



THE ANANTROY BHATT KNOWLEDGE CENTRE



- 1. Introduction
- 2. Outline

1

Introduction to IFRS 4: Insurance Contracts

The objective of this IFRS is to specify the financial reporting for insurance contracts by any entity that issues such contracts (described in this IFRS as an insurer) until the Board completes the second phase of its project on insurance contracts. In particular, this IFRS requires:

- limited improvements to accounting by insurers for insurance contracts.
- disclosure that identifies and explains the amounts in an insurer's financial statements arising from insurance contracts and helps users of those financial statements understand the amount, timing and uncertainty of future cash flows from insurance contracts.

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.

The IFRS applies to all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds, except for specified contracts covered by other IFRSs. It does not apply to other assets and liabilities of an insurer, such as financial assets and financial liabilities within the scope of IFRS 9. Furthermore, it does not address accounting by policyholders.

The IFRS exempts an insurer temporarily (ie during phase I of this project) from some requirements of other IFRSs, including the requirement to consider the Framework in selecting accounting policies for insurance contracts. However, the IFRS:

- **prohibits provisions for possible claims under contracts that are not in existence at the end of the reporting period (such as catastrophe and equalisation provisions).**
- **requires a test for the adequacy of recognised insurance liabilities and an impairment test for reinsurance assets.**
- **requires an insurer to keep insurance liabilities in its statement of financial position until they are discharged or cancelled, or expire, and to present insurance liabilities without offsetting them against related reinsurance assets.**

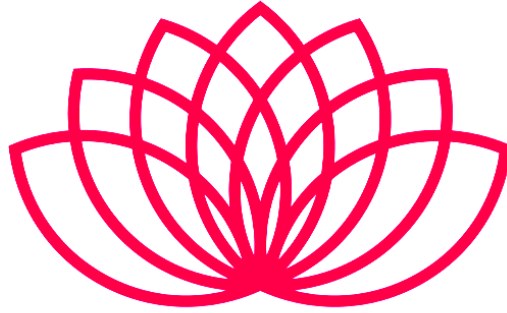
The IFRS permits an insurer to change its accounting policies for insurance contracts only if, as a result, its financial statements present information that is more relevant and no less reliable, or more reliable and no less relevant. In particular, an insurer cannot introduce any of the following practices, although it may continue using accounting policies that involve them:

- **measuring insurance liabilities on an undiscounted basis.**
- **measuring contractual rights to future investment management fees at an amount that exceeds their fair value as implied by a comparison with current fees charged by other market participants for similar services.**
- **using non-uniform accounting policies for the insurance liabilities of subsidiaries.**

The IFRS permits the introduction of an accounting policy that involves remeasuring designated insurance liabilities consistently in each period to reflect current market interest rates (and, if the insurer so elects, other current estimates and assumptions). Without this permission, an insurer would have been required to apply the change in accounting policies consistently to all similar liabilities.

The IFRS requires disclosure to help users understand:

- **the amounts in the insurer's financial statements that arise from insurance contracts.**
- **the amount, timing and uncertainty of future cash flows from insurance contracts.**



Trainee Development - Gold



Practising Certificate Development



Professional Development



ICAEW
AUTHORISED
TRAINING EMPLOYER

Established in 1949

www.anantbhattllp.com

CPA Kamal Anantroy Bhatt
Managing Partner
E : kamal@anantbhatt.com

CPA Daniel Kinyae Mumo
Associate Partner
E : daniel@anantbhatt.com

Anant Bhatt LLP
City House, First Floor
Nyerere Avenue
Mombasa, Kenya

P.O. Box 80766-80100
E : info@anantbhatt.com
P : 0726241555, 041-2223682, 041-2226542

Disclaimer:

Under no circumstance should this guide be taken as an alternative to professional advice. If you would like professional advice, please get in touch with the contact information in this report. The information within this report is general, and no persons should take it as fully accurate guide, and use it to make any monetary, or other decisions on the basis of it. Anant Bhatt LLP takes no responsibility of any persons external actions from the use this guide. All Rights Reserved.