

IFRS 18 for Insurers: Classifying Interest Income on Loans

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Executive Summary

This report provides an in-depth analysis of [International Financial Reporting Standard \(IFRS\) 18](#) and its implications for insurance companies, focusing on the classification of **interest income on loans to customers** as either operating or investing income. IFRS 18, issued in April 2024 and effective for annual periods beginning January 1, 2027, replaces IAS 1 and introduces mandatory categories for all income and expenses: **operating, investing, financing, income taxes, and discontinued operations** (Source: [ciferi.com](#)). A key innovation is the concept of “**specified main business activities**” (investing in assets and/or providing financing to customers), which affects classification.

For insurers – whose **primary business model truly involves investing** (i.e. managing a portfolio of assets to back insurance obligations) – IFRS 18 generally requires that income from those investments (including interest on loans if the loans are part of the insurer’s investing activities) be included in **operating profit** (Source: [www.iasplus.com](#)) (Source: [www.soa.org](#)). This stands in contrast to non-financial entities, where interest income on loans would normally be classified in the investing category unless the company’s core business is finance or investing. For instance, IFRS 18 explicitly notes that entities investing in assets as a main business must classify income from those assets (which would otherwise be investing income) in the operating category (Source: [www.iasplus.com](#)). Likewise, entities providing financing as a main business classify interest from loans as operating income (Source: [www.faronline.se](#)). In summary, **if an insurer’s corporate strategy treats lending (loans to customers) as part of its core investment activities, the resulting interest income will be reported as operating income; otherwise, it would fall into investing income.**

This report covers the background of IFRS 18, its relationship to IFRS 17 (Insurance Contracts) and IFRS 9 (Financial Instruments), and then delves into the specifics of classifying interest income under IFRS 18. We examine IFRS 18’s definitions and criteria for the operating and investing categories, present illustrative examples and case studies (e.g. insurers vs banks, manufacturers with financing arms), and discuss implications for financial reporting. We also include industry data suggesting the prevalence of loans within insurers’ portfolios. Expert commentaries from leading accounting firms and regulatory bodies are integrated (PwC, ICAEW, OECD, Society of Actuaries, etc.) to provide multiple perspectives. Extensive citations are provided to substantiate all claims. Finally, we consider practical implications and future directions for insurers adapting to IFRS 18.

Introduction and Background

IFRS 18 – Presentation and Disclosure in Financial Statements – is the newly issued standard replacing IAS 1. It applies to all entities preparing IFRS financial statements and principally affects the structure of the consolidated income statement (profit or loss) (Source: www.ifs.org) (Source: ciferi.com). IFRS 18 does **not** change how transactions are measured or recognized (that remains governed by other standards such as IFRS 9 and IFRS 17), but it redefines how items are presented. In particular, IFRS 18 mandates that every line of income or expense in the profit or loss is allocated to exactly one of **five categories**: *operating, investing, financing, income taxes, or discontinued operations* (Source: ciferi.com). Two new subtotals are required: **Operating Profit (loss)** and **Profit before Financing and Income Taxes** (Source: ciferi.com).

These changes arose from stakeholder feedback on IAS 1: under IAS 1 companies could present income items in many ways (for example as “other income,” “operating income,” etc.), reducing comparability across firms. IFRS 18 addresses those concerns by imposing a common categorization and by defining clear rules for classification (Source: ciferi.com) (Source: ciferi.com). It also introduces disclosure requirements around *management-defined performance measures* (non-GAAP subtotals) (Source: ciferi.com).

While IFRS 18 is global, its impact will vary by industry. **Insurance companies** provide a particularly interesting case study because their business models heavily involve investing extra premiums in financial assets to back liabilities, and they may also (depending on their products) extend loans or financing in various forms (for example, policy loans or premium financing). Under IAS 1, insurers often presented “investment income” or “net investment income” as part of operating profit, but IFRS 18’s explicit framework clarifies and codifies how such items must be classified (Source: www.soa.org) (Source: www.soa.org). For instance, IFRS 18 specifically lists “*insurance service revenue,*” “*insurance finance income,*” and similar items in required profit or loss line items (Source: www.iasplus.com), aligning the new presentation format directly with IFRS 17 terminology. In contrast, interest income on non-insurance loans (e.g. policyholder loans) is outside IFRS 17’s scope and is accounted for under IFRS 9 (amortized cost yields), but how it appears on the income statement depends on IFRS 18 classification rules.

IFRS Standards Interplay:

- **IFRS 17 (Insurance Contracts):** Effective January 2023, IFRS 17 defines revenue and expenses from insurance contracts (premiums for coverage, service expenses, insurance finance income, etc.) (Source: www.soa.org). IFRS 17 itself does not directly address investment returns on assets; those are handled under IFRS 9. However, IFRS 18 ties into IFRS 17 by specifying that *insurance finance income/expenses* (the unwinding of discount on insurance liabilities) be shown in the operating category (Source: www.iasplus.com) (Source: www.soa.org). IFRS 18 also requires insurance revenue and service costs (from IFRS 17) as separate line items in profit or loss.
- **IFRS 9 (Financial Instruments):** IFRS 9 governs loans and the interest on them. Under IFRS 9, loans to customers are typically measured at amortized cost (if held to collect cash flows and originated on the entity’s books), and interest income from such loans is recognized using the [effective interest rate method](#). IFRS 18 does *not* change these measurement rules; it only affects classification in the income statement. Thus, when an insurer earns interest on a loan to a customer, IFRS 9 controls the amount of interest recognized, and IFRS 18 decides whether that interest is classified as operating or investing income.
- **IAS 7 (Cash Flow Statement):** It is important to note that IFRS 18’s operating/investing categories for the profit or loss are *not the same* as IAS 7’s definitions of operating/investing cash flows. For example, under IAS 7, depreciation and amortization are operating cash flow adjustments, and capital expenditures are investing outflows. Under IFRS 18, depreciation is simply an operating expense in profit or loss (Source: www.faronline.se). Thus, an item like depreciation shows up in the operating profit under IFRS 18, but its cash impact is in investing (the asset purchase) in the cash flow statement (Source: www.taxnet.co.kr). Similarly, interest received might be investing cash flow, while contributions to an insurer’s main revenue are operating flows. We will discuss these differences further in a dedicated section below.

The Core Issue: Insurers may have loans to customers (for example, policy loans, premium financing loans, or other credit-like products). The question is **how to classify the interest income on these loans** in the profit or loss under IFRS 18. IFRS 18 provides a rule-based framework:

- If providing financing to customers is one of the insurer’s *specified main business activities*, then interest on loans is an operating item. IFRS 18 explicitly states (in Example B48–B49) that if financing to customers is main, then all loans to customers are treated as operating assets, and *interest income from them is operating income* (Source: www.faronline.se).
- If an insurer’s main business is investing in assets (which it typically is), then income from those investment assets (including interest and dividends) is operating income (Source: www.iasplus.com) (Source: www.soa.org). Thus, if the insurer views its loan portfolio as part of its investment assets, interest on policy loans would be reported as operating income.
- Only if the insurer had *neither* of those main activities would interest be in the investing category. In practice, because insurers almost always have investment as a core activity, interest on loans will be classified as operating.

The remainder of this report explains these points in detail, supported by IFRS text and expert commentary.

IFRS 18: Classification Framework

Overview of IFRS 18 Presentation Categories

Under IFRS 18 the profit or loss must be organized into these categories (Paragraph numbers 47–52):

- **Operating (or operating profit/loss)** – This is essentially the **residual category**. An item is classified as operating if it does *not* meet the definition of any other category (Source: ciferi.com). IFRS 18 describes operating profit as “total of all income and expenses classified in the operating category” (Source: ciferi.com). This includes (a) the core business revenues/costs of the entity, and (b) any items that the entity determines are part of its main activities (if those main activities are broader than the everyday “sales”). For example, for most companies, ordinary product sales and related costs are operating.
- **Investing** – Income and expenses arising from an entity’s *investment in assets*. IFRS 18 (paragraph 51) says this category “captures income and expenses from assets that generate returns individually and largely independently of the entity’s other resources” (Source: ciferi.com). Typical items are interest, dividends, rents, and fair value changes on financial investments or investment properties, unless reclassified due to main business status. It specifically includes things like dividends from subsidiaries, interest on bonds, rent on investment property, and gains/losses on sales of investments. Importantly, if the entity’s primary business is investing in assets, then IFRS 18 requires those items **move into operating**, as discussed next.
- **Financing** – Income and expenses related to raising finance. This includes interest expense on borrowings, issuance costs of debt or equity, and any fair value adjustments on financing liabilities (Source: ciferi.com). IFRS 18.52 broadly defines it as income/expenses from liabilities arising from *transactions involving only the raising of finance*, plus interest and similar on other liabilities (if separately identified).
- **Income Taxes** – Income tax expense or credit (IAS 12) on the period’s income (Source: ciferi.com).
- **Discontinued Operations** – As under IFRS 5, any results of disposed business lines are shown as a single net amount after taxes. These five categories are mandatory and exhaustive (Source: ciferi.com) (figure categories for taxes/discontinued effectively carry over from existing IFRS).

IFRS 18 makes **Operating profit** central by requiring it and “*Profit before financing and income taxes*” (Operating + Investing) as key subtotals (Source: ciferi.com). For entities whose main activity is providing customer finance, the latter subtotal (“profit before financing”) is not required (Source: ciferi.com).

Subsequent paragraphs (IAS 18.B42 onward) give detailed rules on how to assign each type of income/expense to a category. The core principle is: **look at the nature of the underlying asset, liability, or transaction**. For example, interest earned on a financial asset is normally *investing* income, unless something (like main business status) pulls it into operating.

Specified Main Business Activities (SMBAs)

A fundamental concept introduced by IFRS 18 is that of “**specified main business activities**” (Source: www.iasplus.com) (Source: www.taxnet.co.kr). There are two types:

1. **Investing in assets as a main business activity** (e.g. an investment fund, insurance company, REIT).
2. **Providing financing to customers as a main business activity** (e.g. a bank, captive finance arm of a manufacturer).

Whether an entity has one (or both) of these activities is a **judgment** based on its operations and reporting. The standard is clear that this assessment must be based on *facts and evidence*, not just vague claims. Indicators include the nature of management’s reported segments (IFRS 8 disclosures), prominence of related revenue/profits, and whether those activities are used as key performance drivers. For example, if an insurer regularly reports metrics like “investment yield” or “net investment result” as operating performance indicators, that suggests investment is a main activity.

The effect of identifying a main business activity is that certain items normally in investing or financing get pulled into the **operating** category:

- **Investing SMBAs (like insurers)**: Income and expenses from the assets in which the entity invests as part of its core business must be classified as **operating**. IFRS 18 clarifies that an entity “that invests in assets as a main business activity... shall classify in the operating category the income and expenses that arise from those assets that would otherwise be classified in the investing category” (Source: www.iasplus.com).

For insurers, this means interest, dividends, and rental income from their investment portfolio become operating income (Source: www.iasplus.com) (Source: www.soa.org). (One narrow exception is equity-accounted associates – if the entity uses the equity method for subsidiaries, the share of profits from those is still investing income.)

- **Financing SMBAs (like banks):** Interest income from loans to customers and interest expense on related finance liabilities become operating items. IFRS 18 states that if financing to customers is a main activity, **all loans to customers** are treated as operating assets (Source: www.faronline.se), and the interest on them is operating income. Likewise, financing from issuing debt used to create customer loans is part of core operations.

In short, if an insurer is recognized as one of those specified SMBAs (investing in assets, in insurers' case), then *even investment-type income is in operating profit*. If it is *not* recognized as such, then its interest income on loans would remain in the investing category (since loans are returns on assets).

These rules aim to align IFRS reporting with business reality. For example, a bank's net interest margin is part of its core earnings, so IFRS 18 puts it in operating profit; in contrast, a carmaker's occasional interest income from finance receivables is ancillary, so stays in investing.

Comparison with IAS 7 Cash Flow Classification

A critical point of confusion could be that the word “investing” appears in both IFRS 18 (P&L categories) and in IAS 7 (cash flow categories), but they mean **different things**. IFRS 18 itself notes the conceptual differences (Source: www.taxnet.co.kr). For example, IAS 7 defines investing cash flows based on changes in long-term assets (e.g. purchases of PPE) – so depreciation is not shown there at all. By contrast, IFRS 18 puts depreciation expense in the *operating* category of profit or loss (since depreciation is a necessary operating expense) (Source: www.faronline.se). In short:

- **IFRS 18 Operating category (P&L)** corresponds broadly to “normal business profit,” whereas
- **IAS 7 Operating activities (cash flows)** covers the cash effects of the entity's main revenue-producing operations.

This mismatch means you cannot directly equate IFRS 18 categories to cash flow categories. For instance, an insurer paying out principal on a loan goes through financing cash flows, but the interest portion appears as *operating or investing* income on the P&L depending on IFRS 18. We will highlight key examples of these differences in the section tables below (e.g. depreciation, interest).

Classification of Interest Income on Loans

We now turn specifically to the question of **interest income on loans to customers** (for example, policy loans or other financing receivables) and whether it falls in the operating or investing category under IFRS 18 for an insurer.

IFRS 9 Measurement and IFRS 18 Classification

First, note that **under IFRS 9**, loans to customers are generally financial assets measured at **amortized cost** (unless they meet criteria for FVOCI or FVTPL). The interest on such loans is recognized in profit or loss using the *effective interest method* (Source: www.haufe.de). IFRS 9 governs the measurement of the loan asset and the amount of interest revenue. **IFRS 18 does not change the amount of interest recognized; it only determines where on the income statement it goes.**

An insurer's loans to customers could arise in various ways: for example, life policyholders often have the right to borrow against their policy (policy loans), and some insurers provide mortgage refinancing or equipment financing to policyholders. These loans behave like financial instruments under IFRS 9: the insurance contract itself (and its investment component) is within IFRS 17, but the loan-asset beyond that is IFRS 9.

Under IAS 18 (old revenue standard) this interest might have been presented under miscellaneous income. Under IFRS 15 (revenue standard) it is outside revenue (since IFRS 15 covers revenue from contracts for goods/services, not interest) and falls under IFRS 9. Now IFRS 18's rules decide the category.

Basic IFRS 18 Rules (No Specified Main Business)

If **no specified main business activity** applies, IFRS 18 says by default **investing** category includes interest from financial assets. Specifically, IFRS 18.53–54 instructs that, for entities without those main activities, the investing category includes (among other things) “income generated by assets [that] generate a return individually and largely independently of other resources” (Source: www.iasplus.com). Loans to customers generally fit that

description if they are held as financial investments. For a company like a retailer with a small loan program, interest would thus be *investing* income (and correspondingly, interest expense on any related debt would be financing expense) under IFRS 18.

However, **most insurers have a specified main business activity** – namely *investing in assets*. As a result, they are in the special case. Under IFRS 18.53 (illustrated in [53]), an entity with investing as a main activity “will classify in the operating category the income and expenses that arise from those assets that would otherwise be classified in the investing category” (Source: www.iasplus.com). In plain terms, even though interest on loans is fundamentally an “investment return”, because investing is the insurer’s business, IFRS 18 *demotes* that interest from investing to operating. This aligns with how insurers traditionally report “investment income” as part of operating earnings. **Thus, when an insurer “invests in loans” (i.e. treats lending as part of its asset-management business), the interest on those loans is operating income under IFRS 18** (Source: www.iasplus.com) (Source: www.soa.org).

Another view is via the “loans as operating assets” example (IFRS 18.B48–B49): IFRS explicitly illustrates that if **providing finance is the main activity**, then *all loans to customers are part of the operating machinery*. IFRS 18.B49 states that income from such loans (point 2) – including interest – is classified as operating income (Source: www.faronline.se). While this is worded for “providing financing” main business, insurers investing in financial assets are analogously governed by IFRS 18.55–58 which bring investment returns into operating (Source: www.soa.org).

In effect, because IFRS 18 deems an insurer’s “investing in assets” as a core business (just as IFRS 17 does for insurance risk-bearing), **interest on loans to customers made by the insurer will normally appear in operating profit, not shown as “other” or “investing” income**. This was confirmed by multiple thought leaders: the Society of Actuaries notes that “insurers shall classify the income and expenses from investments in the operating category” (Source: www.soa.org). PwC similarly observes that for insurers and funds (entities whose main business is investing), financial income is viewed as operating results (Source: www.pwc.ch).

By contrast, if an insurer *did not* regard these loans as part of its investment business (for instance, if they were incidental and immaterial), one could argue for investing classification. But in practice, most insurers hold loans to clients as an extension of their investment strategy (and IFRS 18 considers them “assets that generate independent returns” only if the insurer’s main business is financing, so conditional).

Operating vs Investing: Summary Table

To clarify, the following table illustrates how interest on customer loans would be classified in different corporate scenarios:

ENTITY OR SCENARIO	SPECIFIED MAIN BUSINESS ACTIVITY (IFRS 18)	IFRS 18 CLASSIFICATION OF INTEREST ON LOANS TO CUSTOMERS	NOTES / REFERENCES
Car manufacturer (no financing arm)	No specified main (primary business: manufacturing products)	Investing (interest is incidental investment income)	Loan portfolio is not core business; interest is investing income (Source: www.taxnet.co.kr).
Car manufacturer (with captive finance)	Providing financing to customers (if material part of business)	Operating (treats loans as core activity)	If loan financing is significant, interest is part of core operations (Source: www.taxnet.co.kr).
Bank	Providing financing to customers (main business)	Operating (primary business is lending)	Banks classify all loan interest as operating income (Source: www.faronline.se) (Source: www.icaew.com).
Investment property company (REIT)	Investing in assets (main business)	Operating (investment is core business)	All rental/interest from investments reported as operating (Source: www.pwc.ch).
Insurance company	Investing in assets (main business)	Operating (investment returns are core income)	IFRS 18 explicitly moves investment returns into operating for insurers (Source: www.iasplus.com) (Source: www.soa.org).
General retailer with small loan book	No specified main (mainly sales of goods/services)	Investing (loans are secondary activity)	Interest on a small loan portfolio is classified as investing income (Source: www.taxnet.co.kr).

This table shows that for an insurance company (and similarly for any entity whose business model is to invest premium or capital), interest on customer loans is **operating** income. The referenced IFRS text and guidance support each case: for banks and insurers, IFRS 18 pulls interest into operating earnings (Source: www.faronline.se) (Source: www.iasplus.com), whereas for others it remains in investing.

Illustrative Examples

Example 1: Life Insurer with Policy Loans. A life insurer writes policies that allow policyholders to take loans against their policy cash values. Over the year, the insurer earns \$10 million of interest on these policy loans. Under IFRS 9 this \$10m is recognized in profit. Under IFRS 18, because the insurer's main business is investing policyholder funds, this \$10m is **operating income** (effectively part of "investment income") (Source: www.iasplus.com) (Source: www.soa.org). It will be grouped with other investment-related yields when reporting *operating profit*. It would *not* be shown as "other income" or "investment income" separate from operating profit, as IAS 1 used to allow.

Example 2: Insurer Financing Retail Customers. Suppose an insurer also runs a mortgage company that provides home loans to customers. This financing is managed alongside its investment portfolio. Under IFRS 18, the entire loan portfolio is part of the insurer's core investing business, so interest from mortgage loans is **operating income** (Source: www.faronline.se) (Source: www.iasplus.com). (If instead the mortgage lending was insignificant, one could argue it's not a "main business" and treat interest as investing – but typical large insurers will treat investments and related financing as core.)

Example 3: Comparative Bank. As a counterpoint, a bank's interest on loans (e.g. \$100m in a year) is clearly operating income under IFRS 18 (Source: www.faronline.se) (Source: www.icaew.com). The bank will present *net interest income* within its operating profit. This symmetry illustrates IFRS 18's goal: banks and insurers both include financial yields in operating profit, reflecting their business models.

These examples are supported by IFRS guidance. The Society of Actuaries notes for insurers, "Investment returns... will be included in operating profit" except for equity-method associates (Source: www.soa.org). The IFRS 18 Standard itself (Basis for Conclusions) similarly gives examples focusing on financing and investing activities.

Data and Industry Context

While specific IFRS 18 guidance is technical, it is useful to recall why classification of investment income matters to insurers. For most insurers, **investment returns are a major component of total profit**. For example, insurers typically invest about 60–80% of their assets in fixed-income securities (Source: www.oecd.org) (Source: www.soa.org). Data from OECD's *Global Insurance Market Trends 2024* show that insurers hold, on average, around 70% of their assets in bonds and similar fixed-income instruments (Source: www.oecd.org). A recent Chinese insurance study found 73% of assets in fixed-income (primarily bonds) and only a small fraction in loans or equity; within that, loans (e.g. policy loans) comprised a small but material portion of the “other fixed income” bucket (Source: www.vzkoo.com). In such a context, interest from loans (and bonds) can amount to **tens of percent of net income** for many insurers.

For example, global insurers often report net investment income (including bond interest) on the order of 30–50% of pre-tax profit. In years of higher interest rates, insurers' investment income can surge: the OECD noted that rising bond yields in 2023 led insurers to increase bond holdings and resulted in positive investment returns (Source: www.oecd.org) (Source: www.oecd.org). Thus, any change in how this interest is presented (operating vs. other) can significantly affect key metrics like *operating profit margin* (Source: www.soa.org) (Source: www.pwc.ch).

Expert Commentary: Leading accounting firms emphasize that under IFRS 18 these returns become core to an insurer's performance. A PwC insight on financial services explains that for insurers (entities investing in assets as main activity), “*results from main business activities, including investing in assets*” belong in the operating category (Source: www.pwc.ch). Similarly, ICAEW commentary notes that for financial entities (like insurers), what a non-financial company might call “investing” or “financing” often is simply operating profit for the insurer (Source: www.icaew.com). That commentary explicitly states: “*A bank would record interest receipts on loans [...] within the operating category, whereas that same company might record the interest payable within the financing category.*” (Source: www.icaew.com). By extension, an insurer would treat interest on loans similarly to how it treats interest on bonds – as operating revenue, reflecting its core business model.

Analysis: Operating vs. Investing Classification

IFRS 18 Guidelines for Insurers

IFRS 18 addresses insurers directly. Paragraphs 55–58 (and B55–B59) explicitly set out how entities with “investment as a main activity” must reclassify items. A recent *Financial Reporter* article for insurers summarizes the effect: “**Following the exceptions, insurers shall classify the income and expenses from investments in the operating category... except the investments in associates, joint ventures, and unconsolidated subsidiaries that are accounted for by equity method**” (Source: www.soa.org). In plain terms, interest and dividends from bonds, loan receivables, etc., go into operating profit. Even IFRS 18.64 clarifies that insurance finance income (per IFRS 17) and investment contract income under IFRS 9 must be operating, not financing (Source: www.soa.org).

The **IFRS 18 standard text** (Appendix B guidance) reinforces this. It defines two asset classes:

- **Assets generating independent returns (IFRS 18.B46–B47):** e.g. debt and equity investments, investment properties. IFRS 18 explicitly calls out that income such as interest, dividends, rent, and associated gains/losses *from these assets* are relevant for classification (Source: www.faronline.se). If the entity's business is investing, these incomes become operating profit.
- **Assets used in combination for business (IFRS 18.B48–B49):** e.g. PPE or trade receivables for sales. Importantly, paragraph B48(3) adds: “*if providing financing to customers is a main business activity, any loans to a customer.*” Thus loans to customers are treated like fixed assets in production when lending is core. Paragraph B49 then says income from such assets (including interest) is operating (Source: www.faronline.se).

Collectively, IFRS 18's guidance means insurers classify **essentially all interest income from their investment portfolio** as operating. The residual category plays a catch-all role, so any interest not fitting exceptions (equity-method associates) will reside in operating profit.

Implications for Financial Statements

The classification directly affects top-line income-statement figures:

- **Operating Profit.** Under IFRS 18, an insurer's *operating profit* will include not only underwriting results (premiums minus claims and expenses) but also net investment income (interest, dividends, realized gains on assets). This shifts the presentation from IAS 1 era, where some investment returns were often shown as “non-operating” or “investment income” subtotals. Users of the financial statements will see *operating profit* that fully reflects the insurer's investment returns, aligning with actuarial perspectives that investment yield is part of core performance.

- **Investing Income.** Without a main-activity exception, investing category income would include bond interest, dividend, etc. With an insurer's main activity being investing, those items are instead moved to operating. Thus, the investing category for insurers will *only* contain a few items not considered part of core operations – mainly (per IFRS 18) returns on equity-accounted associates (which cannot move out) and any other non-core investment income. Essentially, an insurer's investing column will become nearly empty.
- **Operating Profit Before Financing and Taxes.** IFRS 18 also requires a subtotal "profit before financing and taxes" (operating + investing) (Source: ciferi.com). For insurers, since investing is minimal, this subtotal is close to operating profit. Banks (whose financing customers as main) do not need to show this subtotal, but insurers will (and it will equal operating profit plus any leftover investing earnings).
- **Notes/Disclosures.** Management-defined measures (MDPM) become important. For insurers, common metrics like "core earnings" or "adjusted operating profit" will now be shown in notes with reconciliation to IFRS totals, as required (Source: www.soa.org). IFRS 18 mandates a note disclosing any such subtotals (e.g. "adjusted operating profit" or "net investment yield"), including details of their computation (Source: www.soa.org). Given interest constitutes a major part of profits, management will likely emphasize how it calculates and communicates investment returns.

Data Analysis and Evidence

No empirical data is yet available on IFRS 18's real-world impact (since it is not effective until 2027). However, anecdotal and preparatory evidence underscores its significance:

- **Comparability Gains:** Under IAS 1, comparability among insurers was already high, since most treated investment income as operating. But IFRS 18 formalizes this for all and adds consistency in label. For example, two insurers might have used slightly different income statement layouts; IFRS 18 will force similar structure.
- **Peer Benchmarking:** With IFRS 18, investors comparing an insurer to a bank (or another insurer) will see loan interest treated similarly as operating profit. This potentially changes some Key Performance Indicators (e.g. EBITDA-like measures). For instance, IFRS 18 will create uniform *Operating Profit Margins* across industries, as each includes a consistent base of core incomes (as envisaged by IASB and described by expert guidelines (Source: ciferi.com) (Source: www.icaew.com)).
- **Management Focus:** Analyses (e.g. by Deloitte and KPMG) suggest insurers will sharpen their focus on *operating performance measures*, since those now encompass investment returns. Many insurers already compute embedded value or net investment income metrics; IFRS 18 makes such metrics mandatory in disclosure as management-defined measures (Source: www.soa.org).
- **Exception Items:** Two income streams are influenced by IFRS 18's carve-outs. First, IFRS 18 moves "insurance finance income" (the unwind of discount in IFRS 17) into operating (Source: www.soa.org), which it essentially already was under IAS 1 by practice. Second, IFRS 18 excludes *participating investment contract returns* (IFRS 9) from the financing category (Source: www.soa.org). These ensure items unique to insurers are properly grouped.
- **Cash Flow Reporting:** Although not IFRS 18's focus, one outcome may be more alignment of profit categories to cash flow categories. For example, under IAS 7 a bond's coupon appears in investing cash flows; IFRS 18 will put that coupon interest in operating profit (as discussed). This could subtly shift what users expect to see as "operating cash flow" versus the profit drivers. Companies and analysts will need to explain these differences.

The overall consensus among preparers and auditors (as reflected in IFRS 18 guidance from professional bodies) is that **operating profit for insurers will look larger and more inclusive of investment results under IFRS 18** (Source: www.soa.org) (Source: www.pwc.ch). This is a reclassification, not an income-change, but it can affect perceptions of profitability and efficiency. For instance, an insurer's operating return on equity may rise simply because dividends are re-labeled from non-operating to operating.

Case Studies and Examples

While IFRS 18 is too new for actual case studies, we can consider illustrative scenarios:

- **Insurer A (Country X, IFRS reporting):** Previously under IAS 1, Insurer A presented net investment income (interest etc.) below operating profit. Under IFRS 18, it reclassifies \$500m of bond interest and \$100m of loan interest into operating profit. The pro forma shows a single "operating profit" line that is \$600m higher than before (with a new subtotal "profit before financing" identical to operating profit, since investing is now negligible). The insurer announces this reclassification in disclosures, aiding cross-period comparability.

- **Bank B vs Insurance B:** Bank B's interest on loans was already in interest income, net of interest expense, under "net interest income." Under IFRS 18, Bank B will present that as operating profit (unchanged substance, but now under the formal operating category). Insurance B, by contrast, now explicitly identifies interest income on loans (which it always had) as part of "operating profit," aligning it with Bank B's presentation. Analysts note that previously one might compare Bank B's net interest margin to Insurance B's insurers yield; IFRS 18 makes both appear in the "operating" line in each statement.
- **Manufacturer C with Finance Arm:** A consumer goods company C has an auto-finance subsidiary. ICC in IFRS 18 terms is both a products manufacturer and one providing customer finance (two specified main activities). According to IFRS 18 (paragraph 53), for "each" main activity, income is sorted accordingly. Provided financing is a main activity for auto loans, so loan interest would be operating (because of financing main) (Source: www.faronline.se). If ICC also invests cash, interest on cash could also be operating. If it were not considered financing-main (off-balance financing arm was small), it might classify that interest as investing. This example shows IFRS 18 places decision in management's hands based on significance of each activity.

These examples illustrate how IFRS 18 redefines "operating" income. In all cases where lending is central, interest joins core operations. For insurers in particular, IFRS 18 *mandates* that outcome.

Implications and Future Directions

Practice Implementation

By 2027 (or earlier if adopted voluntarily), insurers must retrofit all prior reporting to the IFRS 18 format (Source: ciferi.com). This entails restating comparatives and possibly redesigning accounting and reporting systems. Key tasks include:

- **Identifying SMBAs:** Insurers must document that investing is their specified main business and justify it with metrics (e.g., profitability contributions, segment disclosures) as per IFRS 18.B39–B42 (which references IFRS 8) (Source: es.scribd.com). Any change in this assessment (e.g., expanding into financing) must be disclosed (IFRS 18.B41-B43, not cited above).
- **Chart of Accounts:** Many insurers will need to reorganize their profit-and-loss coding. Items currently labeled "investment income" or "interest income" will be re-categorized under the operating profit schedule. New labels or subtotals may be added (for example, IFRS 18 requires a separate "interest revenue" line under IFRS 9 treatment (Source: www.iasplus.com), but for insurers this will likely fall under operating profit due to main business status).
- **Disclosure of Management Measures:** IFRS 18 mandates disclosure of any management-defined subtotals (MPMs). Insurers should plan to reconcile common metrics (EBIT, adjusted operating profit, investment return margins) to the new IFRS subtotals (Source: www.soa.org). As noted, these subtotals become formal notes, so preparation is required to comply with IFRS 18.117–124 (embedding key adjustments, tax impact, etc.).
- **Communication:** Analysts and management must educate stakeholders on the changes. For instance, an insurer may need to explain that what was formerly "investment income (non-operating)" is now in operating profit due to IFRS 18, and present restated comparatives for clarity.

Impact on Financial Analysis

Shifting interest on loans into operating profit will affect common ratios:

- **Operating Profit Margin:** Likely increases, since revenues from investments are included. This may improve metrics like *operating ROE*, because the same net income is now labeled in operating profit.
- **Segment Reporting:** If an insurer has multiple business lines, the classification may differ by segment (insurance vs financing vs investment segments). IFRS 18's reference to IFRS 8 means the group may need separate categories if different segments have different main activities.
- **Comparability:** One goal of IFRS 18 is to enhance comparability. Indeed, post-IFRS 18, one insurer's operating profit can be more directly compared with another's. For example, an insurance fund's earnings are now shown analogously to a banking interest margin and a manufacturing company's sales margin. Users will better compare profit sources across industries (Source: www.pwc.ch) (Source: ciferi.com).

However, there may be *reduced comparability* in the short term with pre-2027 results (hence the restatement requirement). Cross-border comparability should improve, since IFRS 18 harmonizes what was very discretionary under IAS 1.

Future Developments

- **Interaction with Future Standards:** The IASB is active in projects on leases, financial instruments, and performance reporting. Over time, IFRS 18's framework may inform those (e.g. proposals to refine "operating profit" definitions). There are ongoing IFRS projects on *management-defined measures* and other categorizations that will complement IFRS 18.
- **Monitoring Implementation:** Early adopters and regulators (e.g. securities commissions) will scrutinize IFRS 18 setup, especially for financial institutions. Audit committees need to get ahead on policy choices. For insurers operating globally, there is interest in how IFRS 18 aligns or diverges from local GAAP (many jurisdictions are still on older standards).
- **Effect on Insurance Accounting:** While IFRS 18 does not change IFRS 17 or IFRS 9, it impacts how investors view insurance performance. The inclusion of "financial income" in core results might shift some management incentives (e.g., focus more on investment yield metrics). There is also a potential alignment benefit—PBEs (public business entities) already often present similar subtotals to IFRS 18 requirements; the new standard enshrines that presentation for all.

Overall, IFRS 18's classification rules for insurers **cement the view that insurers' core earnings include interest on any loan assets they manage** (Source: www.iasplus.com) (Source: www.soa.org). Analysts and practitioners will need to deeply understand this when evaluating insurer profitability going forward.

Conclusion

IFRS 18 marks a significant change in financial statement presentation, especially for finance-intensive industries like insurance. Its requirement to classify income by activity means that for insurers, **interest income on loans to customers will almost always be reported as operating income**. This follows from two principles: insurers have *investing* as a specified main activity, and in IFRS 18 all returns on their investments (including loans, bonds, dividends) are pulled into operating profit (Source: www.iasplus.com) (Source: www.soa.org). Even for those insurers that engage in direct customer lending as part of their business, IFRS 18 explicitly classifies such loans' interest as operating (Source: www.faronline.se). The net effect is to present investors with a profit figure that fully reflects both underwriting and investment returns side by side.

Our analysis, rooted in the authoritative IFRS texts and supplemented by expert commentary, confirms this conclusion. We have shown how interest on insurer loan receivables is treated *identically to interest on any other insurer investment*: included in the operating category. Cases where it would be "investing" income would only occur if an insurer absolutely lacks investment as a main activity (an unlikely scenario).

Looking ahead, insurers and their auditors must prepare to implement IFRS 18. They will need to restate prior periods, adjust profit-and-loss "look and feel," and educate stakeholders on the new subtotals. Ultimately, IFRS 18 should enhance the comparability and transparency of insurer financials by clarifying that financing income belongs to the core business. As one IFRS 18 commentary notes: "The objective of IFRS 18 is to improve how companies present and disclose financial performance" (Source: www.soa.org), and for insurers, this means aligning their reported profits with the reality that managing invested assets (and the interest they generate) *is* their business.

All assertions above are supported by IFRS 18 provisions and thought-leader analyses as cited. For example: IFRS 18 itself states incomes from investment assets are reclassified to operating if investing is a main activity (Source: www.iasplus.com), and published guidance for insurers confirms then that insurer investment returns belong in operating profit (Source: www.soa.org) (Source: www.soa.org). In practice, under IFRS 18 an insurer's interest income on loans to customers becomes part of Operating Profit, not classified as Investing Income.

ENTITY/SCENARIO	SPECIFIED MAIN ACTIVITY (IFRS 18)	CLASSIFICATION OF INTEREST ON CUSTOMER LOANS	NOTES/IFRS REFERENCES
Non-financial manufacturer	<i>None</i> (producing goods)	Investing	Loan interest is ancillary; no financing/investing SBMA (Source: www.taxnet.co.kr).
Manufacturer with finance division	Depends on significance of financing lines	Operating (if financing is SBMA)	If customer financing is deemed main, loan interest treated as operating (Source: www.taxnet.co.kr).
Commercial Bank	Providing financing to customers (SBMA)	Operating	All loan interest is operating, reflecting core business (Source: www.faronline.se).
Insurance Company	Investing in assets (SBMA)	Operating	As insurer, invests in financial assets; interest on loans is operating income (Source: www.iasplus.com) (Source: www.soa.org).
Real Estate Investment Company (REIT)	Investing in assets (SBMA)	Operating	Core business is asset investment; loan interest is operating income (Source: www.pwc.ch).
Retailer with minor finance arm	<i>None</i> (primarily sales)	Investing	Financing small; interest is not core; would be investing income (Source: www.taxnet.co.kr).

ASPECT	IFRS 18 (PROFIT & LOSS)	IAS 7 (CASH FLOW)
Operating category (IFRS 18)	Residual category: all items not investing/financing. Includes core revenue and cost of business, plus returns on main SBMA. Depreciation, interest on core loans, underwriting P&L, etc. (Source: ciferi.com) (Source: www.taxnet.co.kr).	Operating CF: cash flows from primary business (premiums received, claims paid, interest received on financial assets etc.)
Investing category (IFRS 18)	Income/expense from <i>non-core</i> financial assets: dividends, interest, fair-value changes on non-main assets (Source: ciferi.com) (Source: www.faronline.se). (For insurers, mostly limited to equity-method profits.)	Investing CF: cash flows from acquisition/disposal of long-term assets (buying/selling bonds, equipment, etc.)
Operating example vs. IAS 7	E.g. depreciation of an asset is an <i>operating</i> expense (cost of usage) (Source: www.faronline.se).	IAS 7 treats purchase of PPE as investing outflow; depreciation is a non-cash add-back in operating CF (Source: www.taxnet.co.kr).
Financing category (IFRS 18)	Income/expense from pure financing: interest on borrowings, dividend (treasury debt), debt issuance costs (Source: www.faronline.se).	Financing CF: cash flows from borrowings and capital (debt/equity issues), interest paid, dividends paid
Example (interest)	Interest income on core investment loans = Operating (for insurers) (Source: www.iasplus.com); interest expense on debt = Financing (Source: www.faronline.se).	IAS 7 classifies interest received as operating (by default) and interest paid as operating (by default), though alternatives exist.

Notes: The IFRS 18 definitions focus on nature of assets/liabilities in P&L, not cash flows. For example, IFRS 18.B49 explicitly lists "interest income" from operating assets as operating profit (Source: www.faronline.se), whereas IAS 7 would have that interest received as part of operating cash flows. The two frameworks therefore serve different purposes and should not be conflated (Source: www.taxnet.co.kr).

Sources: The above conclusions on classification are drawn directly from IFRS 18 (see IFRS 18 paragraphs and Basis-for-Conclusions, particularly IFRS 18.53–54 (Source: www.iasplus.com) and IFRS 18.B48–B49 (Source: www.faronline.se), as well as authoritative interpretations by accounting firms. For insurers specifically, IFRS 18 requires that investment returns (including interest on loans/assets) be reported in operating profit (Source: www.soa.org) , and insurance finance income be excluded from financing (Source: www.soa.org). All claims and examples have been substantiated with these cited sources.

Tags: ifrs 18, insurance accounting, operating vs investing, financial reporting, ifrs 9, ifrs 17, main business activities

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