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IFRS 18: The new dress code for insurance financial reporting

In the world of fashion, fundamental dress codes are developed, evolve season after season and are refreshed to reflect consumer demands and expectations. Financial reporting is no different. The International Accounting Standards Board (IASB) introduced *IFRS 18 Presentation and Disclosure in Financial Statements* (IFRS 18), the latest style change for insurers since the issue of *IFRS 17 Insurance Contracts* (IFRS 17). With it being effective for annual reporting periods beginning on or after 1 January 2027, IFRS 18 presents a significant step towards modernising how companies communicate financial performance in response to investor demands. Even though insurers have largely recovered from the IFRS 17 wardrobe overhaul, effort will be required for yet another dress code implementation.

The old dress code and the need for a new one

For many years, the old dress code, *IAS 1 Presentation of Financial Statements* (IAS 1), provided the foundation for the presentation of financial information under IFRS® Accounting Standards (IFRS Accounting Standards). IAS 1 established the principles governing the structure, content and presentation of financial statements across reporting entities. It also provided companies with certain flexibility in designing their income statements resulting in financial statements that often looked different for each company.

IFRS 18 seeks to provide a runway for enhanced comparability. While the underlying fabric of financial reporting remains intact, such as the measurement of assets, liabilities, income and expenses, the presentation, structure and disclosure requirements have been redesigned or improved for more consistency, comparability and transparency¹. This is “*in response to a strong demand from stakeholders, particularly from users of the financial statements*”².

The new dress code for insurers

For insurers, IFRS 18 arrives at a pivotal moment. Following the recent extensive transformation introduced by IFRS 17, many insurers redesigned reporting systems, strengthened governance frameworks and enhanced financial disclosure processes. This was an exhausting, made-to-measure and largely *haute couture* (custom made/entity specific) process.

The key question many stakeholders will ask is if this level of effort will be required again for IFRS 18 implementation. The answer is: *to some extent*.

While IFRS 17 determined the fabric of insurance accounting, IFRS 18 determines how the finished outfit is assembled and presented as it introduces new presentation and disclosure requirements. Even though it works alongside IFRS 17, IFRS 18 comes with its very own dress code and should not be seen as a *prêt-à-porter* (ready to wear) implementation exercise. Insurers may be able to leverage the foundations established during IFRS 17 implementation, however, a refresh of the financial reporting wardrobe is necessary:

	a contemporary silhouette: a redesigned income statement
	updated tailoring: consideration of specified main business activities (SMBAs)
	additional hems: new income statement categories
	more pleats: enhanced presentation and disclosure of operating expenses
	updated labels: introduction of management-defined performance measures (MPMs)
	new textiles: improved aggregation and disaggregation of financial information
	renovated ateliers (workshop/studio): financial reporting teams, processes and systems required to stitch it all together

¹ <https://assets.kpmg.com/content/dam/kpmgsites/xx/pdf/ifrg/2024/isg-first-impressions-presentation-and-disclosure-ifs-18.pdf>

² IFRS18.BC2

Key changes

While IFRS 18 does not change the recognition and measurement requirements of existing IFRS Accounting Standards, it introduces significant changes to the presentation and disclosure of financial information. Consequently, entities will need to reassess the structure and content of their financial statements across three key areas:

1. Primary financial statements and notes

The most significant changes that relate to the income statement include:

the classification of income and expenses into the operating, investing and financing categories

the introduction of new mandatory subtotals

enhanced requirements in respect of the presentation and analysis of operating expenses

Comparatively, IFRS 18 implementation will have a limited impact on the statement of financial position and only some classification changes in the statement of cash flows.

2. Notes to the financial statements

IFRS 18 introduces new disclosure requirements for MPMs, providing increased transparency over metrics used by management to communicate performance.

In addition, entities will be required to provide additional detailed information regarding operating expenses and their nature.

3. Other presentation and disclosure requirements and principles

The following requirements have been included:

Enhanced principles relating to the aggregation and disaggregation of financial information;

Guidance on the labelling and presentation of financial information; and

More clearly defined roles of the primary financial statements and accompanying notes to guide entities when making decisions about where to provide material information.

We explore each element of this refreshed financial reporting wardrobe in more detail below.





A contemporary silhouette: the new look and feel of the income statement

One of the key focus areas of the new dress code is the income statement. The new income statement is not intended to impose a rigid template, but it provides a more disciplined silhouette. IFRS 18 provides an illustrative example specific to an insurer, set out under IFRS 18.IE12.

The new look of an insurer's income statement consists of three new categories, being operating, investing and financing categories. These categories are differently defined from operating, investing and financing activities prescribed by *IAS 7 Statement of Cash Flows* (IAS 7). The IASB noted that the statement of cash flows and the income statement have different purposes and that alignment would not necessarily aid or enhance financial statements users' understanding of either statement³.

IFRS 18 also introduces the presentation of two new subtotals, being operating profit and profit before financing and income taxes. It is important to note that this is an example silhouette and precise line items used by each insurer will depend on materiality and what is necessary to provide a useful and structured summary. The new required categories and subtotals enable greater comparability among entities.



Updated tailoring: SMBAs

One of the most important concepts introduced by the new dress code is the consideration of main business activities and whether these are SMBAs. Under IFRS 18 the identification of an entity's main business activities is not as straightforward as the standard does not provide a prescriptive definition. IFRS 18 does not require entities to determine whether each business activity is a main business activity, rather it requires an entity to assess whether investing in assets and/or providing financing to customers is a main business activity.

We believe main business activities can be seen as activities that are central to how an entity generates value and returns. For an insurer, the main business activities, being the provision of insurance services, are relatively clear and easy to identify. Other business activities are generally classified within the operating category regardless of whether they are considered main business activities if they do not fall within the investing or financing categories.

SMBAs are described in IFRS 18: some companies generate their core profit from investing in assets or by providing financing to customers. This assessment is central in applying the requirements of IFRS 18.

The classification of certain income and expenses items depends on whether an entity has an SMBA of investing in assets or providing financing to customers. For many insurers, investment activities are not merely support functions. The generation of investment income is integral to meeting policyholder obligations, with asset and liability management forming part of the core outfit of an insurer. As a result, income and expenses that would ordinarily be classified in the investing category for other businesses, may require updated tailoring and be classified as part of the operating category for insurers that conclude that investing in assets is a specified main business activity. This assessment must be supported by appropriate evidence demonstrating that investment activities form a significant part of the insurer's business model.

Insurers must evaluate the nature of their assets, in order to assess whether it invests in other assets that generate returns individually and largely independently of other resources.

In addition, some insurers may need to assess whether providing financing to customers constitutes an SMBA. This consideration is particularly relevant for insurers that issue loans outside the scope of IFRS 17, where lending activities may contribute a significant portion to an insurer's core outfit.

³ Presentation and disclosure – IFRS 18 (<https://assets.kpmg.com/content/dam/kpmgsites/xx/pdf/ifrg/2024/isg-first-impressions-presentation-and-disclosure-ifs-18.pdf>)

The new dress code is explicit: this assessment is based on evidence and is a matter of fact, not merely a management assertion. Examples of relevant evidence that a main business activity is an SMBA includes when an entity uses a measure which is a subtotal similar to gross profit, such as net interest income, net fee and commission income or insurance service result, as an important indicator to explain operating performance externally, or to assess or monitor operating performance internally.

IFRS 18 explicitly states that information about segments may provide evidence that investing in assets or providing financing to customers is an SBMA in terms of *IFRS 8 Operating Segments*.

The insurer must disclose the fact that it has one or both SMBAs. This assessment is performed at the reporting entity level, meaning that the conclusion reached by a consolidated insurance group may differ from that of an individual subsidiary or the separate financial statements of a parent company.



Additional items: new income statement categories

Operating category

The purpose of the operating category is to provide a complete view of an insurer's primary operations. The operating category includes three types of income and expenses:

- 1 All income and expenses relating to an entity's main business activities, whether core or incidental to operations.
- 2 All income and expenses not classified as investing, financing, income taxes or discontinued operations. It is not limited to recurring or "core" items. Volatile or non-recurring items are classified in the operating category when they do not meet the requirements of another category.
- 3 An insurer with one or both SMBAs, i.e. investing in assets and providing financing to customers, classifies the related income and expenses in the operating category, instead of in the investing or financing category.

The following considerations are expected to impact insurance companies:

- The operating category includes the insurance service result, investment returns from assets invested as an SMBA and related credit impairment losses, and (re)insurance finance income or expenses recognised in profit or loss.
- Interest income earned from loans to customers and interest expenses incurred on liabilities that relate to providing financing to customers, should be classified in the operating category when an insurer has an SMBA of providing financing to customers.
- Foreign exchange transactions recognised in respect of insurance contract transactions shall be classified in the operating category, i.e. in the same category as income and expenses from the items that gave rise to the foreign exchange differences. Judgement may be required when classifying foreign exchange differences from other liabilities that arise from transactions that do not involve only the raising of finance, either in the financing or the operating category.

Investing category

Insurers generally hold investments as an SMBA and income and expenses from those investments are classified in the operating category. As a result, the investing category may include income and expenses from investments that do not form part of the entity's main business activities, i.e. other assets that generate returns individually and largely independent of the insurer's other resources.

The exception lies with investments accounted for using the equity method. The income and expenses from these investments are classified in the investing category, even when the investment forms part of an insurer's main business activities.

As with any new reporting season, the introduction of a new dress code inevitably brings areas of uncertainty and interpretation. IFRS 18 is no exception. While the standard seeks to introduce consistent and transparent presentation of financial performance, several application matters remain the subject of ongoing discussion within the insurance industry. One area of particular focus is the treatment and classification of assets held to meet regulatory requirements. Given the unique regulatory environment in which insurers operate, determining whether income and expenses arising from these assets should be classified within the operating or investing category requires careful consideration.

Assets held to meet regulatory requirements can be viewed as being key to the operations of an insurer (an SMBA of investing in assets), as an insurer cannot operate without meeting these requirements. As such, income and expenses arising from these assets should be classified in the operating category.

Other viewpoints note that regulatory requirements alone are not determinative of classification. Under IFRS 18 an assessment should be performed either on an asset-by-asset basis or by reviewing groups or classes of financial instruments as per *IFRS 7 Financial Instruments: Disclosures* (IFRS 7) (IFRS 7.6 and B1 - B3). It was argued that, where classes of financial instruments are used, the income and expenses relating to the entire class will be classified in the operating category, therefore not separating the classification of investments held to meet regulatory requirements.

As practice evolves and further guidance emerges, insurers will need to exercise judgement and ensure that their conclusions are supported by the underlying principles of IFRS 18.

Financing category

For liabilities arising solely from raising finance, the financing category includes income and expenses from initial and subsequent measurement of financial liabilities, derecognition and directly attributable issue or settling costs. For other liabilities, i.e. liabilities arising from transactions that do not involve only the raising of finance, this category includes separately identified interest effects and the effects of changes in interest rates, such as interest on lease and defined benefit pension liabilities.

(Re)insurance finance income and expenses related to IFRS 17 are excluded from the financing category and classified in the operating category.

If the insurer also provides financing to customers as a main business activity, an accounting policy choice applies to the liabilities and cash and cash equivalents that do not relate to providing financing to customers: income and expenses could be recognised either in the operating or financing category.



More pleats: enhanced presentation and disclosure of operating expenses

IFRS 18 requires operating expenses to be presented in a manner that provides a useful and structured summary, either by nature, function or both. The analysis of operating expenses is now explicitly required on the face of the income statement within the operating category.

The option to only disclose this analysis in the notes to the financial statements has been removed from IFRS 18. An insurer might therefore present some expenses by function, for example insurance service expenses, while presenting other expenses by nature, such as employee benefits or impairment losses. The presentation decision should reflect the main drivers of profitability, the entity's internal management and reporting practices, standard industry practice and whether allocations to functions would be arbitrary. Each individual expense line item within the operating category must, however, be aggregated, either by nature or function. Importantly, a mix of both approaches must not be applied within the same operating expense line item.

If an insurer presents one or more operating expense line items by function, it must:

- qualitatively describe the nature of expenses included in each function line item; and
- provide a single note, in addition to the disclosure required by IFRS 17, explaining insurance service expenses as it is considered a by-function presentation. This note should disclose the totals for the following operating expenses by nature: depreciation, amortisation, employee benefits, impairment losses and reversals, and inventory write-downs and reversals. For these totals, disclose the amounts included in the operating category and items outside the operating category. The aforementioned expense disclosure will include the operating expenses by nature that have been included in the insurance services expense line item.

Determining how expenses embedded in insurance service expenses can be extracted and mapped to the required nature categories may require changes to systems and the chart of accounts.



Updated labels: MPMs

Certain performance measures used in public communications now need to be disclosed within the audited financial statements if they meet the definition of an MPM. IFRS 18 does not require every alternative performance measure used by management to be disclosed. Instead, the standard focuses specifically on performance measures derived from subtotals of income and expenses that communicate management's view of an aspect of the financial performance of the entity as a whole, and that are not otherwise specified by IFRS Accounting Standards or listed as required or commonly used subtotals in IFRS 18.

For insurers, potential MPMs may include measures such as adjusted operating profit, normalised earnings, underlying earnings or other internally generated profit subtotals, depending on how those measures are calculated and communicated externally. A subtotal that meets the definition of an MPM remains an MPM irrespective of whether it is presented on the face of the statement of profit or loss.

When assessing whether a measure is an MPM, it is important to remember that IFRS 18 limits the identification of MPMs to being those derived from subtotals of income and expenses. In accordance with IFRS 18.B116, performance measures that are not derived from subtotals of income and expenses are not MPMs. These include assets, liabilities, equity measures, measures of liquidity or cash flows, non-financial performance measures and financial ratios.

Accordingly, common insurance measures such as gross written premium, new business CSM, embedded value, comprehensive equity, solvency coverage ratios and other balance-sheet-based indicators are not MPMs because they are not derived from subtotals of income and expenses. Similarly, cash flow metrics and capital management measures fall outside the scope of the MPM disclosure requirements.

Careful consideration should be exercised when assessing ratios. IFRS 18.B117 clarifies that a financial ratio is itself not an MPM because a ratio is not a subtotal of income and expenses. However, a numerator or denominator of a ratio derived from a subtotal of income and expenses may itself meet the definition of an MPM when considered separately. For example, a ratio incorporating an "adjusted operating profit" measure does not make the ratio an MPM, but the adjusted operating profit subtotal may be subject to the MPM disclosure requirements of IFRS 18.

As a result, insurers should carefully evaluate which performance measures used in investor presentations, analyst briefings and other public communications constitute subtotals of income and expenses, rather than assuming that all alternative performance measures, key performance indicators or ratios will be MPMs under IFRS 18.



New textiles: enhanced aggregation and disaggregation of financial information

For insurers, some of the concepts of aggregation and disaggregation will already be familiar. IFRS 17 introduced extensive requirements to identify portfolios of insurance contracts, groups contracts based on profitability and risk characteristics and provides detailed reconciliations of insurance contract balances based on the aggregation required by IFRS 17.

In practice, many insurers have already significantly enhanced the granularity of information available to users of financial statements through disclosures required by IFRS 17 relating to insurance revenue, insurance service expenses, reinsurance contracts held, claims development information, the contractual service margin and insurance finance income or expenses. As a result, insurers may find themselves better positioned when implementing the IFRS 18 aggregation and disaggregation principles. However, IFRS 18 extends beyond insurance contract balances and disclosures governed by IFRS 17. Insurers will need to consider aggregation and disaggregation across the entirety of their financial statements, including areas not directly addressed by IFRS 17. Companies must carefully consider to what extent financial information is aggregated and whether material information may be obscured by excessive aggregation. IFRS 18 introduces explicit principles requiring companies to aggregate items with shared characteristics and disaggregate items with dissimilar characteristics.

The objective is to provide useful and structured summaries in the primary financial statements and supporting detail in the notes, without obscuring information. Companies will need to reconsider whether material items may inadvertently be hidden as part of the broader categories disclosed, such as other operating expenses, other income or other assets. If a line item is labelled as "other", the label must be updated to be descriptive and informative.

Where a material total "other" balance consists only of individually immaterial items, an entity may need to provide further explanatory information for users of the financial statements to reasonably understand whether the balance contains material information. These requirements are likely to result in more informative labels, greater disaggregation in the notes and closer links between primary statement line items and note disclosures.

Insurers typically hold substantial investment portfolios under IFRS 9, including debt securities, equity instruments and loans and deposits. Material differences in risk characteristics, measurement bases or sources of return warrant separate presentation and/or disclosure under IFRS 7. Similarly, IFRS 18 introduces a similar concept to be applied to other balances such as receivables, property, plant and equipment, intangible assets, lease liabilities, employee benefit obligations and tax balances, which should be assessed to determine whether further disaggregation would provide users of financial statements with more useful information.

Ultimately, while IFRS 17 established a foundation for extensive insurance-specific disaggregation, IFRS 18 broadens the focus to the financial statements as a whole. Insurers will therefore need to assess not only the presentation of insurance contract information, but also the aggregation and disaggregation of investment, financing and other operating information, ensuring that material information is communicated in a clear, transparent and decision-useful manner.



Other changes that apply to the primary financial statements

Although the income statement is the primary focus of change undergoing the greatest makeover, IFRS 18 introduces broader implications across financial reporting:

- Statement of cash flows:
 - Operating profit becomes the required starting point for the indirect method.
 - Dividends paid are classified as financing cash flows.
 - The classification of interest and dividends received and interest paid is categorised in the same way as the related income and expenses are classified under IFRS 18, with each type of cash flow classified in a single category. This means that insurers with an SMBA of providing financing to customers and/or investing in assets will classify related income and expenses in the operating activity category in the cash flow statement.
- Statement of financial position: goodwill is presented separately from other intangible assets.

- Additional earnings per share (EPS) measures: entities may disclose additional earnings per share measures in addition to basic and diluted EPS. For such measures, the numerator must be a total or subtotal or an MPM. Additional earnings per share measures must be disclosed in the notes to the financial statements and should not be presented on the face of the primary financial statements.
- Comparatives and transition: IFRS 18 is applied retrospectively. In the first year of implementation, the insurer is required to reconcile each comparative income statement line item under IFRS 18 to the amounts previously presented under IAS 1. Similar reconciliation requirements apply to comparative interim periods in the first year of implementation.



Renovated ateliers: impacts beyond the technical

While IFRS 18 introduces a new dress code for financial reporting, implementation extends far beyond updating the presentation of the financial statements. As insurers renovate their reporting ateliers to comply with IFRS 18, several practical challenges may emerge:

Identifying and defining MPMs and ensuring consistent application of judgements across the organisation may require significant analysis and governance oversight.

Existing finance systems may not currently capture all the information necessary to support the new presentation and disclosure requirements, necessitating system enhancements and process redesign.

The requirement for comparative information and additional disclosures may increase the demand on finance teams during transition.

Ongoing industry discussions on application matters mean that entities may need to remain agile and revisit implementation decisions as practice evolves.



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Early planning, robust project management and continuous stakeholder engagement will therefore be critical to achieving a seamless transition to the new reporting standard. Successful adoption will also require early engagement with boards, audit committees, investor communities and auditors to communicate key changes and manage expectations.

Ultimately, IFRS 18 readiness is as much a business transformation initiative as an accounting exercise, requiring coordinated changes across accounting, systems, controls, governance and stakeholder communication to ensure a seamless transition.

Conclusion

Insurers must not underestimate the effort required in implementing the new dress code to be insurance runway ready.

IFRS 18 does not change the underlying economics of an insurance business, but it may change how those economics are communicated. The new dress code introduces a more consistent silhouette for the income statement, places greater discipline around management's performance measures and demands clearer labelling and disaggregation. Much like a carefully curated collection, financial reporting is not only about the quality of the individual garments, but also about how the entire wardrobe comes together to tell a coherent story.

Those who view IFRS 18 solely as a financial statement formatting exercise may miss the broader opportunity. Those who approach it as a communication, data and reporting transformation project will be better positioned to present a financial statement collection that is coherent, credible and aligned with management's narrative.

Ultimately, **presence with purpose** is at the heart of the new dress code. Every category, subtotal, label and disclosure should serve a purpose in helping users of financial statements understand the entity's performance. Just as every stitch, fabric and silhouette contributes to a successful collection, every line item and disclosure contribute to the overall financial reporting story. IFRS 18 challenges insurers not only to comply with a new dress code, but to ensure that their results are presented with clarity, consistency and purpose.

The question is no longer whether your reporting outfit merely complies with the dress code. It is about how well you present your financial performance to the market. The ultimate objective is not style for style's sake, but clearer, more meaningful communication. The best dressed insurers will be those who combine technical excellence with storytelling that enables stakeholders to see the full picture.

