

# A Comprehensive IFRS 17 Framework for Business Combinations

*This white paper is intended for insurance industry professionals involved in acquisition of insurance portfolios, offering a phase-by-phase roadmap to achieve compliance and smooth integration under IFRS 17.*

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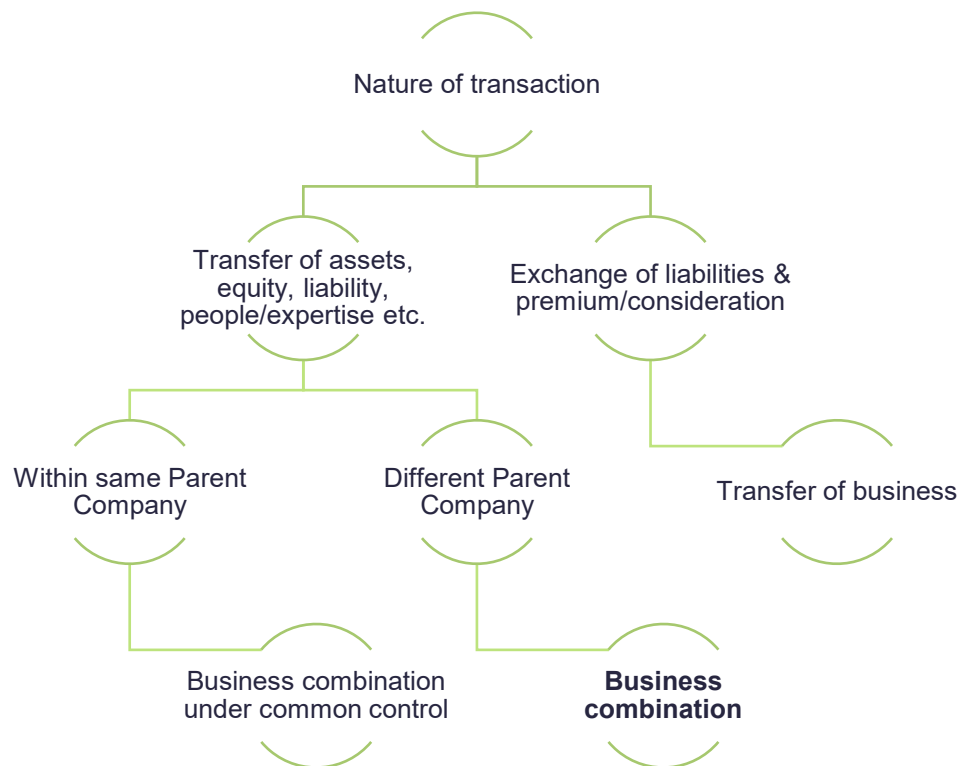
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## Overview

### What is a business combination?

In simple terms, a business combination is the purchase of one business by another, resulting in the acquirer gaining control of the acquiree's operations and net assets. This typically involves the transfer of not just liabilities, but also assets, equity interests, and often people and expertise from the acquiree to the acquirer. It is distinct from a pure portfolio transfer (or "transfer of business"), where one insurer transfers a block of insurance liabilities to another in exchange for a premium, without transferring the supporting assets or organisational structures.



Each transaction must be assessed to determine if it meets the definition of a business combination or simply a portfolio transfer. Notably, when the acquirer and acquiree are under the same ultimate parent (a Business Combination Under Common Control, or BCUCC), this paper applies if the parent decides to adopt the acquisition method under IFRS 3.

### Complexities of business combinations under IFRS 17

IFRS 17 fundamentally reshapes how insurers account for business combinations. When an insurer (the acquirer) obtains control of another business (the acquiree), **IFRS 3 Business Combinations** and **IFRS 17 Insurance Contracts** together introduce new complexities which demand careful planning.

Under IFRS 3, the acquirer must record the identifiable assets and liabilities of the acquiree at fair value. For an insurer, this means insurance contract liabilities are initially recorded at fair value, which IFRS 17 dictates should be determined using the IFRS 17 measurement model as if the contracts were originated on the acquisition date. This requirement can produce a significant Day 1 Contractual Service Margin (CSM) or a Day 1 loss.

Specifically, the acquirer measures acquired insurance contract liabilities as follows:

- a. Fulfilment Cash Flows (FCF) are measured on the acquisition date (Day 1) under IFRS 17; i.e., best estimate future cash flows (BECF), adjusted for the time value of money and a risk adjustment (RA) for non-financial risk
- b. In a business combination, the fair value of the insurance contracts on Day 1 serves as a proxy for consideration paid under IFRS 17 (where consideration paid is a proxy for premiums received)
- c. The balancing item (difference between a. & b.) then leads to the recognition of a CSM representing the unearned profit in the acquired insurance liabilities, or a loss for any onerous contracts

Most of the insurance acquisitions have either huge remaining coverage or material long tailed claims in their settlement period and hence the General Measurement Model (GMM) is applied instead of the Premium Allocation Approach (PAA).

Another complexity is that the insurance contracts acquired in their settlement period are classified into the Liability for Remaining Coverage (LRC) as of Day 1, which creates a mismatch between acquirer's and acquiree's financials.

The interplay between IFRS 3 and IFRS 17, and mapping liabilities to the right bucket can thus have major impacts on post-acquisition financial statements, making it critical for insurers to plan.

### Phased approach to IFRS 17 integration

Successfully navigating an insurance acquisition under IFRS 17 involves a structured approach over several phases. We recommend breaking the process into five key phases; from preliminary assessment before the deal is signed, through to full business-as-usual (BAU) integration of the acquired business's financial reporting. Each phase has distinct objectives and deliverables, as summarised below:

Phase	Key Tasks	Outcome by End of Phase
<b>Phase 0 - Pre-signing (indicative assessment)</b>	<ul style="list-style-type: none"> <li>• High-level IFRS 17 impact assessment using public information</li> <li>• Outline conceptual approach for fair value and Day 1 CSM/loss</li> <li>• Set up preliminary IFRS 17 project structure and resources</li> </ul>	<ul style="list-style-type: none"> <li>• Initial diagnostic of IFRS 17 implications</li> <li>• "Ready-to-launch" plan to mobilise immediately after signing</li> </ul>
<b>Phase 1 - Signing to completion (detailed planning and methodology lockdown)</b>	<ul style="list-style-type: none"> <li>• Obtain and validate detailed data from acquiree</li> <li>• Finalise methodologies for FCF (incl. RA, discount rates, etc.)</li> <li>• Align accounting policies and engage auditors on key judgments</li> </ul>	<ul style="list-style-type: none"> <li>• Auditable, finalised IFRS 17 valuation methodology</li> <li>• Data fully prepared and mapped into IFRS 17 format</li> <li>• All decisions aligned in principle with auditors</li> </ul>
<b>Phase 2 - Completion (acquisition-date measurement)</b>	<ul style="list-style-type: none"> <li>• Day 1 measurement of acquiree's contracts at fair value using IFRS 17 building blocks</li> <li>• Determine Day 1 CSM/loss</li> <li>• Record acquisition in financial statements (IFRS 3 and IFRS 17 entries)</li> </ul>	<ul style="list-style-type: none"> <li>• Fair value of acquired liabilities calculated</li> <li>• Day 1 CSM/loss established</li> <li>• Acquisition journal entries booked and reconciled</li> </ul>
<b>Phase 3 - Post-acquisition (group IFRS 17 alignment)</b>	<ul style="list-style-type: none"> <li>• Integrate acquired business into group reporting processes</li> <li>• Align assumptions, reporting cohorts, and policies with acquirer's IFRS 17 framework</li> </ul>	<ul style="list-style-type: none"> <li>• Acquired business producing IFRS 17 results in line with group policies and timetables</li> <li>• Dual reporting (if any) controlled and reconciled</li> </ul>

Phase	Key Tasks	Outcome by End of Phase
	<ul style="list-style-type: none"> <li>• Monitor performance of acquired business separately</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing results monitored for expected vs. actual trends</li> </ul>
<p><b>Phase 4 - BAU integration (full integration into reporting)</b></p>	<ul style="list-style-type: none"> <li>• Transition to standard monthly/quarterly reporting cycles</li> <li>• Embed controls, data pipelines, and systems for IFRS 17 in BAU processes</li> <li>• Identify post-acquisition refinements and efficiency improvements</li> </ul>	<ul style="list-style-type: none"> <li>• Acquired portfolio fully incorporated into group's BAU IFRS 17 reporting</li> <li>• Repeatable controls, reconciliations, and analytics in place</li> <li>• Longer-term process improvements implemented</li> </ul>

Each of these phases is discussed in detail in the sections that follow. By following this end-to-end framework, insurers can achieve a smooth transition from initial assessment through to the seamless incorporation of the new business into IFRS 17 reporting.

## Phase 0 – Pre-signing (indicative assessment)

Before the acquisition deal is signed, access to the target's information is limited to publicly available data. Phase 0 focuses on forming an early view of IFRS 17 implications so that the acquirer can hit the ground running once the deal is signed. The aim is to equip the team for the intensive technical work that will begin immediately post-signing, by addressing the following key areas:

### IFRS 17 indicative assessment

In this preliminary workstream, the acquirer assesses the potential impact of IFRS 17 on the target using high-level or public information. Key activities include:

- **Review public financial reports:** Examine the target's published financial statements, regulatory filings and any available investor presentations for clues about its insurance liabilities and accounting bases.
- **Determine accounting regime:** Identify whether the target already reports under IFRS 17 or uses a different basis (local GAAP, Solvency II, etc.). This will influence the acquirer's level of effort - a target on IFRS 17 likely has much of the necessary data and models, whereas a target on local GAAP may require building IFRS 17 cash flow models from scratch.
- **Scorecard for IFRS 17 readiness:** Prepare a high-level "readiness" assessment outlining potential data gaps, system differences, and complexities. E.g., assess data quality expectations: Will the target have granular cash flow data available? Are its assumptions and methodologies (discount rates, RA, etc.) documented and robust? This indicative scorecard will help flag areas of high risk or likely difficulty later in the process.

### Early fair value and Day 1 design

This area involves conceptual planning to sketch out how the IFRS 17 valuation might look. The acquirer should develop initial hypotheses about the target's insurance contract valuation and potential Day 1 outcomes. Key considerations include:

- **Valuation approach feasibility:** Evaluate at a high level whether a bottom-up IFRS 17 valuation of the target appears feasible post-signing, or if significant proxies will be needed. For instance, can the acquirer likely gather the data to construct FCF for the target's contracts, or will it need to rely on rougher approximations?
- **Areas for proxies:** Identify any valuation components that are likely to require approximation. Common examples are using a Solvency II risk margin as a proxy for the IFRS 17 RA for non-financial risk or using simplified methods for discount rates if the target's data on yield curves is limited.
- **Discount rate methodology:** Consider how discounting would be applied under the acquirer's policies. Will a top-down approach (starting from portfolio yield minus credit risk) or a bottom-up approach (adding an illiquidity premium to a risk-free curve) be used for the target's liabilities? Determine conceptually if the target's business has any unique characteristics, e.g., long-tail liabilities like Periodic Payment Orders (PPOs) requiring special discounting or inflation assumptions.
- **Potential Day 1 CSM/loss:** Form an initial view on whether the acquired contracts might be profitable or onerous. E.g., if the target has largely profitable in-force business, a positive Day 1 CSM is expected (i.e. fair value of liabilities exceeds FCF), whereas if the block is loss-making, a Day 1 loss would arise. Some portfolios that are in run-off with little future service may result in a very small or zero CSM (i.e., fair value roughly equals FCF).

The objective of this early fair value and CSM design is to have a hypothesis ready to test once actual data becomes available. It guides what to look for post-signing, e.g., if you expect an onerous outcome, you know to prioritize analysis of loss components and reinsurance recoveries.

## Methodology and governance pre-planning

The final preparatory area focuses on setting up the IFRS 17 technical methodology framework and governance structure ahead of time. Before signing, the acquirer should:

- **Draft the IFRS 17 accounting methodology:** Begin outlining how the acquisition will be accounted for under IFRS 17. This document should cover planned approaches for FCF (incl. RA and discounting), CSM determination and any anticipated issues or choices (e.g. whether to use Other Comprehensive Income (OCI) for discount rate changes, how to classify contracts into groups, etc.). Having a draft methodology ready saves time post-signing and provides a discussion document for early auditor engagement.
- **IFRS 17 workstream structure:** Design a preliminary project structure to execute the IFRS 17 work once the deal is signed. This might involve defining sub-workstreams such as valuation (actuarial modelling for FCF, incl. RA and discounting), finance (policy alignment and reporting), data (collection and validation), and governance (auditor liaison, documentation, etc.). Each should have a leader and an action plan that can be activated immediately upon signing.
- **Resource and team planning:** Line up the specialist expertise needed for post-signing work. This usually includes actuaries for cash flow modelling and RA, investment specialists for discount rates, accountants for policy alignment and journal entries, systems experts for integration, and a focused Project Management Office (PMO). Having the core team identified, even if not fully engaged yet, ensures no scramble for talent in Phase 1.

By the time the Sale and Purchase Agreement is signed, the acquirer should have:

- A directional IFRS 17 impact assessment (qualitative, based on public data).
- A conceptual design for the fair value measurement and Day 1 CSM/loss, i.e. a hypothesis to be validated with real data.
- An IFRS 17 methodology framework drafted, and a high-level resourcing plan with key team members on standby.
- A project structure and governance model set to launch for Phase 1.

In short, Phase 0 ensures that once access to the target's information is granted, the acquirer can immediately begin detailed work without losing precious time on planning.

## Phase 1 – Signing to completion (detailed planning and methodology lockdown)

Phase 1 begins once the deal is signed and continues until the legal completion of the acquisition. During this period, although the acquirer does not yet have control of the target, it typically gains access to detailed non-public information under confidentiality agreements. This phase is the most intensive in terms of preparing for the Day 1 measurement. The primary goal is to transform the conceptual plans from Phase 0 into a detailed, operational, and auditor-reviewed IFRS 17 valuation approach that is ready to execute at the moment of completion. Key components of Phase 1 include:

### Mobilisation of IFRS 17 workstreams

**Kick-off the IFRS 17 project:** Upon signing, the acquirer activates the IFRS 17 integration project. All workstreams identified in Phase 0 (valuation, data, systems, reporting, etc.) should now be formally launched with assigned leads and deliverables. Early activities include team briefings, refined project plans aligned to the expected completion date, and confirming budgets and resources.

**Workstream structure and resourcing:** The IFRS 17 effort typically breaks down into specialized workstreams such as:

- **Actuarial and Finance:** Actuarial team to develop FCF, calibrate the RA and discount rates, and apply the IFRS 3 fair value overlay (market-participant assumptions).
- **Accounting policy alignment:** Finance team to ensure the target's contracts will be reported in line with the acquirer's accounting policies, e.g. same definitions of contract boundaries, aggregation levels, OCI vs. P&L option for finance income/expense, etc.
- **Integration and reporting:** Systems and process experts to plan how the target's data and models will integrate into the acquirer's reporting systems and cycles.
- **Audit and governance:** A governance team involving finance and actuarial leadership, to document decisions and engage with external auditors regularly for technical reviews.

Each workstream is assigned a named lead, with clear deliverables and a timeline aligned to the completion date. Workstream leads should be empowered to make day-to-day decisions, with a defined escalation path for significant issues, e.g. up to a Steering Committee.

**Governance and review cadence:** Phase 1 should establish a robust governance framework. This should include:

- **Steering Committee:** Typically comprising senior stakeholders (CFO, Chief Actuary, heads of Finance/Actuarial) that meets regularly to oversee progress and resolve major decisions.
- **Technical working groups:** Focused committees for detailed IFRS 17 topics; methodology decisions around RA, discount rates, etc., including representatives from the acquirer and possibly the acquiree.
- **Regular status reporting:** A weekly or bi-weekly PMO report to track milestones, data delivery, and risks, ensuring no aspect falls behind schedule.
- **Early auditor involvement:** Invite external auditors into the process as soon as possible and have frequent check-ins. Early and recurring auditor engagement ensures that key methodological choices, such as how RA is measured or how discount rates are set, are vetted and will not be objected to at the last minute.

Altogether, strong mobilisation and governance in Phase 1 sets the foundation for a controlled and efficient valuation at completion. All stakeholders (including auditors) should be aligned on the plan by the end of this phase.

### Controlled data access and technical preparation

Once the deal is signed, the acquirer can request and analyse confidential data from the target. Managing this data flow is critical. This sub-phase covers obtaining the data, validating it, and configuring it into the acquirer's IFRS 17 structure in preparation for calculation.

**Structured data requests:** Immediately post-signing, the acquirer issues a comprehensive list of data requests tailored to IFRS 17 needs. The exact data sets depend on whether the target was already reporting under IFRS 17 or not:

- If the target already reports under IFRS 17: Request detailed outputs such as expected future cash flows for insurance liabilities, e.g. best-estimate cash flow projections for unsettled claims and future coverage, the methodology and confidence level used for the RA, expense allocation approaches, and any policy unit or group data used in their CSM calculations. Essentially, leverage what the target has done for its own IFRS 17 reporting.
- If the target is not on IFRS 17 (e.g. local GAAP): Request analogous data that will allow the acquirer to construct IFRS 17 measures. For instance, claim triangles or development patterns to project cash flows, current reserve breakdowns (case reserves and IBNR) on a best-estimate basis, historical policy and premium data to establish contract boundaries and grouping, expense data for claims handling and administration, and detailed product information to determine how contracts will be grouped under IFRS 17. In short, the acquirer will often need to build IFRS 17 models largely from raw data in this scenario.
- In all cases: Obtain full information on reinsurance treaties, both assumed and ceded. This includes treaty terms, ceded reserve amounts, expected recoveries, and any features like loss limits or profit commissions, as these will affect both FCF and any loss-recovery component under IFRS 17 for onerous groups.

**Data validation and gap analysis:** Once data is received, the acquirer must validate it and identify any gaps. Validation includes:

- **Completeness check:** Ensure all relevant contracts, time periods, and data fields are present. E.g., verify that claims data covers all accident years that will still have payments after the acquisition date, and that policy data covers all in-force contracts that will be transferred.
- **Quality and consistency:** Check for reasonableness and internal consistency. Do the claim triangles exhibit expected patterns? Are the reserves consistent with what is in published accounts? Investigate any anomalies or large unexplained movements.
- **Suitability for IFRS 17:** Determine if the data granularity is sufficient for grouping and CSM calculations. IFRS 17 requires grouping into portfolios and annual cohorts; check if provided data can be mapped to these categories easily. Also, assess if any of the acquirer's models (e.g., an actuarial reserve model or CSM engine) require data that the target hasn't provided, so that these needs can be communicated back.

Where data gaps or issues are found, Phase 1 is the time to devise proxies or assumptions to fill them. For instance, if the target lacks certain historical data, the acquirer might use industry benchmarks or its own experience as a proxy. All such workarounds should be documented and, if possible, discussed with auditors in advance to ensure they are comfortable with the approach before the Day 1 valuation.

**Mapping to IFRS 17 structures:** After validation, the target's data must be configured into the acquirer's IFRS 17 measurement model. This step translates raw data into the building blocks needed for calculation:

- Group contracts into portfolios and cohorts: Determine how the acquired contracts will form groups under IFRS 17, respecting the standard's requirement to group by portfolio, i.e., similar risks managed together. Note that for acquired business, expired contracts, i.e. those that have only claim liabilities remaining, might be grouped separately from unexpired contracts if material, since the underlying risk remaining is different.
- Identify LRC vs. LIC at acquisition: Contracts acquired in business combination in their settlement period are classified into LRC as of Day 1. However, there are instances where these could be mapped to Liability for Incurred Claims (LIC) on materiality grounds.
- Set up initial coverage units: Define coverage units for the acquired groups to allocate CSM recognition going forward. For groups with no remaining coverage (claims only), coverage units often relate to claims payout patterns, since future service is claims handling, whereas for groups with future coverage, coverage units might be based on remaining policy term or another measure of service. These need to be determined now for the Day 1 CSM calculation and for future release of the CSM.
- Allocate discount rates and RA: Map each group of contracts to the appropriate discount curve and confirm how the RA will be applied at group level. E.g., long-duration life insurance groups might use different discount curves than short-tailed general insurance groups, depending on currency and liquidity characteristics. The RA for non-financial risk should be allocated or calculated per group in line with the chosen methodology, e.g. a given confidence level technique applied at group or portfolio level.

By the end of this data preparation step, the acquirer should have a fully populated IFRS 17 model (in spreadsheets or systems) with the target's data, ready to run the Day 1 valuation once the actual completion date arrives.

### Finalisation of IFRS 17 methodologies

Concurrently with data work, the acquirer finalises all technical methodologies for measuring the acquired contracts under IFRS 17. This is a critical part of Phase 1 where many judgments are crystallised. The methodologies cover FCF (incl. BECF, RA, and discount rates) - the core components of the IFRS 17 valuation - as well as how these feed into the IFRS 3 fair value measurement. Each of these should be documented and, ideally, reviewed with the auditor before execution. Key areas include:

**BECF:** Develop the detailed approach for calculating the present value of future cash flows for the acquired contracts. Ensure alignment with the acquirer's existing IFRS 17 policies and consistency with how the acquirer values its own portfolios. Considerations include:

- Assumptions on claims development; e.g. how to model IBNR for the acquired reserves, whether the acquiree's case reserves need adjustment for prudence or different reserving practices.
- Treatment of inflation for long-tail liabilities; e.g., if the target has PPOs or other claims with indexed benefits, incorporate explicit inflation assumptions in the cash flows.
- Treatment of future premiums on in-force policies (if any) and associated acquisition cash flows. If the acquiree has policies that will continue to generate premium after acquisition, those cash flows should be included in the LRC measurement.
- Expense assumptions: Incorporate appropriate expense loadings, including claims handling expenses, overhead allocations, and consider any differences in expense structures between the acquiree and acquirer. Acquisition-related transaction costs, however, are not part of insurance liabilities under IFRS 17.
- Reinsurance cash flows: Model cash flows for reinsurance treaties held by the acquiree to ensure reinsurance is properly reflected in the FCF (both ceded and any assumed reinsurance obligations, if the acquiree had inward reinsurance).

The end result is an auditable set of cash flow models that produce BECF for each identified group of contracts, reflecting the acquired business on a stand-alone basis but consistent with the acquirer's modelling approaches.

**RA for non-financial risk:** Define the methodology and parameters for the RA on Day 1. The RA represents the compensation the entity requires for bearing the uncertainty in the cash flows. Key decisions include:

- **Technique and confidence level:** Choose the approach (e.g. a confidence level technique vs. a cost of capital method) and calibrate it. If the acquirer uses a confidence level for its existing business, applying the same percentile to the acquired liabilities would ensure consistency. Alternatively, if a cost of capital approach is used for the acquirer, use the same cost of capital rate and diversification assumptions for the acquired business.
- **Diversification considerations:** Decide whether to calculate the RA for the acquired business on a stand-alone basis or reflect diversification with the acquirer's existing portfolio. IFRS 17 allows diversification benefits within an entity; however, a market participant fair value perspective might argue for little diversification with the acquirer at Day 1. This is a nuanced point and typically a topic for auditor discussion.
- **Use of proxies:** If the acquiree has a Solvency II risk margin figure, consider if it can serve as a sanity check or starting point for the IFRS 17 RA. Often the Solvency II risk margin is higher (being a 100% cost of capital at 6% for all future years), but it provides an upper bound or reference for the magnitude of RA.

Given its judgmental nature, the RA methodology is usually subject to detailed justification and auditor scrutiny. Document the rationale for the chosen approach, including any key judgments about diversification and confidence levels.

**Discount rates:** Establish how discounting will be applied to the acquired insurance cash flows. IFRS 17 requires discounting future cash flows using current market rates, but the acquirer needs to decide on approach specifics:

- **Top-down vs. bottom-up:** Confirm if the discount curves will be derived via a top-down method (starting from asset yields and adjusting for credit risk to arrive at liability rates) or bottom-up (building up from risk-free rates plus an illiquidity premium). Use the same approach as the acquirer's existing policy to ensure consistency.
- **Illiquidity premium calibration:** Calibrate any illiquidity premium to reflect the liquidity characteristics of the acquired liabilities. E.g., immediate annuity liabilities and PPOs would warrant a higher illiquidity premium than short-tailed motor claims.
- **OCI or P&L option:** Determine if changes in discount rates for the acquired business will be recognised in OCI or in P&L. Many insurers have an accounting policy for this; if the acquirer uses OCI for its existing contracts, the acquired business should follow suit (noting that under IFRS 17, if OCI is used, the CSM uses locked-in rates while the LRC uses current rates for interest accretion).
- **Alignment with existing policies:** Ensure any rates used on Day 1 tie into the acquirer's established yield curves. If the acquisition date is off-cycle, or not a quarter-end, the acquirer may need to interpolate or derive a special set of discount curves for that date. Document these to avoid confusion later.

By the end of Phase 1, the discount rate methodology should be locked in, and example discount curves should be produced to test the approach. This ensures no surprises in Phase 2.

All the above methodologies feed into how the fair value of liabilities and the Day 1 CSM are determined. The work in Phase 1 should also cover the explicit linking of these IFRS 17 components to an overall IFRS 3 fair value and CSM framework.

## Fair value and Day 1 CSM framework (IFRS 3 overlay)

During Phase 1, the acquirer also designs how it will calculate the fair value of the acquired insurance contracts at the acquisition date (using the outputs of the IFRS 17 calculations) and determine the resulting Day 1 CSM or loss.

**Fair value adjustments (market-participant view):** IFRS 3 fair value measurement requires adopting the perspective of a market participant. In practice, this means adjusting the IFRS 17 fulfilment calculation to include additional margins or factors that an external buyer might consider. The acquirer should define these adjustments in advance, for example:

- **Future profitability:** If a market participant would expect a certain profit margin or cost synergies from the acquired portfolio, this could affect the fair value (e.g. a buyer might be willing to pay more for a portfolio expected to generate high returns, which would reflect as a higher fair value of liabilities, implying higher CSM).
- **Cost of capital and uncertainty margins:** A buyer might demand a higher return which, if higher than the discount rate used in FCF, effectively lowers the fair value of liabilities, decreasing CSM. Similarly, a market participant might add an extra margin for uncertainty beyond the IFRS 17 RA (e.g., an additional risk premium for liabilities with high volatility).
- **Expense adjustments:** If the acquiree is less efficient, a buyer might factor in costs to streamline operations, or conversely, if the acquiree is very efficient, a buyer might not credit all those savings. These beliefs can be reflected as an adjustment to cash flows or RA (e.g. including restructuring costs or, on the flip side, excluding certain overheads in the valuation if a buyer assumes they can eliminate them).
- **Other overlays:** Any known differences between how the acquiree runs its business and how the acquirer (or typical market participants) would. E.g., if the acquiree has very conservative reserves, a market participant might assume release of some margins, affecting fair value. Or if the acquiree's business has risk characteristics that the market would price differently from the IFRS 17 view, adjust for that (e.g., adding a market risk margin for certain long-term guarantees).

While these adjustments can only be quantified once actual data is in hand, having a clear list of what they will be and how to compute them (e.g. specific formulas or percentage adjustments) is essential by the end of Phase 1. This avoids debates under time pressure at completion.

**Day 1 CSM/loss logic:** At cohort level, establish rules for how the difference between the fair value and the FCF will be treated:

- If fair value of liabilities > FCF, the excess = Day 1 CSM (the liabilities at fair value are higher, meaning the insurer effectively paid for future profit, which is recorded as CSM to be earned over time)
- If fair value of liabilities < FCF, the shortfall = Day 1 loss (no CSM is set up). This indicates the portfolio is onerous at acquisition. The shortfall is then recognised as part of the goodwill (or gain on a bargain purchase)
- If they are approximately equal, then no CSM/loss. The acquisition is roughly break-even on Day 1, with no deferred profit or loss

This means that the balance sheet reflects the economics (all insurance obligations at current value), while the P&L is protected from one-off acquisition gains/losses. This results in a smoother integration of the acquired business's results with the acquirer's ongoing performance, which was a key objective when developing IFRS 17's business combination provisions.

**Special considerations: reinsurance held:** If the acquiree has reinsurance contracts held (ceded reinsurance), those are measured independently of the gross liabilities but following a similar approach:

- Calculate the fair value of reinsurance assets at Day 1, taking into account the reinsurer's non-performance risk in the discount rates or as an explicit adjustment (per IFRS 13).
- Determine if the reinsurance asset generates a Day 1 gain or loss. Under IFRS 17, both net gain and net cost/loss on reinsurance held is deferred as a CSM. In practice, a common scenario is that if the underlying contracts are onerous and the reinsurer covers some of that loss, a loss-recovery component is recorded to offset the adjustment made to goodwill for the loss on insurance contracts, up to the portion of the loss the reinsurance will cover. Ensure that any loss-recovery asset is set up only to the extent of the recoverable amount under existing treaties.
- Maintain consistency between gross and reinsurance assumptions (e.g., if the gross RA is set at a certain confidence level, consider whether the ceded RA is implicitly reflected or needs separate calculation). Also ensure that coverage units and future amortisation patterns for the reinsurance CSM (if any) are aligned with the gross; i.e. they cover the same underlying risks/time periods.

Neglecting reinsurance specifics can cause accounting mismatches, so treat the gross and reinsurance side with equal rigor and document how they interact.

**Alignment with accounting policies:** Finally, ensure that all the above are consistent with the acquirer's existing accounting policies under IFRS 17. E.g., if the acquirer's policy treats certain acquisition costs in a particular way or groups contracts by product lines, the acquired business should follow suit. Areas to double-check for alignment include contract boundary definitions, level of aggregation, the disaggregation of finance effects (OCI vs. P&L), expense allocation methodology, and reinsurance held accounting. Any necessary deviations should be identified and justified or approved by management and auditors in advance.

By conclusion of Phase 1, the acquirer is "completion-ready" with:

- A complete, documented IFRS 17 measurement methodology (covering FCF, RA, discounting, grouping, CSM logic, etc.).
- All required data from the acquiree validated and mapped to the IFRS 17 model structure.
- Key valuation approaches (including any proxies or simplifications) agreed in principle with auditors.
- Defined processes for calculating fair value and Day 1 CSM or loss, including consideration for reinsurance.
- Alignment to the acquirer's accounting policies confirmed (or exceptions explicitly approved).
- A detailed work plan for the Day 1 execution (who does what, when, including contingency plans).

Phase 1 essentially ensures that when Day 1 arrives, there are no unanswered questions and only calculations to perform with the latest data.

## Phase 2 – Completion (Day 1 measurement and journal entries)

Phase 2 takes place at the legal completion date of the acquisition (often referred to as Day 1). At this point, control of the acquiree transfers to the acquirer, and the acquirer must perform the IFRS 3 purchase accounting, which includes recognising the acquiree’s insurance contracts as if they were new contracts issued on Day 1 under IFRS 17. The main activities in Phase 2 are executing the valuation with actual acquisition-date data, determining the final Day 1 CSM or loss, and booking the necessary journal entries in line with IFRS 3 and IFRS 17.

### Acquisition-date data freeze and validation

On the completion date, the first step is to establish a clean cutoff for data. All relevant data as of the acquisition date must be “frozen” and verified one last time, as this will be the basis for the official valuation. Key actions include:

- Freeze the data as of Day 1: Work with the acquiree to extract final in-force data, claims reserves, reinsurance positions, and any other inputs as of the close of business on the day before acquisition (or at the exact moment of transfer, if timed). This dataset should be reconciled to the acquiree’s books (e.g. their trial balance or ledger) to ensure completeness and accuracy.
- Implement governance on changes: After the data freeze, implement strict change control. No adjustments to data should be made unless a material error is discovered, and any such changes should go through formal approval (e.g. by the project’s Steering Committee or PMO). Document this “lockdown” process so that auditors can rely on the data set used for Day 1 valuation.

The outcome of this step is a fully vetted and locked dataset that will feed the valuation models with confidence.

### Execute fair value measurement and determine CSM/loss

With data ready, the acquirer now performs the calculation of the fair value of the acquired insurance liabilities and the corresponding FCF at Day 1. The difference between these will determine the Day 1 CSM or Day 1 loss. The same calculation would be required for any acquired reinsurance assets.

It is critical to document each component of the calculation clearly, showing how raw data was transformed into FCF (incl. RA), how discounting was applied, and how market adjustments were incorporated, because these details will feed directly into disclosures and audit review.

### Booking Day 1 journal entries

In a business combination, IFRS 3 requires the acquirer to recognise identifiable assets and liabilities at fair value as of the acquisition date. In the case of insurance contracts, IFRS 3 explicitly defers to the IFRS 17 measurement model for determining this fair value. An amendment in IFRS 3 (para 31A) creates an exception to the usual IFRS 13 fair-value approach: instead of a market-exit price, the contracts are measured “as if issued by the acquirer” on Day 1 under IFRS 17.

The acquirer thus measures acquired insurance contract liabilities at cohort level as follows:

- a. FCF are measured on Day 1 under IFRS 17 (i.e., BECF, adjusted for the time value of money and a RA for non-financial risk)
- b. The fair value of the insurance contracts on Day 1 serves as a proxy for consideration paid under IFRS 17 (where consideration paid is a proxy for premiums received)
- c. The balancing item (difference between a. & b.) then leads to the recognition of either a CSM (if fair value > FCF); or loss (if fair value < FCF)

## Worked examples under IFRS 3/IFRS 17 – general assumptions:

The acquirer purchases 100% of an insurance entity. The entity holds net other assets of £200m (at fair value under IFRS 3) and has no liabilities other than insurance contracts (measured under IFRS 17 at the acquisition date). Note that in the below worked examples, the fair value of the insurance contracts is assumed to equal the total entity consideration for simplicity. In practice, the fair value of the insurance contracts would be separately determined as part of the purchase price allocation (PPA).

### Case 1: Profitable contracts at acquisition

IFRS 17 measurement:

- Fair value = £120m, FCF = £110m; CSM = £10m
- A resulting CSM means that the contracts are profitable at acquisition (i.e., the CSM represents the unearned profit the acquirer expects to recognise as it provides coverage). The CSM then forms part of the total LRC credited

IFRS 3 goodwill calculation:

- Net identifiable assets = £80m (£200m - £120m)
- Goodwill = £40m (£120m - £80m). Note that none of this goodwill arises from the insurance contracts themselves; it arises from paying above net asset value for the wider business

Journal entry at acquisition date:

	Dr (£m)	Cr (£m)	Ref
Net other assets	200		IFRS 3.18
Goodwill	40		IFRS 3.32
Insurance contract liabilities: FCF		110	IFRS 17.32-37
Insurance contract liabilities: CSM*		10	IFRS 17.38, B95
Fair value (consideration)		120	
<b>Total</b>	<b>240</b>	<b>240</b>	

\*CSM is released to insurance revenue over the coverage period following coverage units (i.e., no Day 1 P&L impact)

### Case 2: Onerous contracts at acquisition

IFRS 17 measurement:

- Fair value = £100m, FCF = £110m (including £10m allocated to Loss Component) allocated to Loss Component)
- A resulting loss means that the contracts are onerous at acquisition. This loss is included in the goodwill calculation (or gain on a bargain purchase) and a loss component is tracked internally within the LCR credited

IFRS 3 goodwill calculation:

- Net identifiable assets = £90m (£200m - £110m)
- Goodwill = £10m (£100m - £90m). Note that the entire £10m of goodwill arises from the onerous contract excess

Journal entry at acquisition date:

	Dr (£m)	Cr (£m)	Ref
Net other assets	200		IFRS 3.18
Goodwill	10		IFRS 3.32/IFRS 17.B95A
Insurance contract liabilities: FCF*		110	IFRS 17.32-37
Insurance contract liabilities: CSM		-	IFRS 17.38, B95
Fair value (consideration)		100	
<b>Total</b>	<b>210</b>	<b>210</b>	

\*The loss component (£10m) is tracked internally within the £110m insurance liability (it is not a separate journal line). As per Case 1, there is no Day 1 P&L impact

In both cases, nothing hits the Day 1 P&L:

- In Case 1, the profitable surplus is locked into the CSM and is released over coverage units; and
- In Case 2, the onerous excess is parked in goodwill rather than recognised as a loss.

Both mechanisms defer the economics into future periods, resulting in a smoother integration of the acquired business's results with the acquirer's ongoing performance.

### Level of aggregation

Under IFRS 17, the acquirer applies the level of aggregation requirements to identify groups of acquired contracts, as if it had entered into the contracts on Day 1. This includes the annual cohort requirement. In practice, acquired portfolios benefit from a practical relief, as contracts may be grouped together rather than retrospectively allocated to historical annual cohorts, which would require reconstruction of data that may not exist.

Where the acquirer is also subject to Solvency II/Solvency UK reporting, the insurance contract liabilities will need to be measured on both an IFRS 17 basis (for group reporting) and a Solvency II/Solvency UK basis (for regulatory reporting). These bases use different discount rates, risk measures, and contract boundary definitions.

### Disclosure and reporting at Day 1

After booking the entries, the acquirer must prepare the required disclosures around the business combination. IFRS 3 and IFRS 17 both have specific disclosure requirements which will appear in the financial statements for the period in which the acquisition occurs. Key disclosures include:

- Business Combination (IFRS 3) disclosures: A qualitative and quantitative overview of the transaction. This includes the name of the acquiree, acquisition date, primary reasons for the combination (strategic rationale) and a description of how control was obtained. It also requires disclosure of the fair values of major classes of assets and liabilities acquired (with insurance liabilities normally shown separately), and the amount of goodwill recognised, along with an explanation of the factors that resulted in that outcome (e.g. expected synergies, or that it was a distressed sale leading to a gain). Additionally, the acquirer should describe the valuation techniques and key assumptions used for material assets and liabilities. For insurance liabilities, that means explaining that fair value was determined using IFRS 17 methodology plus certain market adjustments, possibly noting the level 3 nature of the inputs.
- Insurance Contracts (IFRS 17) disclosures: Since the acquiree's contracts are treated as if originated at the acquisition date, the acquirer should disclose the initial amounts of the insurance contract balances set up. E.g., disclosing the amount of CSM recognised at acquisition (and perhaps how it was calculated as the difference between fair value and FCF), the amount of any loss component recognised, and the split of the total insurance liability into LRC and LIC at Day 1. Also, detail the methods used for RA and discount rates for the acquired business if they are material (e.g., disclose the confidence level of the RA if using a different technique or the yield curve approach for discounting and whether the OCI option was used for the acquired contracts).

These disclosures are often scrutinised by auditors and regulators, so accuracy and clarity are paramount. They not only explain the impact of the acquisition on the financial statements but also give insight into the assumptions and judgments applied, which is particularly important given the complexity of IFRS 17. The aim is to ensure that investors and stakeholders can comprehend how the acquisition affected the insurer's balance sheet and what financial implications will unfold in the future (through CSM release, etc.).

### Quality control and audit sign-off

Before finalising the Day 1 results and moving on, the acquirer should conduct a thorough review process to ensure everything is correct and defensible:

- **Model and data controls:** Verify that the data and models used for Day 1 are subject to proper controls. For instance, ensure full data lineage from source systems through to the final numbers; every figure in the Day 1 valuation should be traceable back to an input data source or assumption. Implement robust version control for any actuarial models or spreadsheets and perform integrity checks (e.g. totals of undiscounted vs discounted cash flows, check that all groups sum correctly to the total liability, etc.).
- **Analytical review:** Perform high-level reasonableness checks on results. Compare the Day 1 valuation with expectations formed in Phase 0/1: Does the total CSM make sense relative to the purchase price allocated to insurance contracts? Compute key ratios (e.g., implied combined ratio or loss ratio of the acquired book at Day 1, CSM as a percentage of reserves) to see if they seem reasonable in light of industry benchmarks or the acquiree's historical performance. If something looks off, investigate and either explain or correct it. Possibly run a simplified parallel calculation (e.g. using a factor-based method) as a "shadow" to validate the detailed model outputs.
- **Audit checkpoints:** Throughout Phase 2 and especially at its culmination, engage with the external auditors to obtain their sign-off. They will focus on questions such as: "Is the RA calibrated in line with our expectations and does it reflect a clear methodology?", "Does the fair value measurement truly reflect a market participant view and align with requirements?", and "Has the Day 1 CSM been computed correctly in accordance with the agreed methodology and grouping policy?". Provide them with the documentation prepared, walk them through the key calculations, and be prepared to answer questions or run additional scenarios if requested. The goal is to leave no open items that could delay the financial close.
- **Documentation pack:** Compile a comprehensive Day 1 documentation file. This should include final copies of all data (with evidence of the data freeze and reconciliation), model output with annotations, the methodology papers (updated for any tweaks during actual execution), the final journal entries posted (with account references), and draft disclosure notes. This pack will serve as a reference for internal stakeholders and auditors, and as a baseline for Phase 3 activities. It is also invaluable should there be any post-mortem analysis or if regulators inquire about the transaction accounting.

At the end of Phase 2, the acquisition is officially reflected in the group's financials, and the stage is set for integrating the acquired business's ongoing results into the acquirer's IFRS 17 reporting going forward. A formal sign-off meeting is typically held, in which the project team hands over the outcomes to the BAU owners (those in Finance/Actuarial who will handle the business as part of normal reporting).

## Phase 3 – Post-acquisition integration (integration into group reporting)

Phase 3 covers the period immediately after Day 1 (i.e. Day 2 onwards) as the acquired business joins the acquirer's regular IFRS 17 reporting cycle. The focus in this short-to-medium-term phase is to embed the new portfolio seamlessly into the group's financial reporting, control environment, and governance structure. This phase typically spans the first several reporting periods post-acquisition and culminates in the acquired business operating under the same policies and processes as the rest of the group.

### Embedding Day 1 balances and ongoing measurement

The first priority is to carry over the Day 1 IFRS 17 measurements into the group's systems and ensure they roll forward correctly. Key activities include:

- **Load Day 1 balances into group systems:** Input the established Day 1 figures for LRC, CSM, and RA into the acquirer's actuarial models and finance ledgers as the opening positions for the next reporting period. These will form the starting point (opening balances) for the first IFRS 17 roll-forward after acquisition. Verify that the group's consolidation system reflects these entries (initially via manual journal entries if needed, until systems are fully integrated).
- **Establish coverage unit trajectories:** For each newly acquired group of contracts with a CSM, define and configure the expected coverage units pattern that will drive CSM amortisation.
- **Plan the run-off of acquired liabilities:** Integrate the acquired claims liabilities into the group's normal reserve run-off processes. Under IFRS 17, even claims already in their settlement period are usually classified as part of the LRC on Day 1. These reserves should be set up in the group's system so that as claims are paid, the corresponding Day 1 LRC balances run off (just as LIC would) and are released appropriately.
- **RA release:** Include the acquired business in the group's established RA release framework. Over time, unless deliberately reported separately, the acquired RA will be combined with the existing portfolio's RA for disclosure. The team should decide how the RA associated with the new contracts will run off or be reallocated (e.g., if the group uses a periodic diversification adjustment or updates confidence levels each period) to ensure the acquired RA is released in a manner consistent with the group's methodology.
- **Lock in discount rates:** Store the discount rates as of Day 1 for use in future interest accretion on the CSM. For liabilities such as LIC (and LRC if the OCI option is used), make sure that current market yield curves for each subsequent period will be available in the group's processes for measuring these liabilities. In practice, this means incorporating the acquiree's yield curve data (by currency and product, as applicable) into the group's regular valuation routine so that unwinding of discount and subsequent remeasurements are handled correctly going forward.

By completing these tasks, the acquired contracts are now set up to behave as if they had always been part of the group's portfolio. In other words, the Day 1 measurements have been successfully converted into opening balances under the group's IFRS 17 framework, ensuring a clean start for the next reporting period.

### Systems, process and controls integration

Bringing the new portfolio into BAU reporting may require significant systems and process alignment. Key steps include:

- **Systems alignment:** Map out how data from the acquired business will flow through the acquirer's reporting architecture. In some cases, it may be feasible to fully migrate and convert the acquiree's data and models into the acquirer's IFRS 17 systems. In other cases, interim "bridge" solutions might be used (e.g., building interfaces to translate the acquiree's IFRS 17 outputs or legacy reserve data into the acquirer's format). The approach can range from a full systems integration

project to a temporary workaround using offline conversion tools, depending on time constraints and system compatibility.

- **Reconciliation of results:** During the first few reporting cycles, run the acquired business's results in parallel (if the acquiree continues to produce standalone IFRS 17 figures or legacy reports) and reconcile them to the group's consolidated results. Any differences should stem only from known methodological or presentation differences (e.g., due to grouping or cohort resets at acquisition) rather than errors. These parallel runs will validate that the integration is working correctly and highlight any remaining data or modelling adjustments needed.
- **Extend the control framework:** Bring the acquired business within the acquirer's financial controls and governance routines. This means applying the same level of data quality checks, assumption change controls, reconciliations, and analytical review to the new portfolio as the acquirer does for existing business. If the acquired business continues to report in a separate legal entity (e.g. as a subsidiary), ensure Group Finance has oversight of that reporting and that any accounting policy differences (e.g., one entity using OCI versus P&L for discount rate changes) are identified and properly adjusted in consolidation.
- **Manage dual reporting (if applicable):** If the acquired entity must also produce its own IFRS 17 financial statements using original contract inception dates for its cohorts, establish a robust process to bridge between the entity's standalone reporting and the group's reporting (which treats the acquisition date as a "new" inception for the contracts). This often involves maintaining parallel records - one reflecting the original cohorts for local/entity reporting, and one reflecting the new cohorts starting at acquisition for group consolidation. Develop a reconciliation schedule to convert one basis to the other each period and document the approach. Without careful management, these discrepancies could cause confusion or inconsistencies, so it's critical to control them from the outset.

## Assumption and policy alignment

Maintaining a consistent basis of accounting and valuation is vital. From the first reporting period after acquisition, the new business must be folded into the group's established assumption-setting and policy frameworks. This encompasses:

- **Unified assumption setting:** Going forward, the acquired portfolio's actuarial assumptions (e.g. mortality tables, lapse rates, claims development patterns, expense ratios, inflation assumptions) should be set and approved through the same governance forums that cover the rest of the business, such as the group's assumption committees or finance and actuarial management review processes. Any assumptions that were introduced specifically for the purchase accounting (e.g. provisional or conservative assumptions used at Day 1) should either be aligned with the group's standards or continuously justified until they can be harmonised.
- **Expense allocation methodology:** Align the way that expenses are allocated to the acquired contracts with the acquirer's policy. If the acquiree had a different approach to splitting overheads, claim handling costs, or maintenance expenses, decide whether to transition immediately to the acquirer's existing expense allocation model or to phase in changes over time. By the end of Phase 3, there should be no significant differences in how expenses are handled (i.e., the new business should be fully integrated into the group's expense apportionment model).
- **Policy and documentation updates:** Update the acquirer's IFRS 17 accounting policy documentation to formally incorporate any aspects of the acquired business. This includes documenting how the acquisition was treated (e.g., acknowledging that the contracts were recognised as new on the acquisition date), how cohorts are handled post-acquisition, any optional accounting policy elections made (e.g., use of OCI for finance effects), and any transitional considerations. Ensuring the policy manual reflects the post-acquisition reality will make it easier for new team members or auditors to understand the treatment without relying on institutional memory.

- **Integrated governance:** Include the acquired business in all relevant governance and oversight activities. The acquired portfolio's results and issues should now be routinely covered in quarterly reserve review meetings. Risk committees and audit committees should receive reporting that encompasses the combined entity, including the impact of the new business on key metrics. Any model changes or methodology updates affecting the acquired business should go through the same model governance and validation process as other portfolio models. In essence, the acquired business should now be managed as another division of the group, not as a standalone entity.

## Monitoring and reporting performance

With the acquired business on board, management will want to track its performance and ensure it is meeting expectations set at acquisition. IFRS 17 provides new tools for this analysis, and the group should establish clear reporting for the acquired block. This might include:

- **Dedicated segment reporting:** If useful, continue to report on the acquired business as a distinct segment (internally) for a transitional period. By tagging or earmarking the acquired contracts in the reporting systems, management can see financial results specific to the acquired block (e.g., separate reporting of CSM run-off, claims experience, and expenses for the acquired business versus the existing business). This transparency helps in evaluating whether the acquisition is performing as expected.
- **CSM roll-forward analysis:** Each reporting period, produce a roll-forward of the CSM for the acquired portfolio, from the opening balance to closing. Show how much CSM was released into revenue (insurance service result), how much interest was accreted, and any additions or deductions (from assumption changes or experience adjustments). Compare these movements to the projections made at Day 1. Significant deviations from expectation (e.g. if CSM is being released faster or slower than anticipated due to changing service duration, or if experience variances are emerging) should be investigated and understood early.
- **Profitability attribution:** Analyse and explain the sources of profit emerging from the acquired business each period. Under IFRS 17, sources of profit include the release of CSM (reflecting earned profit margin), releases of RA, actual vs expected differences in service or claims, and investment/discount rate impacts. By attributing the acquired business's earnings to these sources, management can verify that the acquisition is delivering the financial outcomes planned or identify any emerging issues.
- **Dual reporting reconciliation (if needed):** If there is separate entity-level reporting for the acquiree as discussed above, prepare a regular reconciliation of the acquiree's standalone IFRS 17 results to the group's results for the acquired business. In the long run, the differences will primarily relate to the treatment of cohorts and any goodwill or bargain purchase effects. Clearly communicating these differences to stakeholders (e.g. in internal management reports or even external investor discussions if the acquiree's results are reported) will prevent confusion. Over time, as the cohorts of acquired business mature, the standalone vs group differences should diminish.

By the end of Phase 3, the acquired business is fully and indistinguishably embedded in the acquirer's IFRS 17 environment. The Day 1 balances have been operationalised in the group's systems, financial controls and reconciliations are in place and stable, and any temporary or duplicate reporting processes (e.g. parallel runs or dual records) are being phased out. The acquisition is now part of BAU, and the focus of effort shifts from integration tasks to ongoing performance management of the combined portfolio.

## Phase 4 – Optimisation and efficiency

Once the new business is fully integrated and operating within the group's IFRS 17 reporting cycle, the final phase focuses on long-term optimisation. Phase 4 is a steady-state, continuous improvement stage intended to refine processes, drive efficiency, and leverage the addition of the new portfolio for strategic insights. In this phase, the organisation seeks to streamline operations and maximise the benefits of the combination after the initial hustle of integration has passed.

Typical focus areas in Phase 4 include:

- **Automation:** Identify any manual or temporary processes introduced during Phases 1-3 and automate them for efficiency and control. E.g., if certain data transformations or calculations were performed manually under tight deadlines in Phase 1 or at Day 1, these should now be built into systematic Extract, Transform, Load (ETL) pipelines or integrated reporting systems. Automation reduces the risk of error and frees up team capacity in regular reporting.
- **Harmonising IFRS 17 and Solvency II processes:** Look for opportunities to align the IFRS 17 reporting processes with Solvency II, or other regulatory reporting, to eliminate duplicate efforts. Often the acquired business and the group itself will have parallel processes for IFRS and Solvency II. In Phase 4, firms often develop more unified modelling and data approaches so that one set of assumptions and cash flows can feed both regimes, with reconciliation items for the known differences. Streamlining these frameworks not only improves efficiency but also enhances consistency across reporting bases.
- **Dashboards and analytics:** Enhance management information by expanding dashboards and analytical tools to cover the combined business. This could involve updating existing KPIs and performance dashboards to incorporate the acquired portfolio or creating new visualisations to compare and track performance metrics (such as CSM run-off, combined ratios, or return on equity) for the enlarged group. Over time, as the acquisition becomes fully assimilated, the distinction between “acquired” and “existing” business in such analytics may dissolve, but the insights gained (e.g., segmenting by product line or cohort, regardless of origin) will remain valuable for decision-making.

By the end of Phase 4, the post-acquisition integration project has transitioned entirely into normal operations, with the combined business operating at an optimised, efficient level. The finance and actuarial teams can now devote their attention to forward-looking activities rather than integration work. The IFRS 17 reporting for the acquisition runs smoothly within the group's standard processes, and any efficiencies gained benefit the organisation as a whole.

## Conclusion

A business combination under IFRS 17 is a complex but highly manageable process when approached through a structured, phased methodology. A robust Phase 0 indicative assessment enables insurers to anticipate IFRS 17 implications early, reducing uncertainty and setting a clear path for the work ahead. During Phase 1, disciplined planning, data preparation, and the early alignment of methodologies (with active auditor engagement) ensure that the acquisition is technically ready for a smooth Day 1 execution.

By the time the transaction completes, Phase 2 becomes a focused, largely mechanical application of well agreed valuation approaches. This results in a transparent and defensible Day 1 position that meets both IFRS 3 fair value requirements and IFRS 17 measurement principles.

From Phase 3 onward, the priority shifts to embedding the newly acquired business into the group's reporting, systems, controls, and governance framework. This period is pivotal: it ensures that the new portfolio behaves correctly in IFRS 17 roll forwards, aligns with the group's assumptions and methodologies, and delivers the level of transparency and performance insight expected by management and stakeholders.

Once this integration is complete, Phase 4 focuses on long-term optimisation. This includes streamlining processes, enhancing automation, strengthening analytical capability, and harmonising IFRS 17 with Solvency II and other regulatory frameworks. This phase is where the combined business begins to realise sustainable efficiency gains, and the acquisition becomes fully embedded within the organisation's BAU operations.

By following this phased framework, insurers and their stakeholders can be confident that the acquisition is brought into compliance with IFRS 17 in a controlled, transparent, and strategically aligned manner. Ultimately, this approach ensures that financial reporting supports the realisation of strategic and economic benefits from the transaction, enabling leadership teams to focus on value creation rather than technical complications.

## How 4most can help?

Founded in 2011, 4most have grown to become one of the leading independent credit risk, market risk, data management and actuarial consultancies in the UK, Europe and the Middle East. 4most's team of risk experts can help banks with model validation, model development, documentation enhancement, regulatory gap assessment, risk governance, regulatory reporting and delivering customised risk training.

4most have been awarded "IFRS 17 Consultancy of the Year" at the 2025 Insurance ERM UK & Europe Awards, recognising the work we have delivered to our clients across various IFRS 17 projects, including helping many insurers from pre-signing phase to optimisation and efficiency phase.

For further questions regarding business combinations, please don't hesitate to contact us. Learn more about how we help our clients at [www.4-most.co.uk](http://www.4-most.co.uk).

## Contacts



Sachal Gandotra  
Insurance Partner  
4most – London  
e: [sachal.gandotra@4-most.co.uk](mailto:sachal.gandotra@4-most.co.uk)  
w: [www.4-most.co.uk](http://www.4-most.co.uk)



Mike Neill  
Head of Insurance Accounting  
4most – Leeds  
e: [mike.neill@4-most.co.uk](mailto:mike.neill@4-most.co.uk)  
w: [www.4-most.co.uk](http://www.4-most.co.uk)

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Ajay Goyal  
Insurance Associate Partner  
4most – London  
e: [ajay.goyal@4-most.co.uk](mailto:ajay.goyal@4-most.co.uk)  
w: [www.4-most.co.uk](http://www.4-most.co.uk)



Ciara Barry  
Insurance Actuarial Consultant  
4most – Dublin  
e: [ciara.barry@4-most.co.uk](mailto:ciara.barry@4-most.co.uk)  
w: [www.4-most.co.uk](http://www.4-most.co.uk)

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