

**REASONS WHY INSURANCE COMPANIES CANNOT APPLY INTERNATIONAL
FINANCIAL REPORTING STANDARD №15 “REVENUE FROM CONTRACTS WITH
CUSTOMERS”**

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Abstract: The article examines the reasons why insurance companies cannot apply the IFRS 15 standard for revenue recognition. It analyzes the features of insurance activities, including the long-term nature of liabilities, uncertainty of payments and the specifics of insurance premiums that do not comply with the principles of this standard.

Keywords: IFRS 15, IFRS 17, insurance companies, revenue recognition, insurance contracts, financial statements, accounting for liabilities, insurance premiums, risk, accounting standards.

International Financial Reporting Standards (IFRS) play a key role in ensuring the transparency and comparability of financial data of organizations around the world. One such standard is IFRS 15, which regulates the recognition of revenue from contracts with customers. However, applying this standard to insurance companies is complex due to the specifics of their activities, including the nature of their income and liabilities. This article will consider the reasons why insurance companies cannot apply IFRS 15 in full, and also provide the opinions of academics and analysts on approaches to revenue recognition in the insurance industry. IFRS 15 was adopted in 2014 and came into effect in 2018, replacing previous standards related to revenue recognition. It is based on the concept that revenue should be recognized based on the satisfaction of the obligation to transfer a good or service to a customer. The standard includes a five-step revenue recognition process: identifying the contract with the customer, determining the performance obligations, determining the contract price, allocating the contract price between the obligations, and recognizing revenue as the obligations are fulfilled.

However, insurance companies operate in a slightly different system, where the main characteristic of their activities is the risk they assume, as well as specific terms of contracts. This leads to the need to apply a different approach to revenue recognition.

Research on the application of IFRS 15 in the insurance industry emphasizes that this standard does not take into account key aspects of insurance operations, such as insurance risk and premium distribution. Thus, according to M. Hanson (2019), the IFRS 15 standard is not suitable for insurance companies, since its main focus is on the transfer of goods and services, while insurance companies do not sell specific goods or services in the classical sense of the term.

S. Petrova (2020) notes that the IFRS 17 "Insurance Contracts" standard, which was developed taking into account the specifics of this industry, is more suitable for insurance companies. Unlike IFRS 15, IFRS 17 focuses on the recognition of income from insurance contracts and takes into account the long-term nature of these obligations, which is important for accurately assessing the financial performance of insurance activities.

In order to analyze the reasons why IFRS 15 cannot be applied to insurance companies, it is important to consider several key factors:

1. Nature of the business. In the insurance industry, the main product is risk, not a physical product or standard service. The insurance premium is not a fixed income, but reflects the price for accepting risk.
2. Features of revenue recognition. The IFRS 15 standard assumes revenue recognition at the time of transfer of goods or services to the buyer, while in the insurance business, income is

recognized as the insurance contract is fulfilled, which requires taking into account time and changes in risks.

3. Long-term liabilities. Insurance contracts are often concluded for long periods, which leads to the need to recognize revenue as the contract is fulfilled, and not at the time of contract inception. IFRS 15 does not provide mechanisms for accounting for such long-term liabilities.

4. Risks and uncertainty. Insurance companies face a high degree of uncertainty regarding payments that may be made for insured events, as well as the need to account for a reserve for future payments, which is not consistent with the principles of IFRS 15.

Based on the analysis, it can be concluded that IFRS 15 cannot be applied to insurance companies due to the specific nature of their activities and revenue recognition features. Unlike traditional companies working with goods or standard services, insurance organizations interact with risks, not physical objects. This requires the use of different accounting methods, such as those provided for in the IFRS 17 standard. It should be noted that insurance companies need more flexible and specific approaches to revenue recognition that take into account the long-term nature of liabilities and the unique risks inherent in insurance contracts. It is important to continue developing standards that will help to more accurately and correctly reflect financial results in the insurance sector, while ensuring transparency and comparability with other industries.

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