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Article

Occurrence of Liabilities in Insurance organizations, Recognition Criteria, and Stages of Accounting Treatment Under IFRS 9, 39, 32, and 7

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Abstract: This paper examines the occurrence, recognition, and accounting treatment of liabilities in insurance organizations in accordance with IFRS 9, IAS 39, IAS 32, and IFRS 7. It analyzes the conceptual framework of financial liabilities, disclosure requirements, and measurement approaches, with emphasis on financial instruments used in insurance operations. The study synthesizes regulatory requirements and proposes a structured accounting workflow for liabilities recognition and reporting. The findings highlight the importance of classification, measurement, and disclosure in ensuring transparency and compliance with international financial reporting standards.

Keywords: insurance liabilities, IFRS 9, IAS 39, IAS 32, IFRS 7, financial instruments, recognition, measurement, disclosure

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1. Introduction

Insurance organizations operate with complex financial structures involving contractual obligations, policyholder liabilities, and financial instruments. Proper accounting for liabilities is critical to ensure transparency, solvency assessment, and regulatory compliance.

International Financial Reporting Standards (IFRS), particularly [1], [2], [3], [4]:

IFRS 9 – Financial Instruments

IAS 39 – Financial Instruments: Recognition and Measurement (legacy but still referenced in some contexts)

IAS 32 – Financial Instruments: Presentation

IFRS 7 – Financial Instruments: Disclosures

provide a comprehensive framework for recognizing, measuring, presenting, and disclosing financial liabilities.

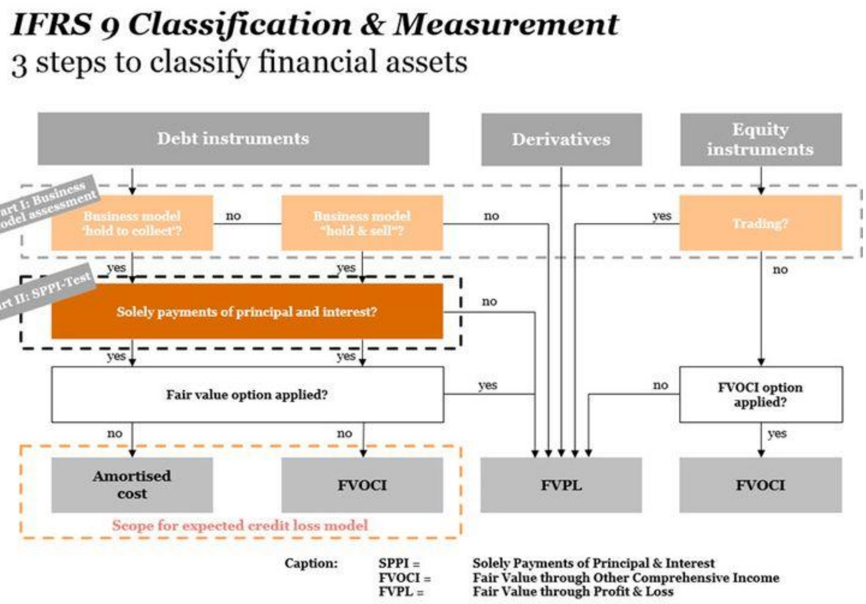
The objective of this paper is to:

Examine how liabilities arise in insurance organizations

Identify recognition and classification criteria

Describe accounting treatment stages under IFRS

Provide structured diagrams and tabular representations



Literature Review

The recognition and measurement of financial liabilities under international financial reporting standards has been widely studied by both foreign and domestic researchers. IFRS 9 replaced IAS 39 to improve classification and measurement of financial instruments and expected credit losses, impacting how insurers and financial institutions report liabilities. (IFRS Foundation)

Foreign Studies:

Nikolaos Eriotis, Theodoros Kounadeas, and Dimitrios Vasiliou (2019) provide a comprehensive literature review on the implementation of IAS 39 and the transition to IFRS 9, highlighting improvements in financial reporting quality and implications for financial stability. (journalfirm.com)

Barone et al. (2025) examine IFRS 9 literature streams, including classification and measurement, and effects on investment behaviour and accounting information usefulness. (EFRAG)

E. Kvaal (2024) discusses classification and measurement approaches under IFRS 9 and their implications for financial reporting quality. (Tandfonline)

Academic literature summarized by IFRS Foundation (2024) highlights empirical research on the timeliness of expected credit loss recognition under IFRS 9. (IFRS Foundation)

Arno Botha and colleagues (2025–2026) contribute advanced modelling approaches for default risk and credit loss estimation under IFRS 9, which are relevant for liability measurement in financial institutions. (arXiv)

These studies show a global academic interest in how IFRS 9 and predecessor IAS 39 influence financial reporting practices, especially in classification, measurement, and risk disclosures of financial liabilities [5], [6], [7], [8].

Domestic (Uzbek) Studies:

Research on IFRS adoption and financial reporting in Uzbekistan and Central Asia emphasizes harmonization with international standards:

Zaynab Eshpulatova (2021) explores IFRS implementation challenges in accounting for contracts and financial information in Uzbek entities. (api.scienceweb.uz)

Studies on accounting systems in Uzbekistan and Kazakhstan review the literature on IFRS adoption and its impact on financial reporting practices, noting the ongoing alignment with international frameworks. (sci-p.uz)

While specific Uzbek literature on insurance liabilities under IFRS is limited, related research on insurance operations and legal frameworks informs the context of liability recognition in insurance companies. (ijfd.uz) [9], [10].

2. Materials and Methods

This study is based on:

a. Qualitative analysis of IFRS standards (IFRS 9, IAS 32, IAS 39, IFRS 7)
b. Comparative conceptual review of financial liability recognition
c. Synthesis of accounting treatment stages into a generalized workflow

Analytical structuring of reporting and disclosure requirements

3. Results and Discussion

Result

3.1 Occurrence of Liabilities in Insurance Organizations

Liabilities arise from contractual obligations and financial transactions. In insurance organizations, they typically include:

a. Insurance contract liabilities (claims payable, reserves)
b. Financial liabilities (debt instruments, borrowings)
c. Derivatives and embedded financial instruments
d. Payables and accrued expenses

```
                    +---------------------+
                    | Insurance Operations |
                    +----------+----------+
                               |
          -----------------------------------------------
          |                    |                     |
+---------------+   +------------------+   +----------------------+
| Policyholder  |   | Financial        |   | Operational          |
| Obligations   |   | Instruments      |   | Payables             |
+---------------+   +------------------+   +----------------------+
          |                    |                     |
 Claims, reserves    Bonds, derivatives       Salaries, taxes
```

Diagram 1. Sources of Liabilities

3.2 Recognition Criteria under IFRS

IAS 32 – Presentation

Defines whether a financial instrument is a liability or equity.

IFRS 9 / IAS 39 – Recognition

A financial liability is recognized when:

a. The entity becomes a party to the contractual provisions of the instrument
b. The obligation is probable and measurable reliably

Recognition Criteria Summary Table

Criterion	**Description**	**Standard Reference**
Contractual obligation	Legal or constructive obligation exists	IAS 32
Probability	Outflow of economic benefits is probable	IFRS 9 / IAS 39
Reliable measurement	Amount can be measured reliably	IFRS Framework
Control transfer	Entity has no unilateral ability to avoid obligation	IAS 32

3.3 Classification of Financial Liabilities

Under IFRS 9, financial liabilities are classified as:

a. At amortized cost
b. At fair value through profit or loss (FVTPL)

Table 1. Classification of Financial Liabilities

Type	**Measurement Basis**	**Example**
Amortized cost	Effective interest method	Insurance debt, loans
FVTPL	Fair value	Derivatives, trading liabilities

3.4 Measurement and Initial Recognition
Initial recognition is typically at fair value, plus transaction costs (if not at FVTPL).
Subsequent measurement depends on classification:

a. Amortized cost → using effective interest method
b. FVTPL → fair value changes recognized in profit or loss

Diagram 2: Measurement Flow

```
Initial Recognition
        |
        v
   Fair Value
        |
  ---------------------
  |                   |
Amortized          FVTPL
Cost               Fair Value Changes
  |                   |
Effective           Profit or Loss
Interest Method
```

3.5 Presentation under IAS 32
IAS 32 governs:

a. Classification as liability or equity
b. Offsetting rules
c. Presentation of compound financial instruments

Key Principle:
A financial instrument is classified as a liability if:
There is a contractual obligation to deliver cash or another financial asset
3.6 Disclosure Requirements under IFRS 7
IFRS 7 requires disclosures regarding:

a. Nature and extent of risks arising from financial instruments
b. Credit risk, liquidity risk, and market risk
c. Sensitivity analysis
d. Carrying amounts and fair values

Table 2. IFRS 7 Disclosure Requirements

Risk Type	**Disclosure Requirement**
Credit risk	Exposure, collateral, impairment
Liquidity risk	Maturity analysis
Market risk	Sensitivity analysis
Fair value	Hierarchy levels (Level 1–3)

3.7 Stages of Accounting Treatment of Liabilities
Diagram 3: Accounting Process Flow

```
Transaction Occurrence
        |
        v
Identification of Liability
        |
        v
Classification (IAS 32)
        |
        v
Initial Recognition (IFRS 9)
        |
        v
Measurement (Amortized Cost / Fair Value)
        |
        v
Subsequent Measurement
        |
        v
Disclosure (IFRS 7)
```

Discussion

The application of IFRS standards ensures consistency and comparability in financial reporting of insurance organizations. The key challenges include:

a. Distinguishing between equity and liability components
b. Measuring fair value in illiquid markets
c. Managing embedded derivatives
d. Ensuring adequate disclosures under IFRS 7

IFRS 9 introduces a more forward-looking impairment model, replacing IAS 39's incurred loss model, thereby improving risk assessment. IAS 32 provides critical guidance in classification, while IFRS 7 enhances transparency through detailed disclosures.

Insurance companies must integrate actuarial valuation with financial reporting to accurately reflect obligations. The alignment between insurance contract accounting (IFRS 17) and financial instruments standards further increases complexity [11], [12], [13], [14], [15].

4. Conclusion

Liabilities in insurance organizations primarily arise from legally binding insurance contracts, reinsurance arrangements, issued financial instruments, and other contractual obligations that require the transfer of economic resources. These liabilities are inherently complex due to the long-term nature of insurance contracts, uncertainty in future cash flows, and the involvement of actuarial assumptions in estimating obligations.

The accounting treatment of these liabilities under **IFRS 9, IAS 32, IAS 39, and IFRS 7** follows a systematic and principle-based approach that ensures consistency, comparability, and transparency in financial reporting. The process begins with the identification of a contractual obligation and proceeds through classification, initial recognition, subsequent measurement, and comprehensive disclosure.

IAS 32 plays a fundamental role in determining whether an instrument is classified as a financial liability or equity, based on the substance of the contractual terms rather than its legal form. This classification is critical, as it directly affects how the instrument is presented in financial statements and how subsequent measurements are applied.

IFRS 9 provides the framework for the recognition and measurement of financial liabilities, including their initial measurement at fair value and subsequent measurement at amortized cost or fair value through profit or loss. It also introduces improved guidance on impairment and expected credit losses, enhancing the forward-looking nature of financial reporting compared to IAS 39.

Although IAS 39 has largely been superseded by IFRS 9, it remains relevant in understanding the historical evolution of financial instrument accounting and in certain transitional or comparative analyses. IFRS 7 complements these standards by establishing extensive disclosure requirements, ensuring that users of financial statements receive sufficient information about the nature, timing, and uncertainty of cash flows arising from financial liabilities, as well as the risks associated with them.

The study highlights that the integration of these standards creates a coherent accounting framework in which:

Accurate classification under IAS 32 ensures correct identification of liabilities versus equity components, which is essential for faithful representation of an entity's financial position.

IFRS 9 governs the recognition and measurement process, enabling consistent valuation of financial liabilities and incorporating updated approaches to risk assessment and impairment.

IFRS 7 enhances transparency, requiring detailed disclosures on credit risk, liquidity risk, and market risk, thereby improving the decision-usefulness of financial statements.

A structured workflow approach—from identification to disclosure—improves internal control, reduces the likelihood of misstatements, and ensures compliance with international reporting requirements.

In conclusion, the effective accounting of liabilities in insurance organizations depends not only on adherence to individual IFRS standards but also on their integrated application. A well-structured and standardized accounting process supports higher quality financial reporting, strengthens stakeholder confidence, and aligns insurance entities with global best practices in financial transparency and governance.

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