In light of the IASB's comprehensive project on insurance contracts, the standard provides a temporary exemption from the requirements of some other IFRSs, including the requirement to consider IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors when selecting accounting policies for insurance contracts.

IFRS 4 was issued in March 2004 and applies to annual periods beginning on or after January 2005.

IFRS 17 replaced IFRS 4, on January 1, 2023.

The Board issued IFRS 4 because it saw an urgent need for improved disclosures for insurance contracts, and some improvements to recognition and measurement practices, in time for the adoption of IFRS by listed companies throughout Europe and elsewhere in 2005.

Definition of insurance contract

An insurance contract is a "contract under which one party (the insurer) 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."

Accounting policies

The IFRS exempts an insurer temporarily from some requirements of other IFRSs, including the requirement to consider IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors in selecting accounting policies for insurance contracts.

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However, the standard:

- Prohibits provisions for possible claims under contracts that are not in existence at the reporting date (such as catastrophe and equalization provisions)
- Requires a test for the adequacy of recognized insurance liabilities and an impairment test for reinsurance assets
- Requires an insurer to keep insurance liabilities in its balance sheet until they are discharged or cancelled, or expire, and prohibits offsetting insurance liabilities against related reinsurance assets and income or expense from reinsurance contracts against the expense or income from the related insurance contract.

REFERENCE:

Deloitte. IAS Plus The #1 website for global accounting news.
Staff Editor. January 1, 2022.

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<https://www.iasplus.com/en/standards/ifrs/ifrs4>