Raymond Chabot Grant Thornton

IFRS Adviser Alert

Insights into IFRS 17 *Insurance Contracts*

November 2026

Executive summary

Grant Thornton International Ltd has published three new publications in the *Insights into IFRS 17* series:

- *Scope*;
- *Initial recognition and measurement*;
- *Subsequent measurement*.

The International Accounting Standards Board (IASB) issued IFRS 17 *Insurance Contracts* to replace the identically titled, interim standard, IFRS 4. The new standard came into effect for reporting periods beginning on or after January 1, 2023. As its title suggests, IFRS 17 addresses the accounting for insurance contracts rather than being explicitly aimed at insurance entities. As a result, it applies equally to insurance contracts issued by insurance and non-insurance entities.

The *Insights into IFRS 17* series explains the key features of the standard and provides insights into its application and impact.

The first new publication explains the objective and scope of IFRS 17. The second new publication explains the initial recognition and measurement of insurance liabilities under IFRS 17 and the third new publication succinctly explains the subsequent measurement of insurance liabilities under IFRS 17. The new publications are as follows:

- *Scope*;
- *Initial recognition and measurement*;
- *Subsequent measurement*.

Resources

The publications mentioned above follow this *IFRS Adviser Alert*.

Follow us



rcgt.com

About Raymond Chabot Grant Thornton

Raymond Chabot Grant Thornton is a leading accounting and advisory firm providing audit, tax, and advisory services to private and public organizations. Together with Doane Grant Thornton in Canada, Raymond Chabot Grant Thornton has more than 5,650 people in offices across Canada. Raymond Chabot Grant Thornton is a member firm within Grant Thornton International Ltd. (Grant Thornton International). Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by the member firms.

We have made every effort to ensure the information in this publication is accurate as of its issue date. Nevertheless, information or views expressed herein are neither official statements of position nor should they be considered technical advice for you or your organization without consulting a professional business adviser. For more information about this publication, please contact your Raymond Chabot Grant Thornton adviser.

Grant Thornton



Insights into IFRS 17

Scope

The International Accounting Standards Board (IASB) published IFRS 17 'Insurance Contracts' (IFRS 17 or the Standard) which became effective on 1 January 2023. This Standard introduced insurance contract measurement principles that require the use of:

- current, explicit and unbiased estimates of future cash flows
- discount rates that reflect the characteristics of the contracts' cash flows, and
- an explicit adjustment to reflect the presence of non-financial risk associated with the timing and amount of cash flows anticipated during the contract period.

The articles in our 'Insights into IFRS 17' series explain the key features of the Standard and provide insights into their application and impact. This article explains the objective and scope of IFRS 17.

It is important to understand that IFRS 17 applies to all entities not just insurance companies that may be governed by legislation issued in the country the reporting entity operates in. It applies to all insurance contracts an entity issues (including those for reinsurance), reinsurance contracts it holds and investment contracts with a discretionary participation feature (DPF), provided the entity also issues insurance contracts.

All references to insurance contracts issued also apply to insurance contracts acquired in a transfer of insurance contracts or a business combination other than reinsurance contracts held.

Objective

The objective of IFRS 17 is to ensure that an entity faithfully represents in its financial statements the effect that insurance contracts have on its financial position, financial performance and cash flows.

When applying IFRS 17, an entity should consider its substantive rights and obligations from a contract, law or regulation, but should disregard terms that have no commercial substance.

"The articles in our 'Insights into IFRS 17' series explain the key features of the Standard and provide insights into their application and impact. This article explains the objective and scope of IFRS 17."

The blueprint for an entity to follow in applying IFRS 17 is outlined below:

1. Identify all contracts in scope

Insurance contracts issued (including reinsurance)	Reinsurance contracts held	Investment contracts with DPFs

2. Identify portfolios of insurance contracts and divide portfolios into groups for measurement

Onerous at initial recognition	At initial recognition have no significant possibility of becoming onerous	Remaining contracts

3. Recognise each group of contracts

Fulfilment cash flows Measured as risk adjusted present value of future cash flows expected to arise as an entity fulfils the contract.	**Contractual service margin (CSM)** Represents the unearned profit on a group of contracts the entity will recognise as it provides services in the future. Measured as the amount which results in no gain on initial recognition.	**Loss on initial recognition** Recognised if fulfilment cash flows on initial recognition are negative.

4. Initial measurement of each group of contracts

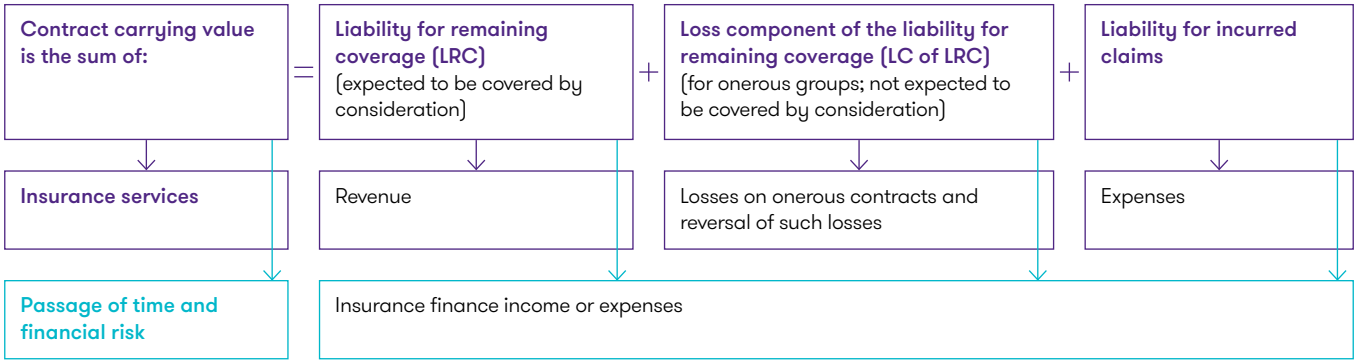
General measurement model (GMM), this is the default measurement model	Variable fee approach (VFA), modifications to the GMM	Premium allocation approach (PAA), simplification to the GMM

5. Re-measure each group of contracts

Fulfilment cash flows updated using current estimates	**Contractual service margin** Reflect changes in estimates of future contract profitability, time value of money effect, and profit earned as coverage is provided.
Modification and de-recognition	When the parties to an insurance contract agree to change its terms or the terms are modified by a change in regulation, the issuer should assess if the change qualifies as a modification or requires de-recognition.

6. Presentation of insurance contracts

Income and expenses from insurance contracts are separated into revenue and operating expenses attributed to the insurance risk of providing the service, the finance income and expense relating to associated finance risks of the contract and the time value of money.



7. Disclose information on amounts, judgements and risks

Amounts from insurance contracts

- Disclose separately for portfolios of contracts which are assets and which are liabilities
- Disclose separately for insurance contracts issued, reinsurance contracts held and investment contracts with DPFs
- Reconcile opening to closing balances for each component of the carrying amounts of insurance contracts
- Analyse changes in the carrying amounts of contracts between insurance services and amounts not related to insurance services
- Analyse changes between those related to current, past or future coverage and services
- Disclose expected pattern for CSM allocation to profit or loss per type of contract

Key judgements and estimates

- Approach used to determine discount rates
- Method used to determine the risk adjustment and the corresponding confidence level
- Approach used to determine investment components in contracts
- Composition and fair value of underlying items for contracts with DPFs
- Exercise of discretion on contracts without DPFs
- Method for disaggregation (if option is taken) of insurance finance income or expenses between profit or loss and other comprehensive income (OCI)

Risks

- Policies, processes and methods to manage and measure risks
- Concentration and characteristics of risks across assets and liabilities
- Exposure and sensitivities (link to return on invested assets)
- Claims development reconciled to carrying values at reporting date
- Expected cash outflows for each of the five years post-reporting period end and in aggregate for periods beyond the first five years

Practical insight – IFRS 17 objective: an opportunity and a lever for change

IFRS 17 implementation follows a period when margins for all insurers have likely been under significant pressure from a number of factors, including:

- a prolonged period of low interest rates (although these have risen significantly more recently) and volatile equity prices
- rising prudential and conduct compliance standards being issued by regulators
- the ongoing cost of living crisis affecting individuals
- political instability, and
- economic uncertainty across the globe.

For those insurers which have historically under-invested in data and systems, applying the above implementation blueprint can result in significant operational challenges. Policy choices and underlying judgements will be challenging to embed. We have observed that IFRS 17 is not being approached as 'yet another accounting conversion exercise'. Instead, it is proving to represent a powerful lever for change around how reporting entities that issue insurance contracts can use financial information and technology to enhance their business strategy, and attract new investors and customers. For entities it is creating an opportunity to harness the talent of insurers' finance, actuarial, data and technology teams via a new collaborative operating culture.

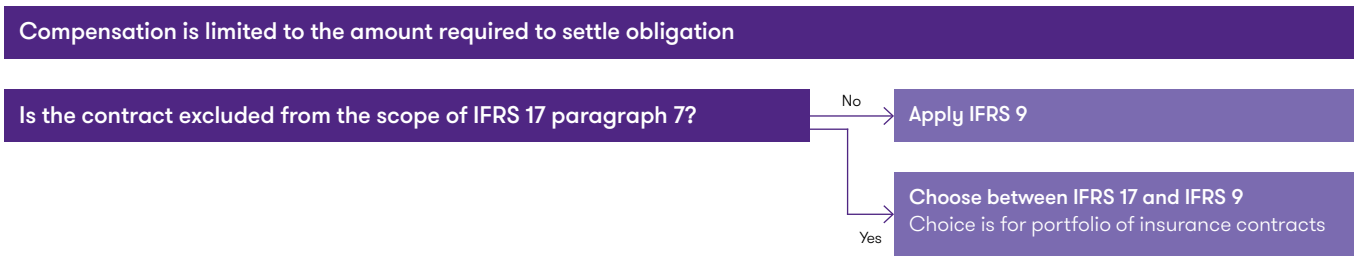
Scope

The scope exclusions are summarised in the table below:

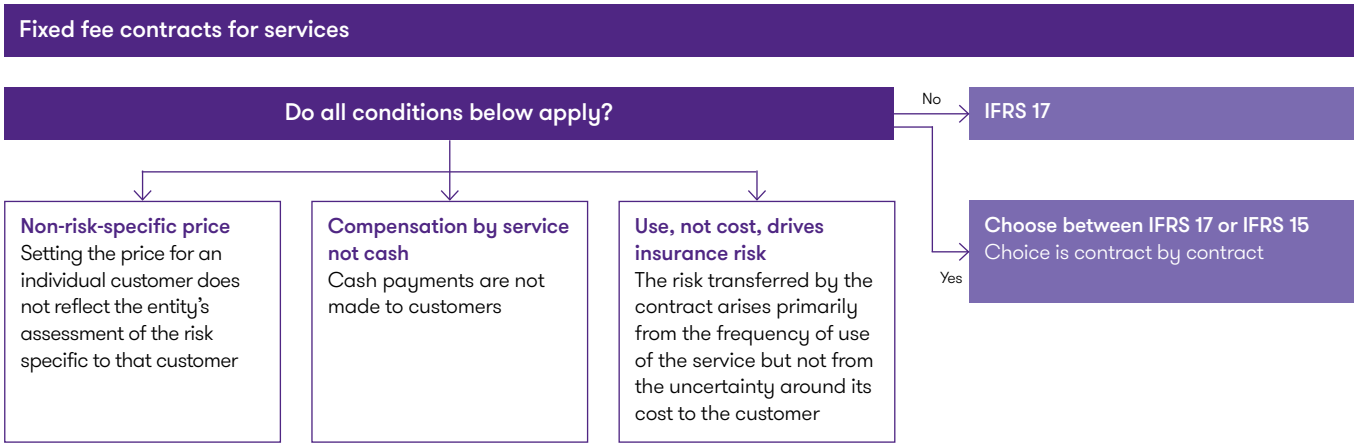
Scope exclusion	Standards to apply
Warranties provided by a manufacturer, dealer or retailer in connection with the sale of its goods or services to a customer	IFRS 15 'Revenue from Contracts with Customers'
Employers' assets and liabilities from employee benefit plans	IAS 19 'Employee Benefits' and IFRS 2 'Share-based Payment'
Retirement benefit obligations reported by defined benefit retirement plans	IAS 26 'Accounting and Reporting by Retirement Benefit Plans'
Contractual rights or contractual obligations contingent on the future use of, or the right to use, a non-financial item	IFRS 15, IAS 38 'Intangible Assets' and IFRS 16 'Leases'
Residual value guarantees provided by a manufacturer, dealer or retailer, or provided to a lessee (when embedded in a lease)	IFRS 15 and IFRS 16
Financial guarantee contracts (unless a prior explicit assertion has been made by the issuer and insurance accounting has been applied)*	Choice to apply either IFRS 17 or IAS 32 'Financial Instruments: Presentation', IFRS 7 'Financial Instruments: Disclosures' and IFRS 9 'Financial Instruments'
Contingent consideration in a business combination	IFRS 3 'Business Combinations'
Insurance contracts where the entity is the policyholder (unless these contracts are reinsurance contracts held)	Amounts payable and receivable as a policyholder will be recognised in accordance with IFRS 9 based on the contractual obligations of the policy
Credit card contracts that provide insurance coverage (only where the insurance coverage is not separately identifiable or priced; where distinct insurance components exist entities should separate those components and apply IFRS 17 to them)	IFRS 9
Loan contracts that transfer significant insurance risk by providing insurance coverage only for the settlement of the policyholder's obligation created by the contract**	Choice to apply either IFRS 17 or IFRS 9

* For financial guarantees contracts where no prior explicit assertion has been made, an entity can make the choice between IFRS 17 and the Financial Instruments standards noted above on a contract-by-contract basis. Such choice is irrevocable.
** For loan contracts that transfer significant insurance risk, an entity can make the choice between IFRS 17 or IFRS 9 irrespective of whether it has already applied IFRS 9 before it first applies IFRS 17. Such choice is irrevocable and is made separately for each portfolio of insurance contracts.

Some contracts meet the definition of an insurance contract but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract (eg loans with death waivers).



Some contracts meet the definition of an insurance contract but their primary purpose is to provide services for a fixed fee (eg roadside/breakdown recovery contracts). An entity issuing such contracts may choose to apply IFRS 15 to them if, and only if all of the following conditions are met:



What is an insurance contract?

IFRS 17 provides a definition of an insurance contract and sets out additional guidance on how to assess the significance of insurance risk based on the possibility of a loss on a present value basis (rather than nominal), and how to evaluate changes in the level of insurance risk.

Insurance contract definition

A contract in which one party (the issuer) 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.

IFRS 17's application guidance draws a specific distinction between insurance risk and other risks, and defines insurance risk as other than financial risk transferred from the holder of a contract to the issuer.

Lapse (persistency) or expense risks are not insurance risks because the resulting variability in the payments to policyholders, or the unexpected increase in contract servicing costs, are not contingent on uncertain future events which adversely affect the policyholders. However, if an entity transfers lapse or expense risk to another party (eg a reinsurer), the second contract exposes the other party to insurance risk.

An entity should assess the significance of insurance risk contract by contract. IFRS 17's application guidance explains that insurance risk is significant, if, and only if, an insured event could cause the issuer to pay additional amounts that are significant in any single scenario, excluding scenarios that have no commercial substance. Insurance risk can be significant even if there is minimal probability of significant losses for a portfolio or group of contracts (eg due to risk diversification across a portfolio).

The following considerations should be made when assessing if insurance risk is significant:

Insurance risk is significant if:

- There is a scenario with commercial substance which exposes the issuer to a possibility of a loss on a present value (PV) basis. However, even if a reinsurance contract does not expose the issuer to the possibility of a significant loss, that contract is deemed to transfer significant insurance risk if it transfers to the reinsurer substantially all the insurance risk relating to the reinsured portions of the underlying insurance contracts.
- An insured event could cause the issuer to pay additional amounts that are significant in any single scenario, ie:

PV additional amounts paid* > PV amounts payable if no insured event occurred

*Include claims handling and assessment costs

Changes in the level of insurance risk

A contract that meets the definition of an insurance contract remains an insurance contract until all rights and obligations are extinguished (ie discharged, cancelled or expired) or the contract is derecognised as a result of contract modification.

Amounts excluded from the assessment of significant insurance risk

Loss of the ability to charge for future services
Eg loss of unit-linked management charges on the death of a policyholder – this economic loss for the entity doesn't result from insurance risk.

Waiver on death of charges made on cancellation or surrender
The waiver does not compensate a pre-existing risk for the policyholder.

Payments conditional on events that do not cause a significant loss to the policyholder
Eg an insignificant loss of currency unit (CU) CU1 triggering a CU 1 million payment to the policyholder.

Possible reinsurance recoveries
They are accounted for separately.

An entity can accept significant insurance risk only if it is separate from the policyholder. Therefore, as noted below, self-insurance does not constitute an insurance contract. However, IFRS 17 clarifies that for mutual entities, although policyholders bear the pooled risk collectively because they hold the residual interest in the entity, the mutual entity is a separate entity that has accepted the risk.

Examples of insurance contracts

- Insurance against theft or damage
- Liability insurance (product, professional, civil, legal expenses)
- Life insurance and prepaid funeral plans
- Life contingent annuities and pensions (including those linked to a cost-of-living index)
- Insurance against disability and medical costs
- Surety bonds, fidelity bonds, performance bonds and bid bonds
- Product warranties issued by another party for goods sold by a manufacturer, dealer or retailer
- Title insurance
- Travel insurance
- Catastrophe bonds if a specified event adversely affects the issuer and creates significant insurance risk
- Insurance swaps that depend on changes in climatic, geological or other physical variables specific to a party to the contract

Examples of items which are not insurance contracts

- Investment contracts with a legal form of an insurance contract but do not transfer significant insurance risk
- Financial reinsurance (return the insurance risk to the policyholder by non-cancellable adjustments of future policyholder payments based on insured losses)
- Self-insurance*
- Contracts (eg gambling) that do not have as a contractual precondition for payment that an event adversely affects the policyholder
- Derivatives that expose a party to financial risk but not insurance risk
- Catastrophe bonds or weather derivatives with variables not specific to a party to the contract
- Credit-related guarantees that require a payment even if the holder has not incurred a loss on the failure of a debtor to make payments when due

* Self-insurance does not constitute an insurance contract because there is no agreement with another party. Therefore, from the point of view of consolidated financial statements, there is no insurance contract for the group when an entity issues an insurance contract to its parent, subsidiary or a fellow subsidiary. However, in the individual or separate financial statements of the issuer or holder, there is an insurance contract. Local statutory reporting may require a different assessment in the separate financial statements depending on the legal structure.

Practical insight – impact for entities, which are not insurers

IFRS 17 does not constitute industry-specific guidance (unlike the equivalent ASC 944 in US GAAP), but instead specifies the principles which should be applied to contracts that meet the definition of an insurance contract, irrespective of the legal and regulatory status of their issuer.

Therefore, entities issuing warranties, credit-related guarantees, guarantees of pension obligations of group entities, bonds related to participation in tenders or for contract execution, weather derivatives, etc. should analyse carefully the terms of such arrangements, even when they do not have the legal form of an insurance contract. Such analysis should establish the existence and extent of insurance risk transfer in order to achieve correct accounting treatment in accordance with the applicable IFRS Accounting Standard. Where non-insurance entities conclude that they have issued contracts within the scope of IFRS 17, they need to consider their staff and senior management's understanding of this Standard, information systems, data requirements and preparedness for much more complex measurement routines and demanding disclosures.

Combination of insurance contracts and separation (unbundling) of contractual components

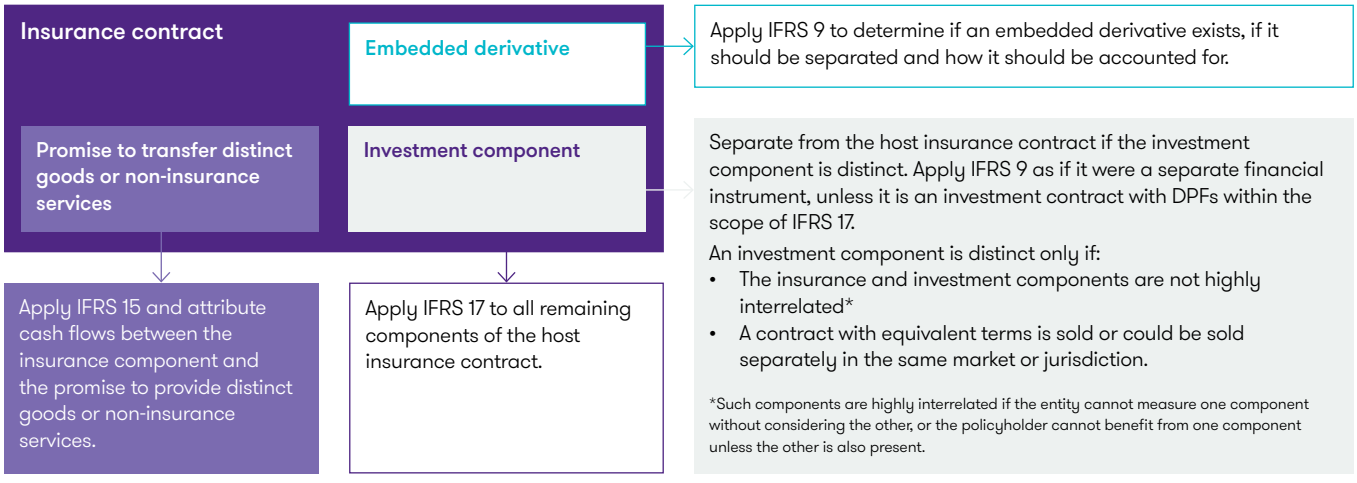
When a set of insurance contracts with the same or a related counterparty achieves, or is designed to achieve, an overall commercial effect, it may be necessary to treat the set as a single contract in order to report the substance of the arrangement.

An insurance contract may contain one or more components that would have been in the scope of another standard if they were separate contracts. In accordance with IFRS 17, an entity identifies and accounts for the components of a contract as outlined below:

Practical insight – contract management

IFRS 17's requirement to combine contracts which achieve common overall commercial impact may influence the way certain fronting arrangements are reported.

For example, where an insurer issues a contract to a direct policyholder or assumes reinsurance but at the same time enters into a mirroring back-to-back outwards reinsurance contract, when combined, these arrangements may not meet the criteria for significant insurance risk transfer for the fronting cedent. As a result, unforeseen impacts may arise on key performance indicators (KPIs) or capital and risks management targets (eg from additional counterparty risk).



Practical insight – product development

IFRS 17 may pose a challenge to existing interpretations of contract clauses or certain products' terms and conditions. If IFRS 17 is applicable, entities may have to revisit prior analysis before they confirm or rebut decisions previously made on unbundling. Entities may have to redesign controls around future product development and approval to achieve sufficient rigour over the identification of components outside IFRS 17's scope. The same applies to IT systems' capability for processing and appropriate data capture for measurement and disclosure. Much closer collaboration will be needed between financial reporting specialists, actuaries and underwriters.

How we can help

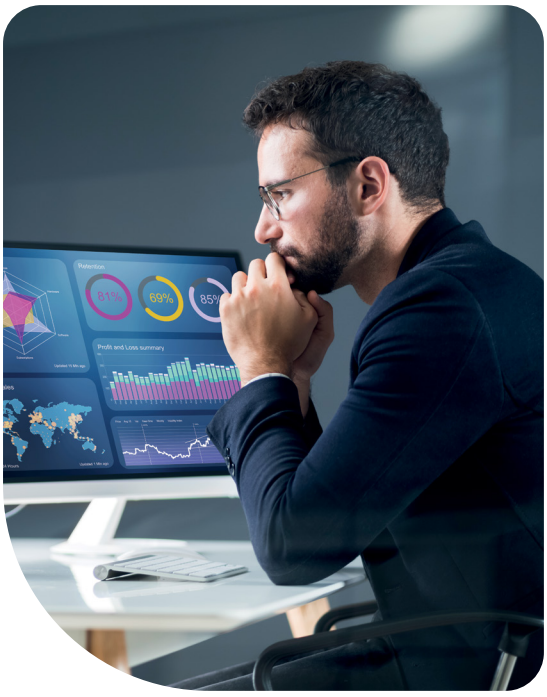
We hope you find the information in this article helpful in giving you some detail into aspects of IFRS 17. If you would like to discuss any of the points raised, please speak to your usual Grant Thornton contact or visit **www.grantthornton.global/locations** to find your local member firm.

Grant Thornton

© 2026 Grant Thornton International Ltd. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton International Ltd (GTIL) and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

Grant Thornton



Insights into IFRS 17

Initial recognition and measurement

IFRS 17 'Insurance Contracts' (IFRS 17 or the Standard) introduces a comprehensive, principles-based framework for the recognition, measurement, presentation and disclosure of insurance contracts, introducing a globally consistent approach to accounting for insurance liabilities. The standard requires entities to measure insurance contracts using current estimates of future cash flows, an explicit risk adjustment and a contractual service margin, fundamentally changing the timing and pattern of profit recognition. As a result, IFRS 17 significantly enhances transparency and comparability in financial reporting, while also necessitating substantial changes to data, systems, processes and governance frameworks across reporting entities.

The articles in our 'Insights into IFRS 17' series explain the key features of the Standard and provide insights into their application and impact. This article explains the initial recognition and measurement of insurance liabilities under IFRS 17.

Understanding where to start – the level of aggregation IFRS 17 requires

As with many accounting standards, it is often necessary to understand what specifically needs to be measured. This concept is often referred to as the unit of account. For insurance contracts the unit of account might be a single insurance contract or an aggregation of similar insurance contracts. Understanding the level of aggregation that is permitted under IFRS 17 is an important first step in the recognition and measurement of insurance contract liabilities.

The risks underlying insurance contracts and the corresponding management practices adopted by reporting entities are the main factors that will determine the level of aggregation under IFRS 17.

"The articles in our 'Insights into IFRS 17' series explain the key features of the Standard and provide insights into their application and impact. This article explains the initial recognition and measurement of insurance liabilities under of IFRS 17."

Contracts that are subject to similar risks and are managed together as a single pool constitute a portfolio of insurance contracts. Portfolios are then divided into three groups of contracts if they are present in each portfolio. They are those contracts that are onerous at initial recognition, those contracts where at initial recognition there is no significant possibility of becoming onerous subsequently, and those contracts that have neither of the previous two conditions present (ie the remaining contracts on the portfolio). The purpose of these categories is to ensure that loss-making or onerous contracts are identified and recognised, and not subsidised or obscured by other profitable contracts. This categorisation for a reporting entity that has five identified portfolios can be illustrated as follows:

Portfolio 1: single premium life annuities

Onerous at initial recognition

No significant risk at initial recognition of becoming onerous

Remaining contracts

All contracts in a group should be issued no more than a year apart*.

Portfolio 2: regular premium term life

Onerous at initial recognition

No significant risk at initial recognition of becoming onerous

Remaining contracts

Portfolio 3: whole life

Onerous at initial recognition

No significant risk at initial recognition of becoming onerous

Remaining contracts

Portfolio 4: other products

Onerous at initial recognition

No significant risk at initial recognition of becoming onerous

Portfolio 5: reinsurance issued

Remaining contracts

* An exemption of the one-year rule is allowed only to contracts that would fall into different groups because law or regulation (eg for gender-neutral pricing) constrains the entity's ability to set a different price or level of benefits for policyholders with different characteristics.

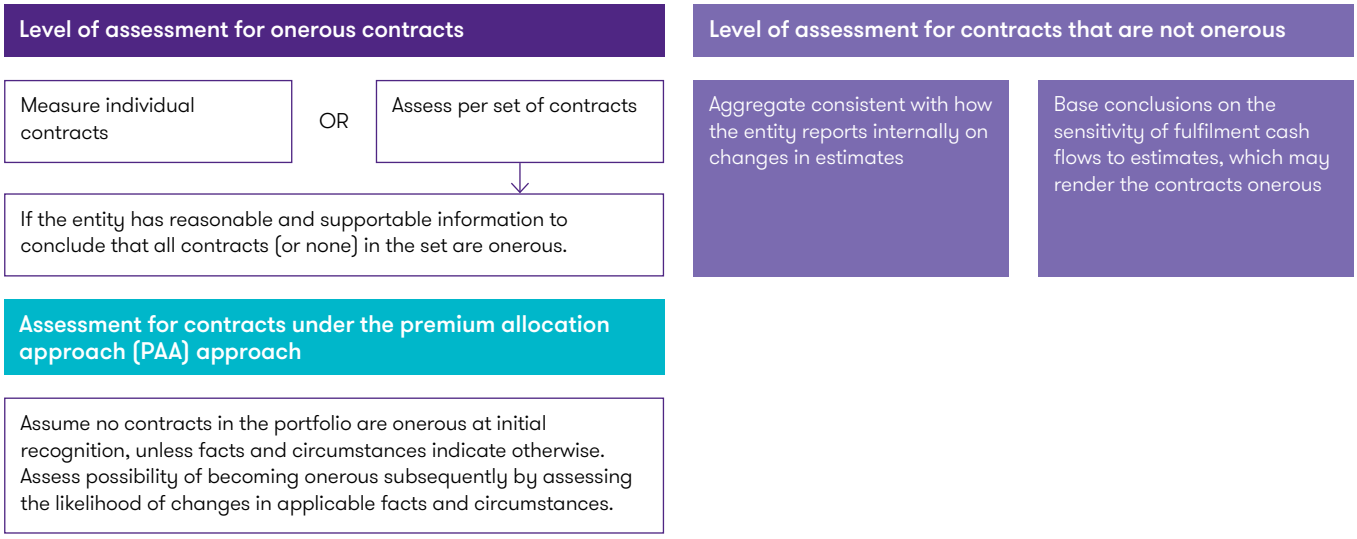
A group may comprise a single contract, if this is the result of applying IFRS 17's aggregation rules. A reporting entity is permitted to divide portfolios in more than three groups of contracts, if internal reporting and performance monitoring distinguishes at a more granular level the risks of contracts becoming onerous, or it can measure at more granular level the extent to which the contracts are onerous.

Practical insight – contract grouping

The more groups created by a reporting entity, the more operationally onerous it will be to maintain, track and report on complex components such as contractual service margin (CSM).

Based on our experience most insurers are applying the minimum grouping requirements at this stage. However, once IFRS 17 is fully embedded and has become business as usual, we would expect insurers may divide portfolios in more groups to gain valuable information for business decisions and measuring performance.

Diagramatically, the level of assessment on initial recognition should be as follows:



Once the groups are established at initial recognition, their composition should not be reassessed subsequently.

Practical insight – aggregation approach

Entities should allocate sufficient time and resources when deciding on their unit of account approach. It will impact profoundly not only the pattern of future profit emergence, but also it may require many changes to be made to operational data collection solutions as well as any measurement and disclosure routines that currently might be in place (eg the number of discount rates to be calculated).

Furthermore, insurers may need to update their existing processes to identify loss-making or onerous contracts in order to meet IFRS 17 requirements.

When does IFRS 17 require recognition of the insurance contract?

The point of recognition for contracts within the scope of IFRS 17 should be:

Earliest of the following dates:

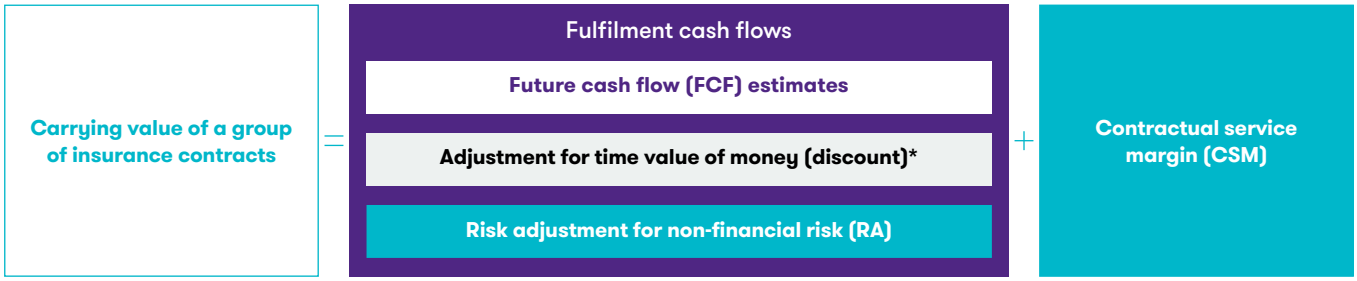
Beginning of the coverage period	First payment due by the policyholder*	Facts and circumstances first indicate the group is onerous

* or first payment made if no contractual due date

An entity should recognise an asset or a liability for any insurance acquisition cash flows, which the entity pays or receives before the related group of contracts is recognised. Note that when an entity is applying the PAA, it can choose to expense these cash flows in profit or loss. Such an asset or liability from pre-coverage cash flows should be de-recognised when the group of insurance contracts to which the cash flows are allocated, is recognised.

Measurement principles present in IFRS 17

The following measurement principles apply to all groups of contracts within IFRS 17's scope, except for contracts measured under the premium allocation approach, reinsurance contracts held, and certain recognition and measurement aspects of investment contracts with a discretionary participation feature.



* should also reflect financial risk associated with FCF to the extent not included in the estimates of FCF

A group of contracts should include only contracts issued by the end of the reporting period (subject to the aggregation rule of 'issue within 12 months apart'). Such contracts should be added into the reporting period in which they are issued. This may result in a change in the determination of discount rates at the date of initial recognition. An entity should apply the revised rates from the start of the reporting period in which the new contracts are added to the group.

Future cash flow estimates

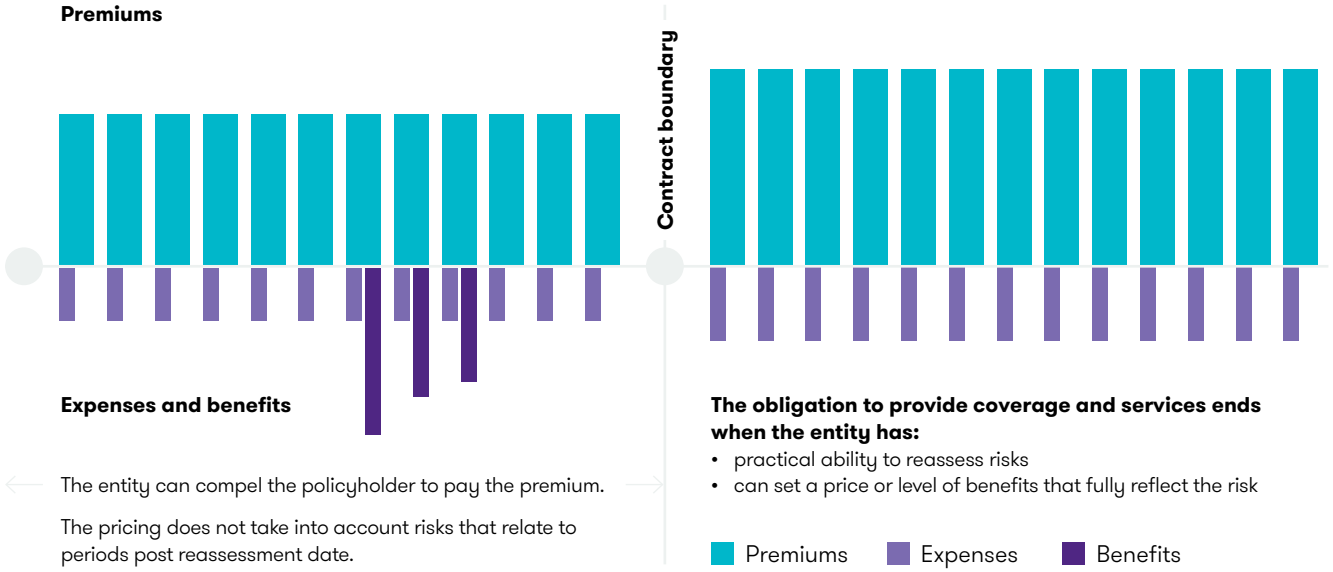
The recognition and measurement requirements of IFRS 17 should be applied at the aggregation levels as specified above. However, to measure a group of contracts, an entity may estimate the fulfilment cash flows at a higher aggregation level, as long as it is able to allocate such estimates to groups of contracts. When measuring a group of insurance contracts a reporting entity should include all cash flows within the contract boundary and ensure the FCF estimate has the following characteristics:

Future cash flows – characteristics to take into consideration:

Neutral probability weighted mean of all possible outcomes	**Entity perspective** but consistent with observable market prices	**Current** estimate at the measurement date	**Explicit** cash flows estimated separately from discount rates

A reporting entity should incorporate in the future cash flow estimates all reasonable and supportable information available without undue cost or effort. The estimate should capture the full range of possible outcomes about the amount, timing and uncertainty of the cash flows. Any market variables underlying the estimates should be consistent with observable market prices. The estimates should reflect the conditions existing at the measurement date and should include explicit adjustments for non-financial risk separately from other estimates (ie rather than doing this implicitly via the estimates of the discount rate).

The future cash flow estimates should only include cash flows, which are in the boundary of an insurance contract as illustrated below:



A reporting entity should not recognise as an asset or a liability any amounts related to expected premiums or claims outside the boundary of the insurance contract.

Cash flows within the contract boundary include:

- premiums, claims/benefits (including those paid in kind), claims handling costs
- attributable acquisition expenses, policy administration and maintenance costs (including trailing commissions)
- payments to policyholders which vary depending on the returns of underlying items
- cash flows from options and guarantees embedded in the contract (if not separated)
- premium taxes and taxes paid in fiduciary capacity for the policyholder
- potential cash inflows from recoveries from salvage and subrogation
- allocation of fixed and variable overheads (following systematic and rational methods consistently applied)
- other costs specifically chargeable to the policyholder per contract terms

Cash flows that should not be included in contract:

- cash flows outside the contract boundary
- investment returns
- cash flows under reinsurance contracts held (reported separately)
- costs that cannot be directly attributed to the portfolio comprising the contract (reported in P/L when incurred)
- cash flows that arise from abnormal or wasted labour or other costs used to fulfil the contract
- income tax payments not made in a fiduciary capacity (ie not on behalf of policyholders)
- cash flows between components of the reporting entity
- cash flows arising from components separated from the insurance contract and accounted for under different standards

A group of contracts that generate cash flows in a foreign currency should be treated as a monetary item (including the CSM) when applying IAS 21 'The Effects of Changes in Foreign Exchange Rates'. The fulfilment cash flows should not reflect the entity's own non-performance risk (as defined in IFRS 13 'Fair Value Measurement').

Discount rates

When measuring insurance contracts, a reporting entity should adjust the estimates of the future cash flows to reflect the time value of money and financial risks associated, including policyholder credit risk where appropriate, with those cash flows (to the extent not already included therein). The discount rate should have the following characteristics:

Discount rates should reflect:

Characteristics of the cash flows and the liquidity of the insurance contracts

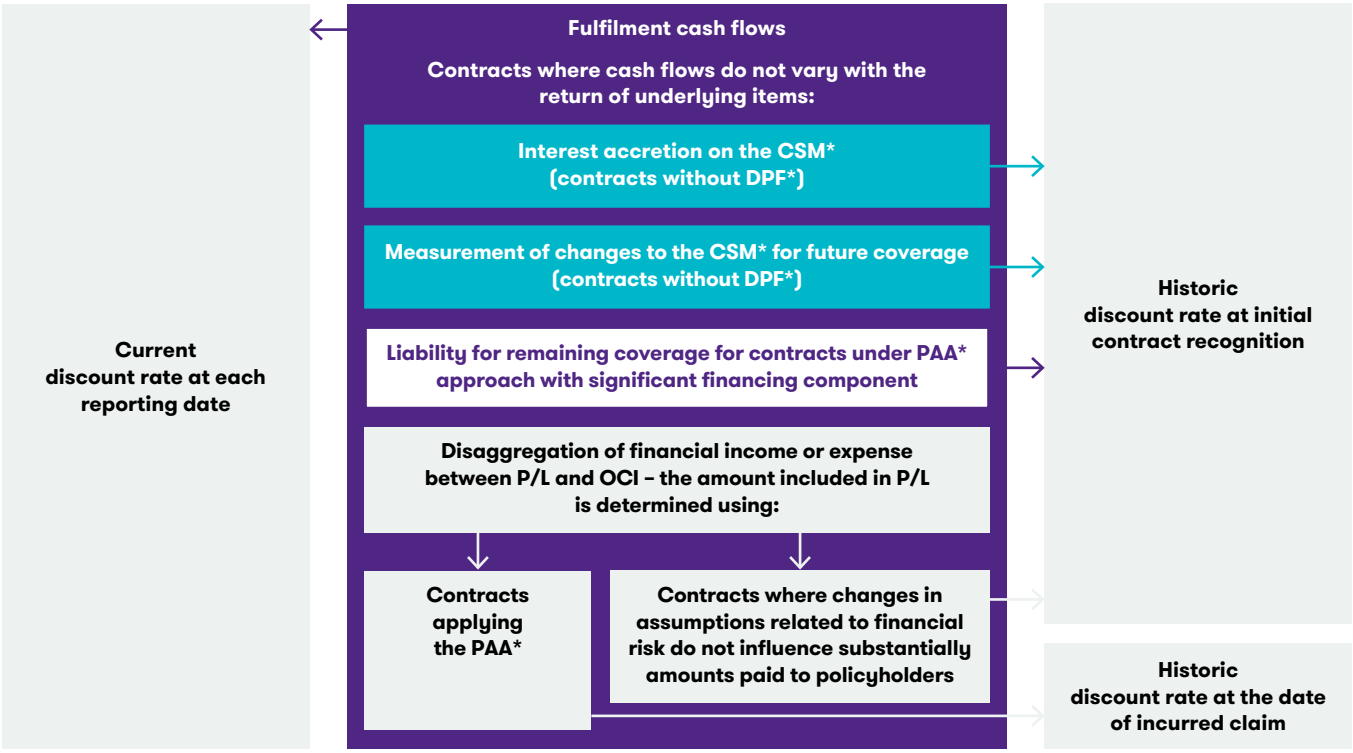
Observable current market prices of financial instruments with cash flows consistent with those of the insurance contracts (timing, currency, liquidity)

Exclude market price factors which do not affect the fulfilment cash flows of the insurance contracts

The discount rate estimates should be consistent with the characteristics of the cash flows to avoid duplication or omission as follows:

Cash flow characteristics	Discount rates to be used
Do not vary based on the returns of any underlying items	Rates that do not reflect such variability
Vary based on the returns of underlying financial items (regardless of whether contractual or due to entity's discretion): • not adjusted for such variability • adjusted for the effects of that variability	 Rates that reflect that variability Rates that reflect the adjustment to the variability that is present
Nominal cash flows (ie include the effects of inflation)	Rates that include the effects of inflation
Real cash flows (ie exclude effects of inflation)	Rates that exclude the effects of inflation

IFRS 17 requires that fulfilment cash flows are remeasured at current discount rates at each reporting period end. The historic rates, also called locked-in rates, should be used only to contractual service margin accretion and, where applicable, insurance finance income presented in profit or loss. This is illustrated by the following diagram:



• CSM – contractual service margin
DPF – discretionary participation features
PAA – premium allocation approach
OCI – other comprehensive income
P/L – profit or loss

Determining the discount rate

When determining the discount rates at initial recognition, an entity may use weighted average discount rates over the period that the contracts in the group (as per the Standard's aggregation principles) are issued. The entity is allowed to estimate the appropriate discount rates using estimation techniques when observable market rates for instruments with cash flow characteristics similar to those of the insurance contract are not readily available, or cannot be approximated by adjustments based on market observable inputs. Determining the discount rate should not reflect the entity's own non-performance risk (as defined in IFRS 13).

Estimation techniques should:

Maximise the use of observable market inputs and should not contradict observable market variables

Reflect current market conditions from the perspective of a market participant

Use judgement to adjust observable market prices for differences between a market instrument and the insurance contract

Reflect the yield curve in the appropriate currency for instruments that expose the holder to **no or negligible credit risk**, adjusted to reflect the **liquidity characteristics** of the insurance contract.

For cash flows of insurance contracts that do not vary based on performance of underlying items, an entity is allowed to choose between a bottom-up or a top-down approach to estimate the discount rate as outlined below.

Bottom-up approach	Determine the discount rate by adjusting a liquid risk-free discount rate for the differences between the liquidity characteristics of the financial instrument that underlie the market observable rate and the liquidity characteristics of the insurance contract.
Top-down approach	Determine the discount rate by using a yield curve that reflects current market rates of return implicit in a fair value measure of a reference portfolio of assets. Adjust to eliminate any factors that are not relevant for the insurance contract but not required to adjust for differences in liquidity characteristics between the insurance contracts and the reference portfolio. ADJUST EITHER APPROACH FOR Differences between the amount, timing and uncertainty of cash flows of the reference assets and the insurance contracts. Risk premium (exclude) for credit risk relevant only to the reference assets.

IFRS 17 does not specify restrictions on the reference portfolio of assets used in applying the top-down approach where there are observable market prices in active markets for those assets. An entity is not required to reconcile the discount rate determined under its chosen approach with the rate that would have been determined under the other approach.

Practical insight – the opportunity to leverage existing capabilities

Determination of the discount rate is a highly judgemental area with profound effect on the measurement of insurance contracts. IFRS 17's principles for determination of the discount rate are different from those under Solvency II or existing embedded value reporting frameworks. However, subject to a robust gap analysis of current methodologies and practices, entities may be able to utilise effectively their existing modelling capabilities and reference data. Additional IT systems investment may be required, so that entities can track historic discount rates at contract inception and perform calculations (subject to policy choice) to disaggregate the impact of discount rate changes between other comprehensive income and profit or loss.

Where entities adopt a top-down approach, the choice of reference portfolios will be crucial in order to minimise the required adjustments and controls burden over calculation routines and data quality.

Risk adjustment for non-financial risks

The risk adjustment to the estimates of future cash flows reflects the compensation a reporting entity expects for bearing the uncertainty about the amount and timing of the cash flows that arise from non-financial risks.

Risk adjustment = compensation that makes an entity indifferent between:

Fulfilling a liability with a range of possible outcomes eg 50% probability for CU 50 and 50% probability for CU 500	AND	**Fulfilling a liability with the same expected present value** (which is CU 275 in this example) **but generating fixed cash flows**

The purpose of the risk adjustment is to measure the effect of uncertainty in the cash flows of insurance contracts that arise from risks other than financial risks. It should not reflect risks that do not arise from the rights and obligations created by an insurance contract, eg general operational risks. The risk adjustment is an entity-specific measure of uncertainty and should have the following characteristics:

Characteristics of the risk adjustment:

Explicit The risk adjustment is separate from the estimates of the cash flows or the discount rate. It should not result in double counting.	**Reflects entity's risk diversification** The entity should allow for its own risk profile and any benefits arising from diversification in its management of nonfinancial risks.	**Reflects entity's risk appetite** Both favourable and unfavourable outcomes should be reflected in a way that reflects the entity's degree of risk aversion.

IFRS 17 does not specify what estimation technique entities should use when calculating the risk adjustment. However, the following guidelines apply:

Risk adjustment for:	GENERALLY >	Risk adjustment for:
Contracts with: • low frequency and high severity of claims • longer duration for similar risks • wider probability distribution • emerging experience increases the uncertainty on nonfinancial risks.		Contracts with: • high frequency and low severity of claims • shorter duration for similar risks • narrower probability distribution • emerging experience decreases the uncertainty on nonfinancial risks.

A reporting entity should disclose the technique used in the estimation of the risk adjustment and the confidence level corresponding to the result of that technique.

Practical insight – an entity's own view on risk and diversification for risk adjustment

IFRS 17 allows a choice of estimation method and gives the reporting entity an opportunity to eliminate the high interest rate sensitivity from the cost of capital approach mandated by Solvency II. An entity specific pattern of risk release could also prove a useful basis for revenue recognition under the premium allocation approach. Subject to the operational challenges of confidence level disclosures, an entity with insurance contracts could align their financial reporting to their own risk appetite.

This is the first time that insurers are required to disclose the confidence level used for the calculation of the IFRS 17 risk adjustment and will be critically reviewed by competitors as well as investors and analysts. It therefore requires careful attention.

Contractual service margin (CSM)

The contractual service margin is a component of the asset or liability for a group of insurance contracts and represents the unearned profit the entity will recognise as it provides services in the future. The determination of CSM is covered more fully in our article '**Insights into IFRS 17 – Subsequent measurement**', but in essence, unless a contract is onerous, on initial recognition (see example below) the CSM is measured as follows:

Fulfilment cash flows on initial recognition = FCF + discount + risk adjustment + **De-recognition of assets or liabilities for pre-contract cash flows** + **Cash flows arising on date of initial recognition** + **CSM** = Zero income or expense on initial recognition

In case of business combination or group contract transfers, the above principle for measuring the CSM on initial recognition is modified as follows (unless the contracts are accounted for under the premium allocation approach):

Consideration received or paid = Premium proxy* (excludes any element related to any other acquired assets or liabilities) – **Fulfilment cash flows on date of business combination or group transfer** = **CSM**

* In a business combination the consideration received or paid is the fair value of the contracts at that date

If the contracts are onerous, the following principle will apply instead:

Fulfilment cash flows on date of business combination or group transfer – **Consideration received or paid = Premium received** = **Goodwill or gain on a bargain purchase**** OR **Loss in profit or loss***

** in a business combination
*** in a group transfer. The entity should establish a loss component of the liability for remaining coverage and allocate subsequent changes in fulfilment cash flows to it.

Example 1: Initial measurement

An entity issues 100 three-year contracts of product A and 50 three-year contracts of product B with the following terms.

	Product A	Product B
Expected total premiums, payable immediately after initial recognition	CU 13,500	CU 13,500
Annual expected cash outflows (assumed paid immediately when incurred)	CU 3,000	CU 6,000
Estimated risk adjustment for non-financial risk on initial recognition	CU 1,800	CU 1,800
Estimated discount rate on initial recognition	2.50%	2.50%
The entity has concluded that the contracts meet the conditions to be combined in a group for product A and for product B.		

Analysis

The measurement of the contracts on initial recognition is as follows:

	Product A CU	Product B CU
Expected present value of cash inflows (premiums) over 3 years	(13,500)	(13,500)
Expected present value of cash outflows over 3 years	8,568	17,136
Expected present value of net future cash flows (FCF)	**(4,932)**	**3,636**
Risk adjustment for non-financial risk (RA)	1,800	1,800
Fulfilment cash flows	**(3,132)**	**5,436**

Summary:

	FCF CU	RA CU	CSM CU	Total liability CU	Insurance service expenses (P/L) CU
Product A	(4,932)	1,800	3,132	–	–
Product B	3,636	1,800	–	5,436	(5,436)

Contracts from product B represent a group of onerous contracts resulting in a loss on initial recognition of CU 5,436.

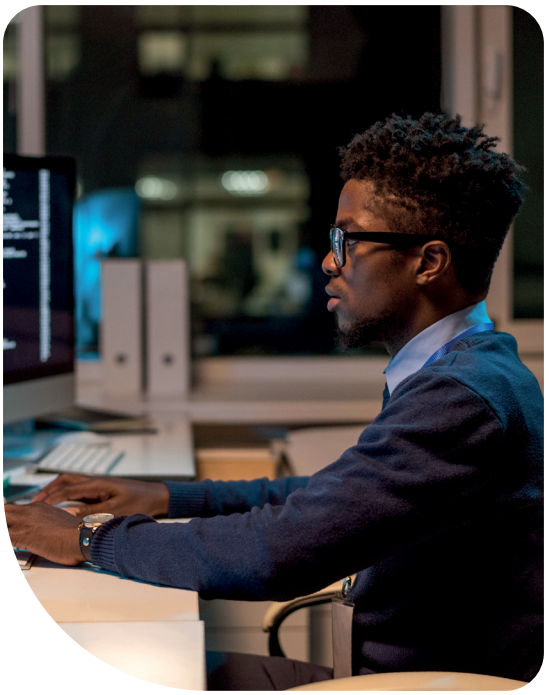
How we can help

We hope you find the information in this article helpful in giving you some detail into aspects of IFRS 17. If you would like to discuss any of the points raised, please speak to your usual Grant Thornton contact or visit **www.grantthornton.global/locations** to find your local member firm.

© 2026 Grant Thornton International Ltd. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton International Ltd (GTIL) and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

Grant Thornton



Insights into IFRS 17

Subsequent measurement

IFRS 17 'Insurance Contracts' (IFRS 17 or the Standard) establishes a principle-based framework for the recognition, measurement, presentation and disclosure of insurance contracts, based on a current fulfilment value approach. Insurance liabilities are measured as the sum of the present value of future cash flows, an explicit risk adjustment for non-financial risk, and the contractual service margin (CSM) representing unearned profit. The Standard introduces a systematic basis for profit recognition over the coverage period, reflecting the transfer of insurance services, and requires entities to update assumptions at each reporting date. As a result, IFRS 17 enhances consistency, transparency and comparability of financial reporting, while significantly increasing the complexity of measurement and disclosure requirements.

The articles in our 'Insights into IFRS 17' series explain the key features of the Standard and provide insights into their application and impact. This article succinctly explains the subsequent measurement of insurance liabilities under IFRS 17.

"The articles in our 'Insights into IFRS 17' series explain the key features of the Standard and provide insights into their application and impact. This article succinctly explains the subsequent measurement of insurance liabilities under IFRS 17."

The carrying amount of a group of insurance contracts at the end of each reporting period is the sum of the liability for remaining coverage (LRC) and the liability for incurred claims (LIC). If the contracts are accounted for under the premium allocation approach, the principles will be discussed in a future article.

At the end of each reporting period the LRC as well as the LIC for a group of insurance contacts being accounted for under the general measurement model (GMM) comprise the following components:

Liability for remaining coverage

Fulfilment cash flows related to future service allocated to the group of insurance contracts

CSM applicable to the group of insurance contracts

Liability for incurred claims

Fulfilment cash flows related to past service allocated to the group of insurance contracts

An entity should then recognise income and expenses for the following changes in the carrying amount of the above liabilities arising from the issuance of insurance contracts:

Financial statement component	Changes in	
	Liability for remaining coverage	Liability for incurred claims
Insurance services revenue	For the reduction in liability because of services provided in the period	Changes made to this type of liability should not be recognised as insurance services revenue
Insurance services expenses	For losses on groups of onerous contracts, and reversals of such losses	For the increase in the liability due to claims and expenses incurred during the period (excluding any investment component) For any subsequent changes in fulfilment cash flows relating to incurred claims and incurred expenses
Insurance finance income or expenses	For the effect of time value of money and the effect of financial risk	For the effect of time value of money and the effect of financial risk

The fulfilment cash flows are measured following the same principles as for initial measurement. The CSM at the end of the period represents the profit in the group of insurance contracts that has not yet been recognised in profit or loss because it relates to future services.

CSM on contracts without discretionary participation feature (DPF)

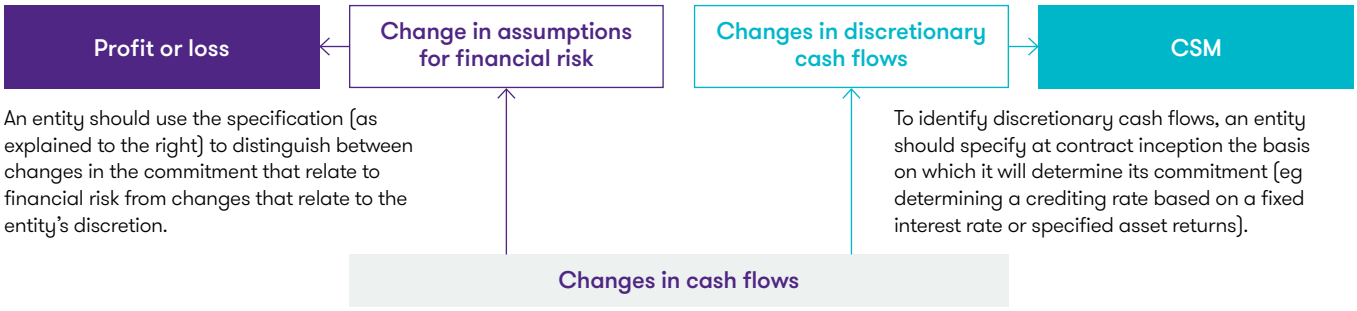
The approach for measuring the CSM for contracts without discretionary participation feature at the end of the reporting period is illustrated below:

	CSM	Profit or loss	Notes
Carrying amount at the beginning of the period	X		
Effect of any new contracts added to the group	X		
Interest accrued during the period*	X	(X)	* historic rate determined on initial recognition
Changes in fulfilment cash flows related to future service**	X		** exclude: • Increases in fulfilment cashflows > CSM carrying amount, giving rise to a loss or • Decreases in fulfilment cash flows allocated to the loss component of the liability for remaining coverage
Foreign currency gains/losses	(X)	X	
Carrying amount before allocation	X		
Amount recognised as insurance revenue in the period***	(X)	X	*** The allocation is based on the number of coverage units provided in the current period as a proportion of total coverage units in the current and future periods
Carrying amount at the end of the period	X		

Examples of changes in fulfilment cash flows that relate to future services may include:

- experience adjustments from premiums received in the period that relate to future service and related acquisition expenses and taxes
- changes in the risk adjustment that relate to future service, and
- differences arising from the difference between actual investment component payable in the period and the one expected to become payable, etc.

Changes in estimates of cash flows in the liability for claims incurred and changes in assumptions that relate to financial risk are not regarded as relating to future services. Therefore, they do not adjust the CSM for contracts without DPF measured under the GMM. However, changes in the discretionary cash flows of contracts without DPF are regarded as relating to future service, and accordingly adjust the CSM.



Where an entity cannot distinguish at contract inception between what it is committed to and what it regards as discretionary, it should regard its commitment to be the return implicit in the estimate of fulfilment cash flows at contract inception, updated to reflect current assumptions related to financial risk.

CSM on contracts with DPF

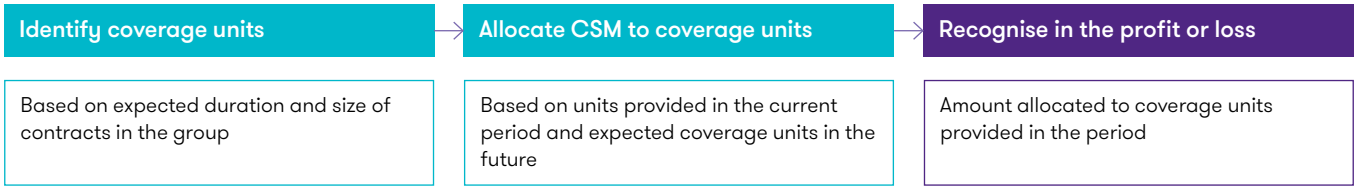
The approach for measuring the CSM for contracts with DPF at the end of the reporting period follows the same logic as outlined above for contracts without DPF. The changes in fulfilment cash flows represent the changes in the entity's share in fair value changes of the underlying items.

A reporting entity must recognise in the profit or loss the combined effect of the changes in fulfilment cash flows (excluding cash flows arising in the period) and the changes in the CSM, and analyse those between insurance services revenue, insurance services expenses and insurance finance income or expenses.

The modifications to the above general measurement approach are referred to as the 'variable fee' approach and will be discussed in a future article.

Recognition of the CSM in the profit or loss

The release of CSM to the profit or loss in each reporting period should reflect the service provided under the group of insurance contracts in that period and should follow the process illustrated below.



Example 1: Allocation of the CSM to the profit or loss

The following assumptions have been made when allocating the CSM to the profit or loss:

- the contracts are of equal size, therefore one unit of coverage is provided under each contract for each year
- the contracts expire in year 3 to the extent the holder has not terminated them earlier.

Analysis	Year 1 number	Year 2 number	Year 3 number
Contracts in force – start of year	100	90	70
Contracts in force – end of year	90	70	0
Coverage provided in the current year	100	90	70
Coverage provided in the current year and expected to be provided in the remaining years***	260	160	70
Percentage of remaining coverage provided in the current year**	38.5%	56.3%	100.0%

	Year 1 CU	Year 2 CU	Year 3 CU
CSM – start of the year	1,500	923	404
CSM release in the year*	(577)	(519)	(404)
CSM – end of the year	923	404	0

* Year 1 release for the year = CU 1,500 × 38.5% = CU 577
** Year 1 percentage of remaining coverage = 100/260 = 38.5%
*** Year 1 sum of coverage to be provided in each year = CU 100 + CU 90 + CU 70 = CU 260

Practical insight – CSM calculation engine

The CSM implementation poses complex operational challenges and may require significant IT investment, process re-design and changes to data capture and analysis. A CSM calculation engine should:

- 'read' actuarial models for future cash flows
- identify the correct historic discount rates per aggregation cohort for interest accretion
- link to financial records and 'track' recouping of previously recognised losses on onerous contracts
- retranslate for FX rate changes, and
- 'mine' operational and actuarial databases to update remaining units of coverage (based on actual experience and future assumptions). Outwards reinsurance will make the task even more demanding.

How we can help

We hope you find the information in this article helpful in giving you some detail into aspects of IFRS 17. If you would like to discuss any of the points raised, please speak to your usual Grant Thornton contact or visit **www.grantthornton.global/locations** to find your local member firm.

Grant Thornton

© 2026 Grant Thornton International Ltd. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton International Ltd (GTIL) and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.