

## Article

# Analyzing the Impact of IFRS 17 Implementation on the Statement of Financial Position: A Case Study of Uzbekinvest JSC

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**Abstract:** This article analyzes the impact of IFRS 17 implementation on the statement of financial position of Uzbekinvest JSC based on the company's financial statements for 2022–2025. The research examines changes in the recognition, classification, and presentation of major asset and liability items, with particular attention to insurance contract assets and liabilities, reinsurance contract assets and liabilities, bank deposits, and investment assets. Comparative and structural analysis methods are applied to identify changes in the composition of the insurer's financial position. The findings show that IFRS 17 has substantially changed the presentation of insurance-related balances and improved the transparency and comparability of financial information.

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**Keywords:** IFRS17, Financial Position, Insurance Contracts, Liabilities, Equity, Contractual Service Margin

## 1. Introduction

In the modern financial world, amidst the rapid growth of the insurance sector, the management and modernization of the insurance market as well as the implementation of economic and financial standards take into account the prevailing level of state supervision. Introduction. In the modern financial world, amidst the rapid growth of the insurance sector, the management and modernization of the insurance market as well as the implementation of economic and financial standards take into account the prevailing level of state supervision.

In 2017, the International Accounting Standards Board developed IFRS 17 "Insurance Contracts," which was implemented starting January 1, 2023. It took ten years to develop a common standard for the insurance sector—an industry characterized by risk. At the time IFRS 17 was issued in 2017, the insurance sector represented a significant portion of the global economy; with assets totaling 13 trillion US dollars, the sector accounted for 12 percent of the total assets of stock exchange-listed companies that apply IFRS[1].

Accounting and financial reporting in insurance organizations possess unique characteristics that differ fundamentally from those of standard business entities. Typically, insurance organizations generate revenue in the form of premiums collected from policyholders before incurring expenses; reserves are then established from these premiums, and insurance indemnities are paid to the policyholder (representing the actual expense) only if an insured event occurs[2]. Insurance organizations also generate income

by investing their insurance reserves. These distinctive features cause certain items in their financial statements to differ from those found in the financial statements of general business entities[3].

For insurance organizations, financial reporting serves as a "menu" that informs shareholders, investors, clients, and rating agencies about the company's financial independence and stability. A group of scholars led by De Franco defined financial reporting as follows: "...financial statements are the primary means for an enterprise to disclose quantitative information, reflecting an accounting system that transforms economic events into accounting indicators[4]." However, in our view, this definition does not fully capture all the specific characteristics of financial reporting in insurance organizations. We consider it appropriate to propose the following definition: Financial reporting in insurance organizations is the process of converting accounting figures which represent economic events arising from insurance and reinsurance contracts into reporting line items, thereby providing internal and external users with a unified, comprehensive set of data regarding the organization's assets, liabilities, capital and reserves, and financial results[5].

According to a group of scholars led by I. Ochilov, the primary objective of accounting in an insurance organization as in any other organization is to provide users with timely, complete, and accurate financial and other accounting information[6].

In the view of R. Kholbekov, accounting data serves as a source for making management decisions and conducting audits regarding individual enterprises, organizations, and institutions, as well as groups of enterprises within a specific company[7].

Ralph S. Blanchard, meanwhile, examines based on U.S. legislation and practical data issues such as the accounting of losses and loss adjustment expenses, reinsurance accounting, the impact of reinsurance on insurers' financial statements, and reserve accounting[8].

Furthermore, F. Temirov recommends a novel approach to accounting in insurance organizations—specifically, organizing it in a way that takes the organizations' unique characteristics into account without deviating from statutory regulations[9].

## **2. Materials and Method**

Logical reasoning, observation, generalization, vertical, horizontal, and trend analysis, as well as financial ratio methods, were employed in the preparation of this article. Additionally, financial statement data were used for the analysis because information regarding the initial values of indicators such as the contractual service margin and non-financial risk was unavailable.

## **3. Results**

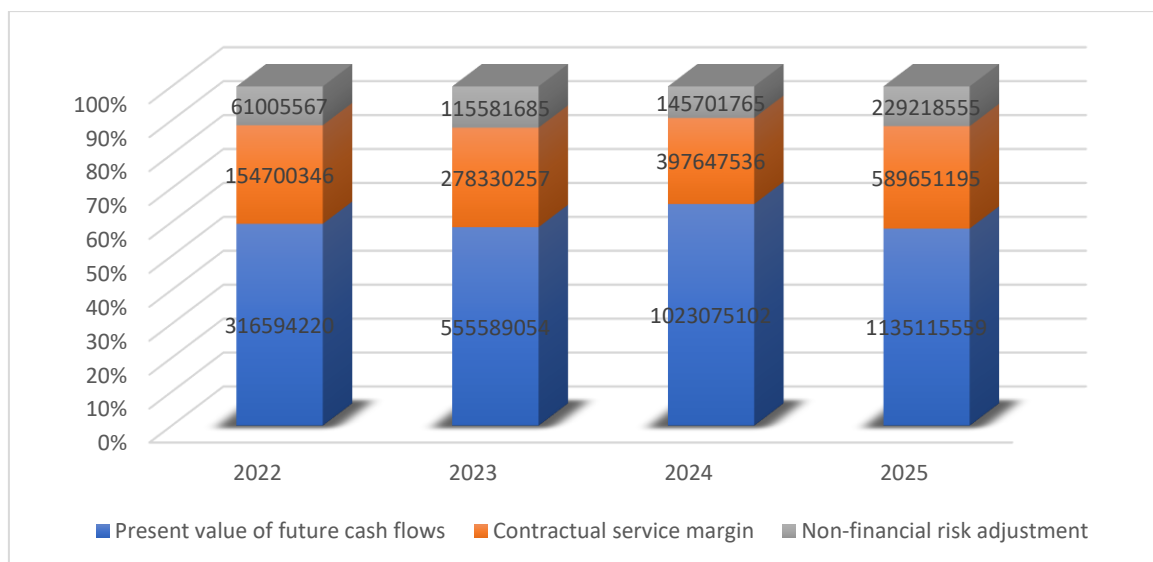
Preparing financial statements in accordance with IFRS 17 goes beyond merely adding new line items; it introduces a new methodology for calculating insurance liabilities incorporating components such as the current discounted value of cash flows, adjustments for non-financial risk, and the contractual service margin which significantly impacts not only the liabilities reported in the statement of financial position but also the figures for assets and equity[10].

Table 1. Obligations under insurance contracts are divided into two components. The first is the liability for the remaining coverage period an obligation relating to the remaining coverage period of the insurance contract which consists of the sum of cash flows related to future services and the contractual margin. The second is the liability for incurred insurance claims an obligation to make payments resulting from insurance events that have already occurred[11].

**Table 1.** Conceptualization of the formation of insurance obligations

| Under national legislation                                                                            | Regarding IFRS 17                                                                                                                                      |
|-------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|
| An insurance contract is concluded                                                                    | Insurance contracts are recognized                                                                                                                     |
| Payment for the insurance premium is accepted                                                         | Insurance contracts are grouped into portfolios based on risk and the ability to manage them jointly, and into portfolio cohorts based on time periods |
| The insurance contract enters into force                                                              | Cash flows for future services are calculated                                                                                                          |
| Appropriate insurance reserves are established based on the insurance premiums received               | The present value of cash flows, the adjustment for non-financial risk, and the contractual margin are determined                                      |
| If an insured event occurs, the insurance indemnity is paid, and insurance reserves are recalculated. | Liabilities for the remaining coverage period and liabilities for incurred insurance claims are established                                            |

From the table above, it can be concluded that the concept of the "entry into force of an insurance contract" in national insurance legislation corresponds to the concept of "recognition of insurance contracts" in the international arena; furthermore, while in national accounting insurance premiums are converted into insurance reserves and reported as a separate balance sheet liability item, international practice defines insurance contract liabilities as comprising the contractual service margin, the adjustment for non-financial risk, the present value of future cash flows, and liabilities for incurred insurance claims. During the Figure 1. process of transforming financial statements to IFRS 17, these reserves are reclassified into the contractual service margin, the adjustment for non-financial risk, the present value of future cash flows, and liabilities for incurred insurance claims, respectively.



**Figure 1.** Dynamics of the insurance organization's liabilities regarding the remaining coverage period for 2022–2025: The case of the “O’ZBEKINVEST” Export-Import Insurance Company[12].

The data presented in the figure above illustrates the trends in the contractual service margin, non-financial risk, and the present value of future cash flows for the “Uzbekinvest” export-import insurance company over a four-year period. All indicators

showed positive growth, which favorably impacts the company's financial stability; this is because the contractual service margin while currently part of liabilities represents profit yet to be realized, which is gradually recognized as revenue over the service period of the contract. This figure rose from 154,700,346 UZS in 2022 to 589,651,195 UZS by 2025. Growth was also observed in non-financial risk and the present value of future cash flows, reaching 168,212,988 UZS and 818,521,339 UZS, respectively. Table 2. Consequently, this situation can be viewed positively; notably, while the 2023 financial statements were prepared in accordance with IFRS 17 requirements, it is difficult to attribute the growth of these specific indicators directly to the new standard.

**Table 2.** Analysis of the insurance organization's financial ratios for the 2022–2025 period: The case of the “O’ZBEKINVEST” Export-Import Insurance Company [13]

| Indicators                   | 2022 | 2023 | 2024 | 2025 | Change from 2022 to 2025 |
|------------------------------|------|------|------|------|--------------------------|
| Financial independence ratio | 0,53 | 0,48 | 0,37 | 0,32 | -0,66%                   |
| Debt-to-equity ratio         | 0,88 | 1,08 | 1,68 | 2,12 | 0,58%                    |
| Return on Assets (ROA) ratio | 0,2  | 3,1  | 2,5  | 2,08 | 0,90%                    |
| Return on Equity (ROE) ratio | 0,39 | 6,58 | 6,7  | 6,5  | 0,94%                    |

Data from the provided table indicates that certain financial indicators showed significant growth between 2022 and 2025; for instance, Return on Assets (ROA) rose notably throughout the analysis period, while Return on Equity (ROE) increased sharply a trend attributable to the growth in net profit. However, despite the increase in the value of equity, the financial independence ratio declined. This was caused by the fact that the growth of liabilities outpaced the growth of equity: while in 2022 there were 0.88 soums of liabilities for every 1 soum of equity, by 2025 this figure had reached 2.08 soums.

#### 4. Discussion

It is natural to ask to what extent the introduction of IFRS 17 which aims to enhance the transparency of insurance companies' financial reporting has actually improved that transparency within Uzbekistan's insurance market. We will address this question by analyzing the impact of IFRS 17 on financial reporting formats. First of all, insurance organizations in Uzbekistan obtain financial statements prepared in accordance with IFRS 17 by transforming their financial statements originally prepared under National Accounting Standards (NAS) into the international standard. This raises the question: what changes occur during the transformation from NAS to IFRS 17. First, when the balance sheet is converted into the statement of financial position, the following reclassifications of assets and liabilities are observed:

1. Assets under insurance contracts;
2. Liabilities under insurance contracts;
3. Assets under reinsurance contracts;
4. Liabilities under reinsurance contracts[14];

Under current national legislation, the practice of presenting assets and liabilities related to insurance and reinsurance activities on a net basis in the accounting records of insurance organizations hinders a full and transparent reflection of their financial position. For instance, a liability under an insurance contract represents the insurance organization's obligation, whereas an asset under a reinsurance contract represents an economic benefit expected from the reinsurer. Given these factors, it is necessary to classify these indicators separately, as the distinct classification of assets and liabilities associated with insurance

and reinsurance contracts enables a transparent and open assessment. In our view, to align national standards with international standards, it is advisable to implement the following classification for assets, equity, and liabilities:

Assets:

1. Assets related to issued insurance contract portfolios;
2. Assets related to held reinsurance contract portfolios;
3. Property, plant and equipment and intangible assets;
4. Financial assets and investments;
5. Cash and cash equivalents;
6. Accounts receivable;
7. Other assets;

Equity:

1. Share capital;
2. Additional capital;
3. Reserve capital and other earmarked funds;
4. Retained earnings;

Liabilities:

1. Liabilities related to issued insurance contract portfolios;
2. Liabilities related to held reinsurance contract portfolios;
3. Accounts payable;
4. Tax liabilities;
5. Other liabilities;

However, insurance companies utilize not only IFRS 17 but also several other standards in their operations. In certain instances, an insurance contract comprises two distinct components: an insurance component and an investment component. In such cases, IFRS 17 may be applied to the insurance component, while IFRS 9 applies to the investment component.[15]

## 5. Conclusion

An analysis of financial statements leads to the conclusion that the implementation of IFRS 17 has resulted in significant changes to financial reporting metrics. The impact of the new standard is clearly evident when analyzing financial ratios. IFRS 17 is also noted for its complex models for valuing insurance liabilities; under this standard, insurance reserves (as defined in national accounting) are subsumed into the category of insurance contract liabilities, resulting in an increase in liabilities and, consequently, an increase in total assets. However, given the equation  $\text{Equity} = \text{Assets} - \text{Liabilities}$ , this rise in liabilities could potentially lead to a future reduction in the volume of equity. Furthermore, this implies an inverse relationship between equity and the contract margin; specifically, an increase in the contract margin impacts the level of equity. In such a situation, we believe the most appropriate approach is to utilize suitable valuation models and transformation methods for the values of equity capital and the contractual margin.

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