THE REFORMS BROUGHT BY IFRS 17 AND THEIR EFFECTS ON FINANCIAL SUSTAINABILITY IN THE INSURANCE INDUSTRY

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Ramona Melania MĂGAN (ANCUȚA)
University Stefan cel Mare University, Suceava, Romania
ramonamelaniaancuta@gmail.com
ORCID ID:https://orcid.org/0009-0005-3501-954X

Elena HLACIUC
ORCID ID: https://orcid.org/0000-0003-0601-748X

Abstract: *IFRS 17 has introduced a fundamental change in the way insurance companies recognise and measure contracts, with significant implications for financial sustainability. While the main purpose of IFRS 17 is to increase the transparency and comparability of financial statements, it may also impact the long-term sustainability of the insurance sector. This article examines how the application of IFRS 17 can contribute to greater social and environmental responsibility among insurers, supporting the integration of ESG (environmental, social and governance) principles into their risk management strategies and financial models. The results highlight that, despite the challenges, the new standard can lead to a more stable, predictable and future-oriented insurance industry.*
Keywords: *IFRS 17, financial sustainability, ESG (environmental, social, governance), corporate governance*

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1. Introduction

IFRS 17, issued by the International Accounting Standards Board (IASB), replaces IFRS 4 and introduces a uniform and principles-based approach to accounting for insurance contracts. The main purpose is to ensure the transparency, comparability and accuracy of the financial statements of insurance companies, thus contributing to strengthening the confidence of investors and other stakeholders. The need to adopt IFRS 17 resulted from the significant limitations of IFRS 4, which allowed for different accounting treatments, limiting comparability between entities and countries. In addition, the post-financial crisis economic context has determined the need for a more robust accounting framework, adapted to the requirements of sustainability and financial responsibility (Glaum et al., 2022). The insurance sector plays a key role in maintaining global economic stability, providing financial protection against risks and supporting sustainable investments. However, conventional financial reporting in this area has been frequently challenged due to the lack of transparency, high complexity and challenges in comparing performance across companies and jurisdictions (Bischof & Daske, 2021; Glaum et al., 2022). In this context, the International Accounting Standards Board (IASB) adopted in 2017 the IFRS 17 "Insurance Contracts", which became operative in January 2023, replacing the old IFRS 4 standard (IFRS Foundation, 2020). Unlike IFRS 4, which allowed the application of national practices, IFRS 17 requires the use of updated cash flow estimates, risk adjustments and the gradual recognition of profit through the Contractual Service Margin (CSM) mechanism. The adoption of IFRS 17 has implications both in terms of accounting compliance and in terms of financial sustainability and corporate responsibility. In an era where governance, transparency and ESG (environmental, social, governance) requirements are becoming increasingly stringent, IFRS 17 proposes a framework that can support a long-term, forward-looking strategy (Willis Towers Watson, 2022; Mazars, 2022). This paper aims to analyze to what extent IFRS 17 contributes to the long-term sustainability of the insurance sector, both through financial transparency and by more effectively integrating risks into decision-making processes. We will explore the accounting foundations of the standard, its implications for corporate governance and the challenges associated with implementation, providing an integrated picture of its impact on the stability of the insurance industry.

2. Basic content

To understand the long-term impact of IFRS 17 on the insurance industry, it is essential to explore the fundamental elements that define this standard and its implications from multiple perspectives. In the following, the rationale behind the introduction of IFRS 17, the core accounting principles of the standard, the correlations with transparency and ESG factors, as well as the challenges, opportunities and financial risks associated with the implementation process are analyzed. Each of these components contributes to a clearer picture of how IFRS 17 can support a sustainable transformation of the insurance sector.

Accounting fundamentals of IFRS 17 and financial sustainability

IFRS 17 introduces a completely new accounting framework for insurance contracts, based on the measurement of future obligations using a prospective model. It replaces historical approaches that allowed for inconsistent, often arbitrary, estimates. The new framework is built on four fundamental components:

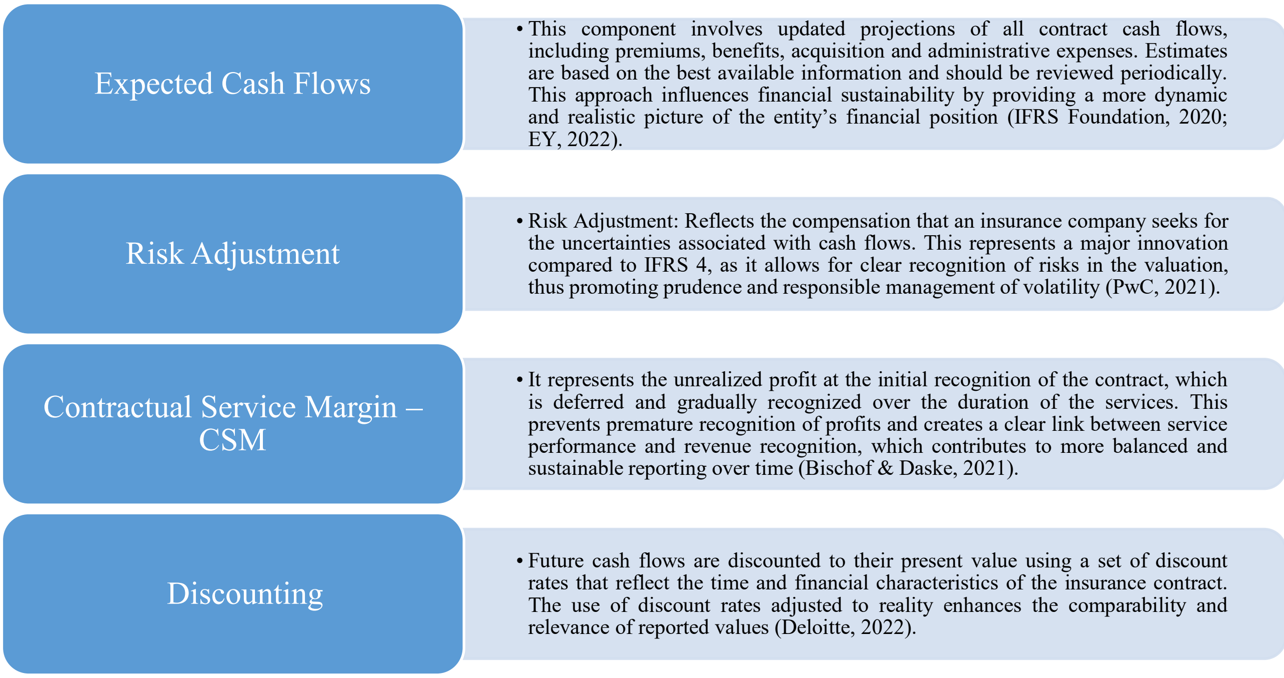

Figure 1. Fundamental components of IFRS 17

Source: Own processing based on IFRS Foundation, 2020; EY, 2022; PwC, 2021; Bischof & Daske, 2021; Deloitte, 2022.

In addition, IFRS 17 requires the grouping of contracts based on profitability and timing of issuance, which reduces the possibility of unjustified offsetting between profitable and unprofitable portfolios. This promotes transparency, better governance and performance control at the level of contract categories. To better understand how the structure of IFRS 17 supports financial sustainability in the insurance sector, the table below summarizes the main components of the standard and their specific contribution to more responsible reporting over the long term.

Table 1. Structural elements of IFRS 17 that support sustainability

IFRS 17 element	Description	Impact on sustainability
Estimating cash flows	Updated projection of inflows and outflows over the contract period	Ensures a realistic long-term image
Risk adjustment	Reflects uncertainty surrounding cash flows	Promotes caution in taking risks

IFRS 17 element	Description	Impact on sustainability
Contractual Service Margin (CSM)	Unrealized profit recognized gradually	Prevents overestimation of initial profit
Discounting	Updating values based on time value	Increases the relevance and comparability of data
Grouping contracts	Classification by profitability and temporality criteria	Promotes transparency and loss control

Source: Own processing IFRS Foundation (2020), PwC (2021), Bischof & Daske (2021)

These fundamentals transform financial reporting into an active risk management and strategic planning tool. By properly implementing IFRS 17, insurance companies can improve their financial forecasting, manage capital more effectively, and demonstrate a commitment to good accounting and governance practices – all of which contribute to real and lasting financial sustainability (Willis Towers Watson, 2022; Nobes, 2022).

Governance, transparency and ESG under IFRS 17

With IFRS 17, reporting becomes more rigorous and based on clear principles. Companies must justify the actuarial methodologies and assumptions used, strengthening governance and transparency towards investors and authorities (Mazars, 2022). This transparency supports the integration of ESG criteria, as it allows for a better assessment of the social, environmental and governance risks impact on performance. Thus, IFRS 17 becomes a catalyst for sustainability, in an increasingly responsibility-oriented economic landscape (Willis Towers Watson, 2022). The implementation of IFRS 17 does not only represent a technical change in accounting, but contributes to the profound transformation of the way in which insurance companies approach corporate responsibility and transparency. This standard obliges entities to adopt detailed, realistic and explicit financial reporting, which has significant consequences for governance and for the way in which ESG (Environmental, Social, Governance) criteria are applied in economic activity. One of the main merits of IFRS 17 is that it requires the use of documented, validated and regularly updated assumptions in the calculation of insurance obligations. This requirement stimulates more efficient administration, as it implies a rigorous process of approval, monitoring and auditing of actuarial models. The risk committee and internal control functions become essential in ensuring the link between actuarial estimates, economic assumptions and management decisions (Mazars, 2022; EY, 2022). Transparency is reflected in the requirements for publishing information on the valuation methods, sources of uncertainty and assumptions used, which allows investors and other stakeholders to better understand the financial performance and sustainability of the entity. IFRS 17 eliminates the "opacity" generated by IFRS 4, in which accounting treatments were uneven and difficult to compare (Glaum et al., 2022). In the ESG context, this transparency has significant added value. Evaluating financial performance on a well-documented basis contributes to greater responsibility in capital allocation. In addition, the forward-looking approach of IFRS 17 facilitates the integration of climate and social risks into financial models, which allows the incorporation of risk scenarios related to energy transition, natural disasters or demographic changes (Willis Towers Watson, 2022; EIOPA, 2021). To support more rigorous and relevant reporting, IFRS 17 introduces a series of mechanisms that directly contribute to increasing transparency and accountability in the insurance sector. These mechanisms have important implications not only for the reliability of financial information, but also for the integration of ESG (Environmental, Social, Governance) principles. Figure 1 illustrates how the key requirements of IFRS 17 – such as justification of assumptions,forward-looking estimates and detailed reporting – correlate with ESG objectives, thus strengthening sustainability and stakeholder confidence in the performance of insurance companies.

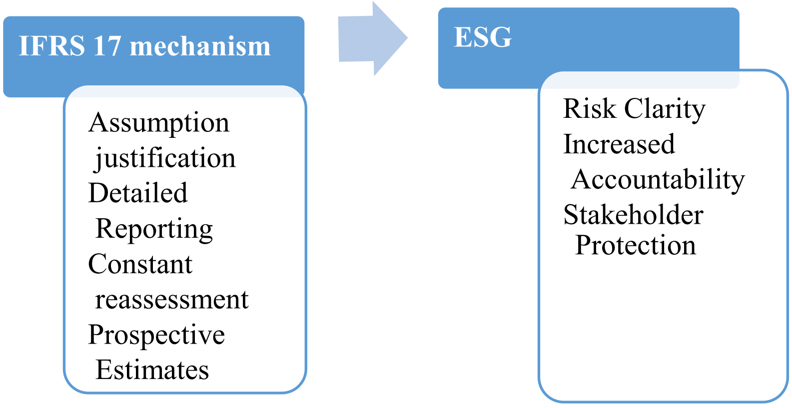

Figure 2. IFRS 17 transparency mechanisms and correlation with ESG
Source: Own processing after Mazars (2022), Glaum et al. (2022)

In the long term, improved governance under IFRS 17 can lead to a more accountable organizational culture where decisions are made based on transparent and rigorous data. This is essential not only to meet regulatory requirements, but also to attract investors who include ESG criteria in their decision-making.

Challenges and opportunities in the transition to IFRS 17

The transition to IFRS 17 is not without its challenges. Among the biggest challenges are the technical complexity, the need to recalibrate IT systems, and the training of employees in the new accounting and actuarial requirements (EY, 2022). At the same time, the new standard opens up important opportunities. These include increasing investor confidence, improving corporate governance, and adapting financial models to modern risk and return principles. The correct implementation of IFRS 17 can turn compliance with the standards into a competitive advantage (Accenture, 2021). Table 2 summarizes these challenges and opportunities, providing a clear picture of the dual impact of the implementation of IFRS 17 on the insurance industry.

Table 2. Challenges vs. Opportunities in the context of IFRS 17

Challenge	Opportunity
High implementation costs	Superior reporting quality
Technical complexity	Competitive advantage through transparency
The need for training and adaptation	Risk-oriented organizational culture
Reconfiguration of IT systems	Modernization of information infrastructure
Managing resistance to change	Alignment with international good practices

Source: Own processing based on Accenture (2021), Deloitte (2022) and KPMG (2020)

Financial risks associated with the implementation of IFRS 17

Although IFRS 17 requires greater transparency and consistency in financial reporting, the implementation process brings with it a number of financial risks that must be carefully managed. Among the most important risks are:

Volatility of financial results

The application of valuations based on periodically updated estimates may lead to significant fluctuations in reported profit, depending on economic assumptions (interest rates, inflation, mortality) (EIOPA, 2021; KPMG, 2020).

Modeling risk

The complexity of actuarial models used to estimate cash flows and risk adjustments can generate material errors, affecting the reliability of financial information (Nobes, 2022; PwC, 2021).

Risk of interpretation

External users may misinterpret the new reported figures, without a proper understanding of CSM and risk adjustments, affecting the assessment of the company's performance (Deloitte, 2022; EY, 2022).

Liquidity risk

Forward-looking estimates can change the timing of profit recognition, which can influence dividend distribution policies or cash flow planning (PwC, 2021; KPMG, 2020).

Figure 3. Main financial risks associated with the implementation of IFRS 17

Source: Own elaboration based on data from EIOPA (2021), KPMG (2020), PwC (2021), Deloitte (2022), EY (2022), Nobes (2022).

These risks can affect both the accuracy of reported information and the financial stability of insurance companies. Table 3 highlights the main categories of financial risk associated with IFRS 17, along with the recommended mitigation measures for each type of risk.

Table 3. Major financial risks in the context of IFRS 17

Risk type	Description	Mitigation measures
Volatility	Fluctuations in annual financial results	Establishing acceptable variation limits
modeling	Errors in actuarial projections	Periodic validation of models
Interpretation	Misperceptions of investors	Investor education and explanatory notes
Liquidity	Imbalances between the timing of income and payments	Rigorous financial planning

Source: Own elaboration based on EIOPA (2021), Nobes (2022)

Managing these risks involves close collaboration between finance, actuarial and risk management departments, as well as effective communication with stakeholders. Thus, the application of IFRS 17 becomes not just an accounting exercise, but also a test of financial and strategic maturity.

3. Conclusions

IFRS 17 is more than an accounting reform, it is a strategic step towards a more sustainable insurance industry. Through a forward-looking, realistic and transparent approach, the standard provides the necessary tools to effectively manage risks, increase market confidence and integrate ESG objectives. Companies that rigorously adopt IFRS 17 can enjoy a stronger competitive positioning and a better relationship with investors and stakeholders. In the long term, IFRS 17 facilitates better capital allocation and a more responsible approach to risks. By promoting transparency and sound accounting practices, this standard becomes a valuable tool in supporting financial stability and confidence in the insurance sector.

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