

Solving the IFRS 17 Puzzle: A practical guide to implementation challenges



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IFRS 17 has been a long time in the making but now the standard has finally arrived with an implementation deadline of 2021. Many insurers are feeling unprepared and overwhelmed by the challenge. There is no doubt that implementing IFRS 17 is going to involve a **large and complex program impacting many areas**. In this article, we will provide some pointers to getting started, designing an effective program and ultimately getting the most out of your investment.

There is going to be no silver bullet for IFRS 17, many vendors will be offering solutions, none will cover everything. We recommend a **modular approach** to structure and target the effort. Break the problem down so that it is not necessary to solve everything at once to get started. Some areas will be harder than others with different challenges. Given the relatively short timeframe it is important to get started on the foundations and not let some of the more technical questions derail the basics. You should aim to settle on the basic architecture early thinking about 5 core areas:-

- Data Sources
- Actuarial and risk modelling
- Calculation and accounting rules
- Finance ledger processes
- Reporting and disclosure

Our experience shows that **structuring the project around a calculation and accounting** rules engine has significant benefits for effective design, planning and implementation. Legerity FastPost centralises data and calculations all in one place. A modular approach works well but you need an anchor point to drive the activities and consistency in the decisions so it all fits together. End to end process can be designed for the core flows and then augmented for the complexities as the project progresses. Particular problems around the calculation of the risk adjustment, or disclosures, can be treated as separate work streams, but knowing that the requirements from a data output and posting perspective can still be defined.

Simplifying the requirements gathering through easy to manage user defined rules will speed up the project. Legerity FastPost can manage all required IFRS 17 rules and calculations configured to specific client requirements. Our experience shows that finance and actuarial teams are most comfortable working with Excel when defining requirements and solving problems. Our best practice methodology is to define the accounting and calculation requirements using pre-defined Excel templates. This approach greatly benefits the essential engagement with internal and external stakeholders to agree and sign off requirements. The templates are then used to implement the calculation and accounting rule configuration and subsequently to perform system testing prior to go live.

While the project is progressing the business needs to keep going with the day job. Utilising a new **sub ledger minimises** disruption to existing financial processes. Implementing a new ERP system will be too costly and time consuming for many. Building in the new detailed requirements into a sub ledger allows a state of the art granular accounting solution to be implemented whilst making only minimal chart of account changes to the existing general ledger.

It also allows you take advantage of modern low cost, highly scalable **cloud based deployment**, with open source infrastructure backed by the **massive compute power** of in memory data processing. This delivers a future proof IFRS 17 processes but without the risk and expense of full blown financial change across the board.

Our IFRS and accounting change experience tells us that it is a good idea to aim for the **lowest level of detail** possible at the start of the project. It can be tempting to take short cuts and decide to build the solution around aggregated data sets just to comply. Time and again that is usually proven to be a false economy. Implementation is a journey of many unknowns and along the way it is highly likely that a need will arise to slice information in unanticipated ways. For example, many of the impacts from a tax regulation perspective are not yet known. Aside from that the business will also not stand still and new requirements are likely to emerge even before the 1st phase is implemented. A granular foundation is essential to give you the best chance of adapting and reacting to change and evolution in the regulations as well as **onboarding the new and complex products** that the business will deliver. Accounting rules platforms such as Legerity FastPost enable a granular approach as high volumes of complex calculations can be rapidly processed, far faster than ever possible in the past. What used to take days or hours now takes minutes making a granular solution not just feasible but desirable.

With a big change in reported financials **transparency** of assumptions is essential, as will be **clear audit trails and reconciliation**. This requirement needs to be firmly embedded in the solution architecture. The advantage of putting an accounting rules engine at the heart of the solution is that you get exactly that. Audit and reconciliation is built into the rules engine “by design”. It is a specialist financial application with all the control, review and check features you would expect.

Having in mind a vision for your post go live processes at an early stage is vital. Details will be needed to **support analysis and understanding** and should be enabled at the start. IFRS 17 compliance will be the initial milestone but after that you need to think how the new reporting will impact the way you run the businesses. Having a secure and validated set of IFRS 17 aligned financials easily accessible across the organisation is very important. With systems like Legerity FastPost that provide, out of the box, a comprehensive data model and detailed sub-ledger this is a natural part of the solution. This will allow you to efficiently build on the compliance requirement to meet the future needs of drill down analysis, performance management, planning and budgeting and what if analysis. One of the benefits of IFRS 17 is that once the processes are set up core financials should be available faster and the outputs can be structured to also give you a forward-looking view of the business.

IFRS 17 is going to be a huge challenge, of that there is no doubt. But if you make the right choices, start early and have a focus on the future, in 2021 your organisation will be in a far better place than before.

If you would like to understand more how to solve the IFRS 17 puzzle and get the most out of your investment, please contact us at info@legerityfinancials.com or visit www.legerityfinancials.com.