

Shifting through the gears to IFRS 17

IFRS 17 Essentials





SHIFTING THROUGH THE GEARS TO IFRS 17

Next stop Proof of Concept

2 018 has been a year of mobilisation within the industry, as Insurers across the world continue to build momentum in developing their plans to comply with the regulatory changes and processing challenges of IFRS 17.

Legerity's FastPost accounting rules and calculation engine, combined with our team of specialist practitioners, places us in an advantageous position in providing our clients the solution they need.

Having already successfully delivered this type of change in other recent, large scale IFRS 17 accounting programs, Legerity is uniquely placed to help reduce risk and ensure success for Insurers' IFRS 17 programmes.

What have we learnt from a year of IFRS 17?

The Insurance industry has started to realise the challenges and opportunities of IFRS 17 and we have seen firms complete Impact Assessments and consider their 'next step'. Legerity has engaged with many firms over the last 12 months, progressing through our IFRS 17 workshops, 'Proof of Concept' programme and into their implementation phases.

Insurers should be looking to go beyond just compliance, as IFRS 17 gives our industry an opportunity to transform how the business is processed and supported. Reducing the cost base, whilst also utilising emerging technologies such as the Cloud,

compute on demand and open source infrastructure.

Proof of Concept – A successful route to market

Our Cloud-based IFRS 17 Proof of Concept program is proving extremely successful in helping firms take the next step along the journey towards compliance. Legerity FastPost demonstrates the power of market-leading technology and our unrivalled expertise.

Each PoC is time-boxed, scoped, and has a pre-agreed set of inputs and deliverables. Legerity's IFRS specialists work with client teams across a range of scenarios using our FastPost accounting rules, CSM, LRC and calculation engine technology. They demonstrate the platform's processing power, flexible configuration, comprehensive data management, and ability to integrate with existing systems seamlessly via a Software-as-a-Service (SaaS) model.

For those planning on running a Proof of Concept in the near future, it is important to define your PoC objectives - which accounting policy choices and business scenarios you are looking to validate, what is the most important criteria the PoC will prove, and functional or non-functional considerations.

12 Month Extension

The IASB recently voted to extend the deadline for IFRS 17, by 12 months, to January 2022. Some Insurers may welcome the

decision; however, deferral is not a reason to delay. Firms should not lose momentum on their IFRS 17 projects, as timescales will continue to be challenging even with an additional 12 months – and the extension is in recognition of the scale of work and change involved.

Insurers delaying any form of action are likely to end up paying bigger costs and face a high risk of not delivering compliance on time, if at all.

Forward-thinking Insurers are understanding the impact and requirements of IFRS 17 – planning the course of action, changing IFRS 17 from a business “tax”, and maximising their return on investment. By making key technology decisions, firms are embarking on a change program that delivers long-term benefits.

Looking forward

2019

In the first half of 2019 we will see firms moving into the implementation phase. A small number of firms started their PoCs early and have maintained a steady pace. They are now well placed with their programs and progressing into the ‘build’ phase.

The majority of the market are making progress with their technical papers, completing impact assessments and moving to configuring design requirements and data activities as part of a Proof of Concept.

However, at the other end of the spectrum are insurers who are not planning on running a PoC or were waiting on the delay to the standard. These firms may find it increasingly challenging to achieve compliance the longer it is not addressed.

2020/2021 – Refinement and Comparative Period

The aim within the market is to have an IFRS 17 system ready for the comparative period at the beginning of 2021. Firms will be required to provide IFRS 17 financial statements preceding the date of initial application – 1st January 2022. Running the system for a year leading up to January 2022 is vital, not only for compliance, but to ensure the new systems are functioning correctly, and convey an accurate representation of the business.

Beyond IFRS 17

Firms can address these accounting standards with solutions that not only ‘tick the compliance box’, but also deliver business benefits such as enabling granular data analytics and improving efficiency and performance management processes.

How Insurance firms are viewing IFRS 17 as a transformational opportunity

IFRS 17 can deliver more than just regulatory compliance. The industry is facing a sea change across the firm’s workflow, and three key components of Actuarial and Finance departments are changing and developing:

- **People** – The changing role of Actuarial and Finance teams, collaboration across departments and the changing nature of talent.
- **Process** – Going beyond IFRS 17 regulation and business competitiveness.
- **Technology** – The importance of Data, the Cloud and High Performance without rip and replace.

People

Changing Roles

IFRS 17 may be an accounting standard, but it is very dependent on actuarial input. It demands close collaboration and an integrated approach between Actuarial and Finance functions – and is a project that spans across these organisational silos. The new accounting standard will also extend beyond these departments, impacting back-office Data, Systems and Processes. Actuaries will need to support and understand the transaction based finance world and Finance teams will need to interact with Actuarial modelling output to validate results.

Collaborations across departments

At Legerity, we’ve found an event-based approach to implementation can improve collaboration between different business functions. We have adopted a data-driven, modular methodology rather than a high risk “big bang” approach which relies on bringing all the various moving parts together at the end of the change project.

Many firms are considering taking different approaches in terms of where to perform the various calculations and processes. Some processes have clear homes – modelling and risk sits with actuaries, control and disclosure with finance – but in between these more obvious cases are a number of IFRS 17 processes that sit in a grey area, particularly around calculation of the CSM and movements, producing journals and posting and matching detailed underlying transactions. Each organisation will design their process and architect their solutions with a different allocation of responsibility.

Project and team leads will need to engage and work with senior stakeholders across the organisation – some of whom may underestimate the complexity and resources required. In an industry that has historically underinvested in Finance and Actuarial systems, getting Executives on-board and behind these change programmes will play a real factor in each project’s success.

Changing nature of talent

There is potential for delays with large, multi-year change programs. Core program management should be established early on in the process and allocate internal experts to the project. Often only a few people know the data and systems well. Consider freeing them up by getting contractors to back-fill their day-to-day operational role.

Have a Target Operating Model for people, skills and resourcing. If you need to scale up areas like actuaries and finance experts, then hire them permanently and early. IFRS17 will not go away. With improved automation, highly-skilled employees will be able to transition from “low-end” tasks to more sophisticated roles.

External consultancy and vendor resource will be scarce too, so lock down your advisory and technology partners quickly.

Process

IFRS 17 Regulation

There is no doubt that implementing IFRS 17 is going to involve a large and complex program impacting many areas. 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 build the foundations and not let



some of the more technical questions derail the basics. You should aim to settle on the basic architecture early, examining these 5 core areas:

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

Rules Based

Accounting rules technology enables Insurance firms to implement a standard set of processes with a common data framework, while integrating with existing systems in a non-disruptive manner. This enables firms to establish a transparent and consistent view across the company – a single version of the truth shared by all stakeholders.

Beyond Regulation and Business Competitiveness

New compliance initiatives can lead to market confusion, with Technology providers claiming that their solutions offer an IFRS 17 'silver bullet'. That's simply not the case: no two Insurers are alike, and one size does not fit all.

While IFRS 17 implements a common set of new accounting standards for insurance contracts, the impact will be different for Life, General, Specialist and Reinsurance firms. Further factors including geographical location, legacy systems and technology refresh cycles, and business strategy, will also influence the level of change.

For Insurers with global footprints and multiple business lines, IFRS 17 offers a more consistent means to understand how different parts of the business contribute to performance. There is a clear need for a flexible, modular and future-proofed technology to tackle the complexity of IFRS 17 projects and handle the change in requirements that will happen over this multi-year program.

Technology

Cloud

Enterprise Cloud has developed significantly in recent years – growing into a secure, resilient and highly-scalable alternative to expensive and 'clunky' legacy approaches. Those trying to implement on premise are now looking at the cloud as their solution, having discovered via impact assessment or PoC just how costly and disruptive an on-premise installation can be – both during implementation and beyond in on-going maintenance.

A Cloud based IFRS 17 solution replaces costly physical hardware and data centres. The Cloud provides frictionless software updates, helping to future-proof your business and increase efficiency. Through on demand scalability, it can support innovation through new, complex Insurance products, and with sophisticated, granular risk models, it allows for a new wave of mass market instant issue offerings and new technology adoption – Internet of Things (IoT), Blockchain and Crypto Currencies.

Importance of Data

Insurance firms are massive data repositories, representing a huge opportunity. The new, more detailed reporting required by IFRS 17 will lead to a significant increase in the volume of data. Firms who fail to invest the necessary time and effort into a full consideration of the data implications will be starting from an immediate disadvantage.

Source data will be transformed and manipulated as it progresses along Finance and Risk workflows. Every step will need to be validated and assured. Firms will need to consider the multiple geographic footprints, historic acquisitions and differing levels of data maturity across businesses.

All relevant data should be captured now in preparation for January 2022, and data requirements need to be defined as soon as possible.

High Performance without Rip and Replace

Insurers are burdened with legacy systems, manual processes and archaic environments that are difficult to change and expensive to

maintain. IFRS 17 is an opportunity to transform these systems and to avail of new technologies. Legerity has built a targeted solution supported by a cutting edge, third generation architecture that significantly helps enterprise evolve.

Delivered as SaaS this approach has a critical role to play in this change, enabling organisations to leverage the latest applications, respond to opportunity with agility, and provide a better service, without the need for large scale “rip and replace” projects.

The Next Step

Proof of Concept

Selecting technology solutions to meet the needs of IFRS 17 is difficult and can be high-risk. Legerity’s Cloud-based Proof of Concept for IFRS 17 restores confidence in Insurers by delivering a clear and structured route from impact assessment to implementation and demonstrating the power of market-leading technology.

The IFRS 17 Extension

Lessons learnt from Solvency II and previous IFRS roll-outs tell us that technical details should not stop progress. We know that the extension in the timetable was given to allow the IASB time to potentially make changes.

Designs should combine standardisation with a modular approach, so that timelines to fix certain issues or implement any changes do not derail the overall project. Data, Systems and Process events can progress forward while technical challenges such as contract boundaries, coverage units, reinsurance, definition / policies and amortisation period are inserted over time.

Think Beyond Regulation to Transformation

For large, multinational insurers, IFRS 17 is the opportunity for worldwide consistency across Insurance contracts.

Insurers are required to be more transparent with their reporting, leading to better pricing and improving the relationship between customer and Insurer.

IFRS 17 will also benefit collaboration between actuaries and accountants, with finance and actuarial functions having to work closer together. Having worked in silos in the past, with little interaction, this newly-formed collaboration will be positive for both stakeholders and the business as a whole.

Insurers have the chance to invest in and update their back-office technology to deliver both business and operational benefits.

Insurers who take advantage of this opportunity will gain the competitive advantage, having transformed their legacy systems and technology estates to deliver real business benefits, sustainable growth, and the agility to compete. IFRS17 is a once in a generation opportunity and Legerity is here to realise this to the full potential with our clients. ■

Legerity FastPost is a third-generation accounting rules platform designed to help insurers meet the complex challenges of IFRS 17. For further information visit: www.legerityfinancials.com or email info@legerityfinancials.com or call +44 (0)20 7997 6985

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