IFRS 4

INSURANCE CONTRACT

*IFRS 4 Will be **superseded by IFRS 17 from 2021**.*

IFRS 4 specifies financial reporting for insurance contracts by any entity that issues such contracts and has not yet applied IFRS 17.

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.

IFRS 4 **applies** to **all insurance contracts (including reinsurance contracts**) that an entity issues (insurance company) and to reinsurance contracts that it holds.

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.**

Financial guarantee contracts are **not** covered under this IFRS and is covered under IFRS 39.

Reinsurance contract is known as insurance for insurers. Its a practice whereby insurers transfer portions of their risk portfolios to other parties by some form of agreement to reduce the likelihood of paying a large obligation resulting from an insurance claim.
The party that diversifies its insurance portfolio is know as the **ceding party** and the party that accepts a portion of the potential obligation in exchange for a share of the insurance premium is known as the **reinsurer**.

Insurance liabilities should not be offset against related reinsurance assets.

IFRS 4 **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 adequacy** of recognised insurance liabilities and an **impairment test** for reinsurance assets at the end of each reporting period; and

Requires an insurer to **keep insurance liabilities** in its statement of financial position **until** they are discharged or cancelled or expire.

Insurance liability adequacy test is an assessment of whether the carrying amount of an insurance liability needs to be increased or decreased based on the current estimates of future cash flows relating to future claims arising under the insurance contract. If liability is inadequate, the entire deficiency shall be recognised in P&L.

A **reinsurance asset is impaired** if there is evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the cedant may not receive all amounts due to it from the reinsurer under the contract.
if asset is impaired, cedant shall reduce its carrying amount accordingly and recognise the impairment loss in the P&L.

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