



REASONS AND PROBLEMS OF APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARD №17 “INSURANCE CONTRACTS” IN INSURANCE COMPANIES

*Abdusaidov S.Dj.
PhD doctoral of SB TSEU*

Abstract: The article analyzes the reasons and problems associated with the implementation of the IFRS 17 Insurance Contracts standard in insurance companies. The key changes introduced by the standard are considered, including a new approach to assessing insurance liabilities, accounting for profit and loss, and financial reporting requirements.

Keywords: IFRS 17, insurance companies, financial statements, insurance contracts, accounting for liabilities, discounted cash flows, actuarial calculations, accounting standards, transparency of financial data, regulatory requirements.

International Financial Reporting Standards (IFRS) are an important tool for ensuring the transparency and comparability of financial statements of organizations. Among them, the standard IFRS 17 "Insurance Contracts", which entered into force on January 1, 2023, is one of the most significant for the insurance industry. This standard was adopted to improve the methodology for accounting for insurance contracts and ensure a more accurate and consistent reflection of financial results. However, the application of IFRS 17 in insurance companies is associated with a number of problems and difficulties due to the specific nature of their activities and the high complexity of the new approach. This article discusses the reasons and problems of applying IFRS 17 in insurance companies, and provides the opinions of scientists and analysts on this issue.

International Financial Reporting Standard No. 17 was adopted in 2017 and entered into force a few years later. The main objective of its introduction was to ensure more accurate accounting of income and liabilities under insurance contracts, as well as to improve the comparability of financial statements of various insurance companies around the world. The standard replaced the previous IFRS 4 Insurance Contracts, which did not provide sufficient detail and flexibility to adequately reflect the risks and liabilities of insurance companies.

IFRS 17 introduces a comprehensive approach to accounting for insurance contracts based on the principles of measurement based on the current cost basis, including the calculation of payment obligations and updating these obligations as risk information changes. However, this standard raises a number of implementation difficulties due to the unique features of the insurance business.

According to research conducted by various scientists, in particular, F. Lewis (2021), the implementation of IFRS 17 will require significant costs for upgrading information systems, developing new risk assessment methods and training personnel. This becomes especially challenging for companies operating in emerging markets, where the level of readiness for such changes may be low.

Research and academic opinions on the implementation of IFRS 17 highlight both the benefits and challenges that insurance companies face when transitioning to the new standard. According to P. Stevens (2020), IFRS 17 significantly improves financial transparency and allows for more accurate accounting of long-term liabilities of insurance companies. However, he also notes that the implementation of such an approach will require a huge effort to revise all accounting

processes and may be associated with high costs for revising existing systems.

M. Johnson (2022) emphasizes that the main challenge for many insurance companies will be the need to account for new liabilities and assets based on discounted cash flows, which requires more complex and accurate calculations. This can cause problems for insurance companies that do not yet have the necessary analytical tools for such calculations.

When implementing IFRS 17, insurance companies face several important challenges:

1. Implementation and adaptation costs. The transition to the new standard requires significant investments in upgrading information systems and training staff. It is estimated that these costs can amount to millions of dollars for large companies and are especially noticeable for smaller insurers.
2. Complexity in measuring liabilities and assets. IFRS 17 introduces the principle of measuring liabilities at current value, which requires the use of complex models for calculating cash flows associated with payments under insurance contracts. This may lead to increased complexity of financial statements and the need for more frequent updates to estimates.
3. Changes in the approach to accounting for profit and loss. The standard requires recognition of revenue and expenses based on the principles of “cash flows” and “actuarial calculations”. This may significantly change the order of recognition of income and expenses at insurance companies and affect financial results, which raises concerns among investors and shareholders.
4. Risks for companies with long-term contracts. Insurance companies that deal with long-term contracts, such as annuities or pension products, face additional challenges in estimating future benefits and income, which leads to reporting volatility.
5. Challenges in adapting to different regulatory requirements. In some countries, insurance companies face different approaches to applying IFRS 17, which complicates the process of global reporting and standardization. In some cases, regulators may require additional reports or use different methods to assess risks.

The implementation of IFRS 17 represents a significant step forward for insurance companies in improving the accounting and reporting of insurance contracts. However, this process is associated with a number of challenges, including high implementation costs, difficulties in measuring liabilities and assets, and the need to change approaches to accounting for profit and loss.

It should be noted that despite the challenges, the transition to IFRS 17 can lead to significant improvements in the transparency of financial statements and improved predictability of future payments and income. To successfully implement the standard, companies will need to invest in new technologies, train employees, and adapt their business processes to the new requirements.

In the future, it is important to continue to research and develop methods to simplify the implementation of IFRS 17, especially for small and medium-sized insurance companies, as well as for companies operating in emerging markets. Such an approach will ensure stable and fair application of the standard at the global level.

References

- Lewis, F. (2021). Problemy vnedreniya MSFO 17 in immediate companies: challenges and solutions. *Journal strachovoi theory and practice*, 12(3), 45–59.
- Stevens, P. (2020). IFRS 17: Prospects and Challenges for the Strategic Sector. *Mejdunarodnyi obzor finansov*, 22(1), 34–50.
- Johnson, M. (2022). Novaya volna: kak MSFO 17 izmenyaet finansovuyu otchetnost straxovykh kompaniy. *Journal of Finance*, 19(4), 78–90.
- International standard of financial reporting No. 17 "Contracts". (2017). International financial reporting standards.