Making Sense of the IFRS 17 Transition Effects

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ACCOUNTING & AUDITING

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Background

Business model:

- Assume risk for a premium; invest primarily in financial assets
- Key economic role: diversify idiosyncratic risk (L&H, P&C) and provide stable, long-term funding (managing €8.57 trillion in EEA assets as of 2023) (EIOPA, 2023)
- Exposed to:
  - **Insurance-specific**: (premium, mortality, longevity)
  - **Investment-related** (interest rate, liquidity, credit)

Prior Practices (IFRS 4 – interim standard)

- Lacked transparency & comparability (relied on national GAAP)
- Upfront premium recognition
- Historical cost measurement of liabilities

Assets	Equity & Liabilities
Cash & cash equivalents	Equity (shareholders + minorities)
Investments (bonds, equities, loans, derivatives)	Insurance contract liabilities (incl. reinsurance)
Financial assets for unit-linked contracts	Investment contract liabilities
Insurance & reinsurance contract assets	Financial liabilities
Other assets	Other liabilities

IFRS 17 – A significant shift

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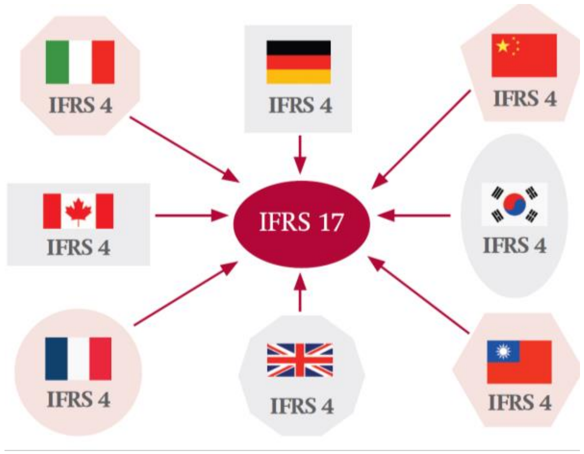
The first truly IFRS for insurance contracts

- **Consistent** accounting framework
- **Current** measurement model: discounted updated future CF
- **CSM**: new liability component of future unearned profit
- **Revenue** recognition aligned with service delivery
- Separate presentation of insurance and finance service result (OCI-option for insurance contract liabilities)



(IASB, 2017)

Coordinated design & adoption of IFRS 9

- Matching investment result with insurance finance result
  - IASB retained the FVO for debt instruments
  - Introduced the FVOCI measurement category

Aim: Enhance the faithful representation of insurers' financial statements

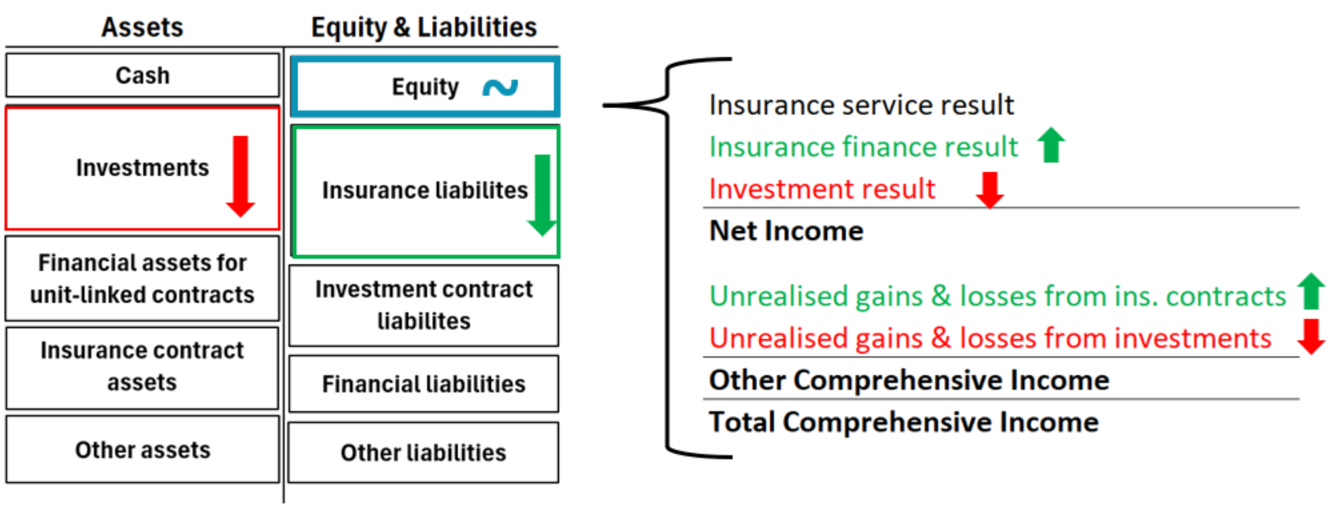
What do we do?

Examining the transition effects of IFRS 17/9 on European insurers‘ financial statements, we try to answer:

1. How did insurers transition to IFRS 17?
2. What are the transition impacts on key balance sheet and income statement items?
3. How much is driven by IFRS 17 versus IFRS 9?
4. Does the coordinated adoption of IFRS 17/IFRS 9 reduce prior accounting mismatches between assets and liabilities?

IFRS 17 – A Unique Setting

- **Availability of stated vs. restated figures** for the same transition year of 2022 → **isolate accounting effects** while fundamentals remain constant
- **Sharp rise in interest rates in 2022** → provides a unique opportunity to test asset-liability accounting mismatches pre- and post-transition



remaining impact ≈ real economic mismatch

Methodological Approach

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Hand-collected data from **42 European insurers'** 2022/2023 FS

- Restated (2023 FS) & Stated (2022 FS) figures for the year 2022

Main Line items impacted

- IFRS 17: **Insurance Contract Assets/Liabilities**; Deferred Acquisition Costs
- IFRS 9: **Financial Assets/Liabilities**
- Insurance Revenue (restated)/Net Written Premiums (stated); Net Income; Other Comprehensive Income

Sample

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	Firms	Share	TA	TA-Share
Public European IFRS insurers in S&P Capital IQ	67	100.0%		
- missing Total Assets in S&P Capital IQ	-12	-17.9%		
Insurers with data in S&P Capital IQ	55	82.1%	6 599.03	100.0%
- pure reinsurer	-3	-4.5%	-375.76	-5.7%
Public L&H, P&C, and multiline insurers	52	77.6%	6 223.27	94.3%
- missing transition/IFRS 17 data	-10	-14.9%	-49.95	-0.8%
IFRS insurers	$\boxed{42}$	62.7%	$\boxed{6\ 173.33}$	$\boxed{93.5\%}$
Insurers with restated data on January 1, 2022	36			
Insurers with restated data on December 31, 2022	42			
Insurers adopting IFRS 9 early (before 2023)	6			
Insurers adopting IFRS 9 simultaneously (2023)	36			

IFRS 17 Transition Approaches

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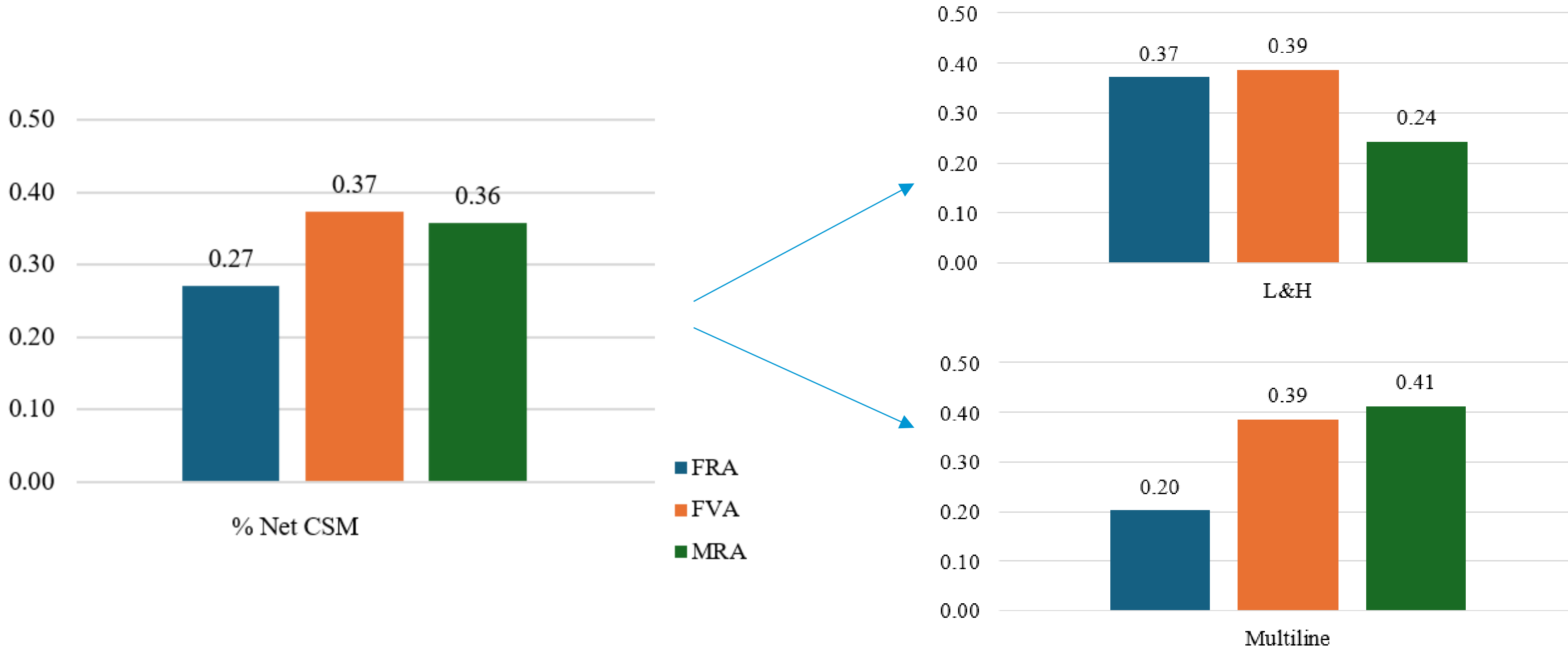
Transition (January 1, 2022)

- General Rule:
  - Full retrospective approach (FRA) = full history, retrospective CSM
- Alternatives:
  - MRA = approximation of FRA with estimates
  - FVA = fair value, market view
- Different approaches → different implications for CSM
- CSM affects both **equity at transition** and **future profitability**

Conflicting incentives:

- High CSM → lower equity now, higher profit base later
- Low CSM → higher equity now, lower profit base later

Transition Approaches



Transition Impact

Transition impact on financial positions

	IFRS 17				IFRS 9			Total balance sheet impact		
	DAC	ICA	ICL	Total	FA	FL	Total	TA	TL	TE
Mean	-0.095***	-0.123***	0.020	-0.238***	-0.015	-0.101*	0.086	-0.341***	-0.215***	-0.127***
S.D.	0.133	0.233	0.451	0.468	0.249	0.304	0.405	0.402	0.433	0.177
25th pctile	-0.121	-0.153	-0.170	-0.335	-0.052	-0.070	-0.088	-0.471	-0.306	-0.246
Median	-0.042†††	-0.012†††	-0.094	-0.061†††	0.000	0.000	-0.001	-0.218†††	-0.141†††	-0.045†††
75th pctile	-0.001	0.004	0.259	0.113	0.031	0.000	0.187	-0.077	0.033	-0.002
% Positive	0.0%	33.3%	39.5%	39.5%	32.5%	20.5%	35.1%	10.3%	25.6%	21.4%
% Negativ	71.4%	66.7%	60.5%	60.5%	45.0%	35.9%	48.7%	89.7%	74.4%	76.2%
No change	28.6%	0.0%	0.0%	0.0%	22.5%	43.6%	16.2%	0.0%	0.0%	2.4%
N	36	36	36	36	36	36	36	36	36	36

Transition impact on financial performance

	Insurance Revenue	NI	OCI	TCI
Mean	-0.216***	-0.014	0.193***	0.178***
S.D.	0.461	0.102	0.234	0.241
25th pctile	-0.389	-0.044	0.000	0.000
Median	-0.099††	-0.008	0.077†††	0.079†††
75th pctile	0.115	0.008	0.361	0.359
% Positive	40.5%	38.1%	69.0%	71.4%
% Negative	59.5%	59.5%	26.2%	26.2%
No change	0.00%	2.4%	4.8%	2.4%
N	42	42	42	42

Classification of Financial Assets under IAS 39 & IFRS 9 (as a percentage of Financial Assets)

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	IAS 39	IFRS 9
Financial assets at FVPL		
Loans to banks and customers	9.04%	14.39%
Debt instruments	21.39%	24.15%
Equity instruments	18.05%	18.93%
Financial assets at FVPL (excl. Deriv. instr.)	48.49%	57.47%
Derivative instruments	1.47%	1.51%
Financial assets at FVPL (incl. Deriv. instr.)	49.95%	58.98%
Financial assets at FVOCI		
Loans to banks and customers	0.00%	1.59%
Debt instruments	25.43%	23.34%
Equity instruments	2.61%	2.25%
Financial assets at FVOCI	28.05%	27.18%
Financial assets at AC		
Loans to banks and customers	20.06%	12.06%
Debt instruments	1.94%	1.79%
Financial assets at AC	22.00%	13.85%

	Early adoption		Simultaneous adoption		Nordic & Anglo-Saxon		Central Europe	
	IAS 39	IFRS 9	IAS 39	IFRS 9	IAS 39	IFRS 9	IAS 39	IFRS 9
Financial assets held at FVPL	26.32%	10.40%	54.15%	67.60%	75.90%	86.63%	23.03%	29.77%
Financial assets at FVOCI	18.51%	36.53%	29.74%	25.52%	7.91%	5.62%	48.95%	49.94%
Financial assets held at AC	55.17%	53.07%	16.10%	6.88%	16.20%	7.75%	28.02%	20.29%

Accounting Mismatch

	Stated – IFRS4/IAS39				Restated – IFRS17/9			
	N	Mean	S.D.	Median	N	Mean	S.D.	Median
ΔTE	42	-0.183	0.178	-0.210	42	-0.082***	0.154	-0.072†††
NI	42	0.077	0.106	0.089	42	0.072	0.147##	0.091
OCI	42	-0.182	0.167	-0.163	42	-0.061***	0.094###	-0.048†††
TCI	42	-0.105	0.179	-0.105	42	0.011***	0.141##	0.013†††
Nordic & Anglo-Saxon								
ΔTE	19	-0.097	0.177	-0.112	19	-0.087	0.203	-0.077
NI	19	0.063	0.149	0.066	19	0.070	0.199##	0.081
OCI	19	-0.044	0.080	-0.012	19	-0.029	0.080	-0.010
TCI	19	0.018	0.138	0.009	19	0.042	0.178#	0.033
Central Europe								
ΔTE	23	-0.255	0.188	-0.112	23	-0.079***	0.104##	-0.068†††
NI	23	0.089	0.149	0.066	23	0.073	0.080	0.094
OCI	23	-0.296	0.080	-0.012	23	-0.088***	0.098	-0.072†††
TCI	23	-0.208	0.138	-0.009	23	-0.014***	0.097##	0.008†††
Full OCI-Option								
ΔTE	16	-0.286	0.126	-0.322	16	-0.096***	0.139	-0.090†††
NI	16	0.094	0.080	0.097	16	0.087	0.078	0.097
OCI	16	-0.297	0.132	-0.343	16	-0.078***	0.078##	-0.063†††
TCI	16	-0.204	0.156	-0.214	16	-0.009***	0.108##	0.022†††

Conclusion

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Main takeaways:

- **Reduced accounting mismatches** – supports the **IASB's objective** of achieving consistent accounting treatment of related positions
- **Variation in transition approaches** – concerns on comparability with implications for future reported profitability – need for better disclosure practices

Contribution:

- **Comprehensive empirical evidence** on IFRS 17 & IFRS 9
- Extend prior compliance-based reports (e.g., ESMA, 2024; EIOPA, 2024) and academic work (ter Hoeven et al., 2024)
- Link to broader literature on **IFRS adoption** (e.g., Barth et al., 2008; Daske et al., 2008) and **fair value measurement literature** (e.g., Barth, 2014; Barth & Landsman, 2018; Fontes et al., 2025)

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THANK YOU FOR YOUR ATTENTION!