



Testing times

Feedback from leading insurers on the front line of IFRS 17 implementation



Foreword

With a little more than one year to run before the date of the IFRS 17 opening balance sheet, the clock is ticking. KPMG firms have refreshed their approach to benchmarking insurers' readiness for IFRS 17 to focus on a selected group of 18 insurers in the Forbes 2020 Global 2000¹ from around the world which have had IFRS 17 implementation programs running for several years. By sharing this knowledge on an anonymized basis, we hope to provide useful insights to companies large and small as they work to make IFRS 17 a reality. Here are the headlines and key findings from the research.



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Approach and profile of respondents

Our analysis is based on responses in respect to 18 insurers headquartered in 12 countries and territories. Questions were grouped into four phases, corresponding to key blocks of tasks from project launch to go live as follows:




- Setup, impact assessment and design.
- Implementation: build, configure and test.
- Implementation: dry runs.
- Optimization, building comparatives and readiness for going live.

Detailed questions in each phase had five possible answers ranging from 1 (most sophisticated) to 5 (not yet started). Some insurers, particularly operational-focused filers who do not use IFRS as their primary basis of reporting, may choose not to position themselves at 1. Responses have been moderated for consistency.

“With little more than one year before the IFRS 17 opening balance sheet, the clock is ticking.”

¹ Global 2000 — The World's Largest Public Companies 2020. (n.d.) from <https://www.forbes.com/global2000/>

Responses in numbers

By size	> USD 50 billion ²	USD 35–50 billion	USD 15–35 billion	USD 5–15 billion
	22%	28%	28%	22%
By geography ³	Americas	Asia Pacific	Europe, Middle East and Africa	
	17%	28%	55%	
By segment	Composites (including reinsurers)	Life	Property Casualty	
	44%	28%	28%	

Headquarters of participating insurers



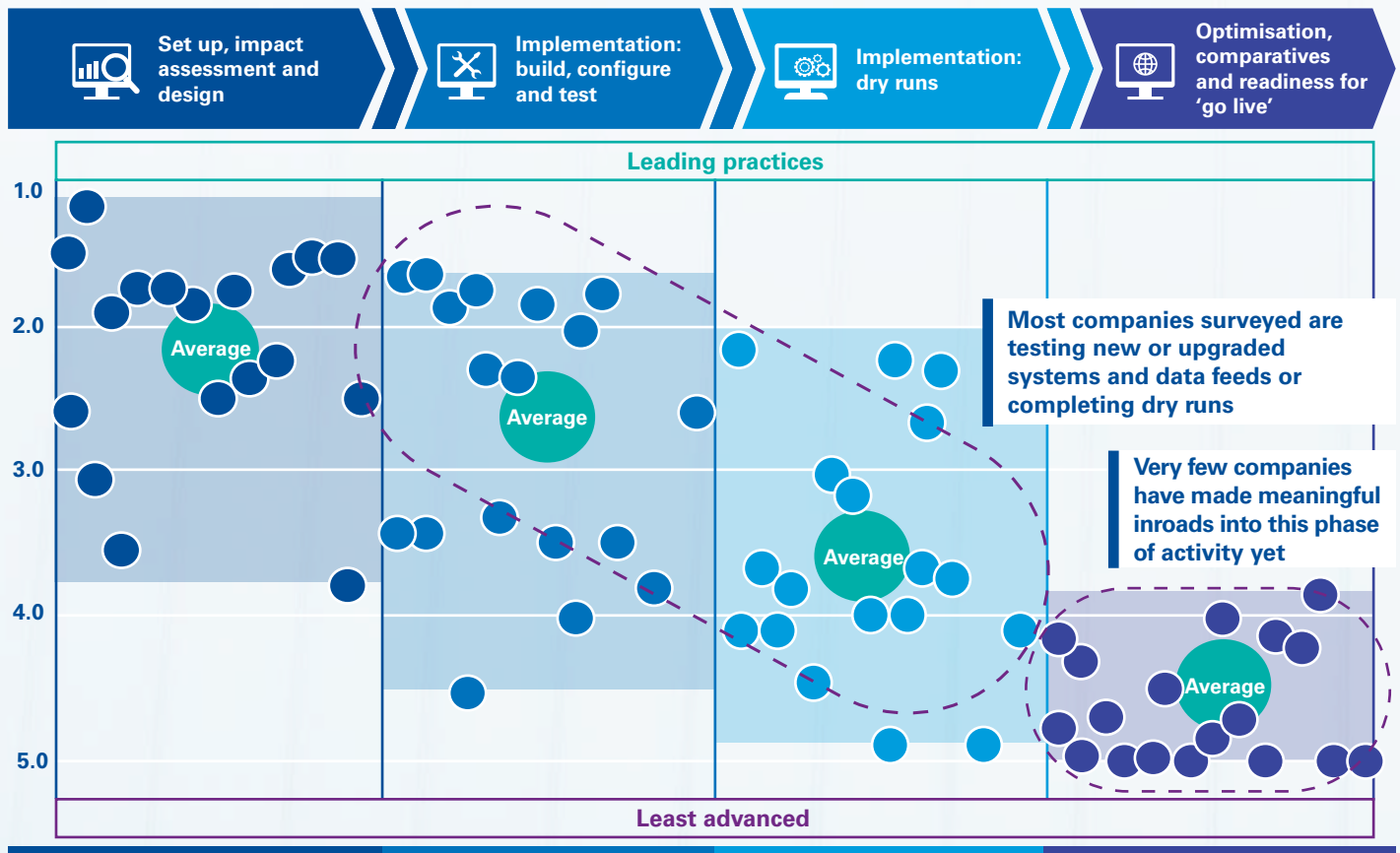
² Based on 2019 Gross Written Premiums in US dollars

³ Based on location of group headquarters

IFRS 17 implementation in four phases: overview

Two thirds of respondents have completed updating their target finance systems architecture and are deep into testing their preferred IFRS 17 solution. Twenty percent of companies in our survey have completed end to end dry runs across at least part of their business, although the majority are not there yet, completing builds and initial testing. Among the companies surveyed, trends by size and geography are not significant, although composites and life insurers generally appear further advanced than property casualty insurers.

“Twenty percent of companies in our survey have completed end to end dry runs across at least part of their business, although the majority are not there yet, completing builds and initial testing.”



Source: IFRS 17 benchmarking survey, KPMG International, December 2020.



1. Set up, impact assessment and design



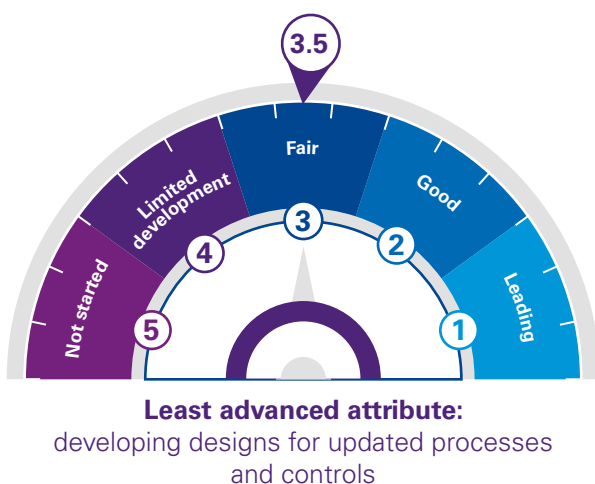
Where are the leaders?

All the companies in our survey have multi-year and multi-jurisdiction programs which have been in flight for several years. Two thirds have developed their target finance systems architecture and selected and designed relevant IT solutions and two thirds have developed a full suite of policy and methodology papers to guide design and implementation.



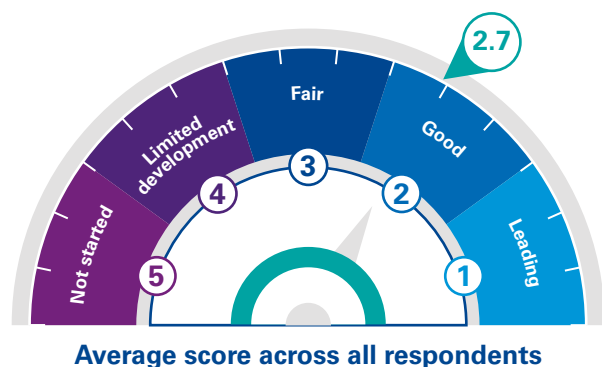
What could work better

- 80 percent of companies have refreshed their **finance TOM** but only a minority use it to guide design decisions.
- Two thirds of companies find it a challenge to deliver appropriate functional **training** to relevant staff at the right time.
- Even among leading companies developing designs for updated **processes and controls** is lagging — this is the least advanced of all tasks in this phase.



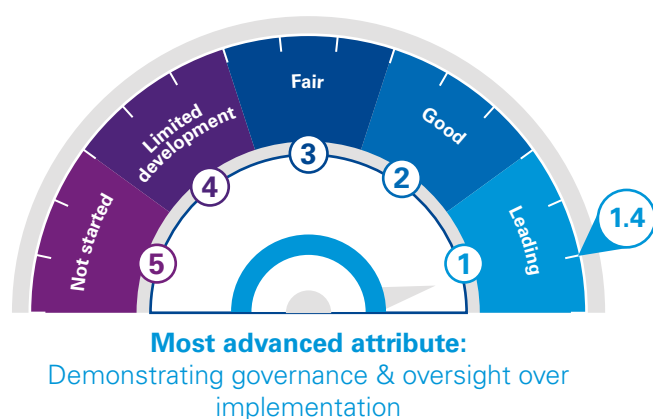
Source: IFRS 17 benchmarking survey, KPMG International, December 2020.

2. Implementation: build, configure and test



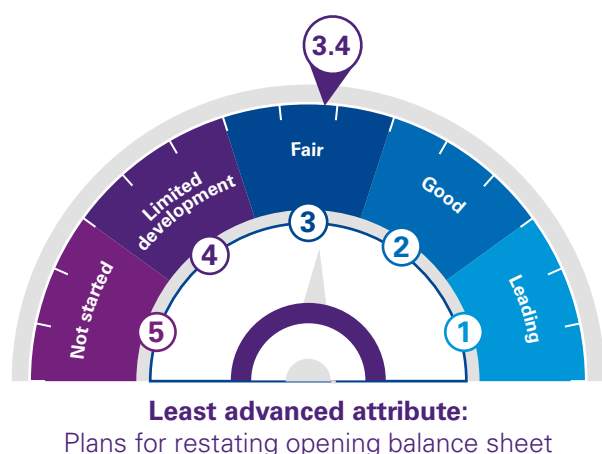
Where are the leaders?

Half of respondents have fully updated IT systems which have either been tested or are ready for testing and half have completed updating actuarial models and one third have updated new data feeds.



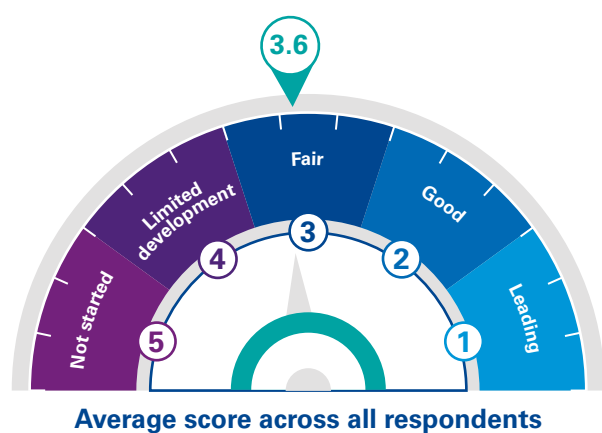
What could work better

- Only 10 percent have involved all three lines of defense in testing **updates to IT systems**
- Half do not yet have a reasonably complete draft of their updated financial statements and have not yet updated their chart of accounts and posting schemes — an important proof point to define data requirements with one third acknowledging there is still further work needed to identify **new data requirements and sources**.
- Nearly 80 percent are still developing their **approach to transition** and building their opening balance sheet.



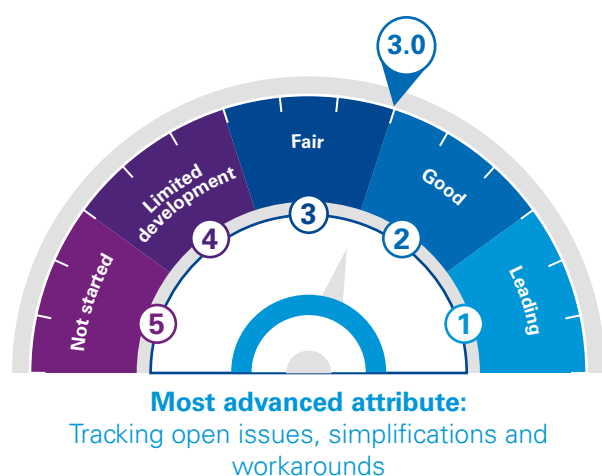
Source: IFRS 17 benchmarking survey, KPMG International, December 2020.

3. Implementation: dry runs



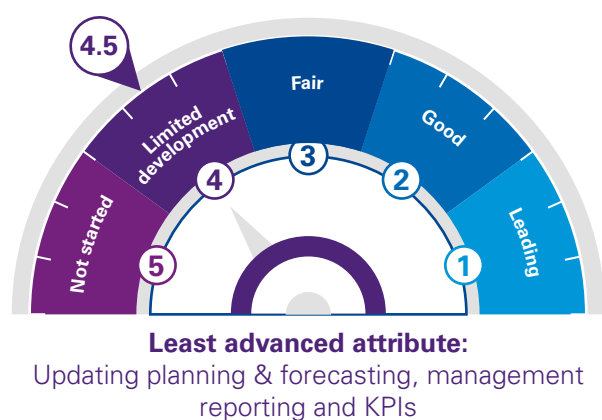
Where are the leaders?

Twenty percent of companies have completed end to end dry runs across at least part of their business. One third have developed plans to handle parallel running once their opening balance sheet has been developed, although only two companies have completed updating their consolidation systems and so several of those that have completed dry runs are using workarounds to collate the data.

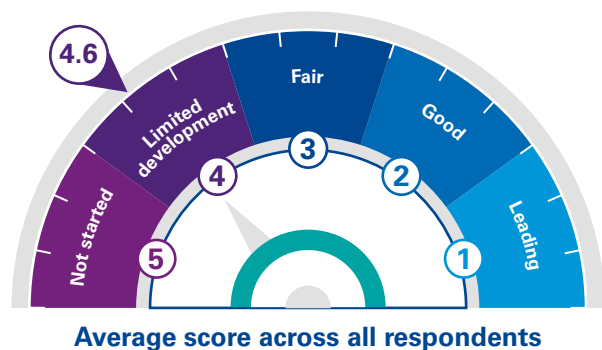


What could work better

- Forty percent of companies are not tracking and prioritizing open issues, workarounds and matters of interpretation creating **greater challenges in demonstrating governance and oversight** compared with earlier phases.
- Eighty five percent of companies have not yet designed quantitative IAS 8 disclosures (disclosure of the impact of forthcoming changes), an important public disclosure of the impact of these changes.
- Updating planning and forecasting, management reporting and key performance indicators is a major task for those where IFRS is the group's main basis of reporting.



4. Optimization, comparatives and readiness for go live

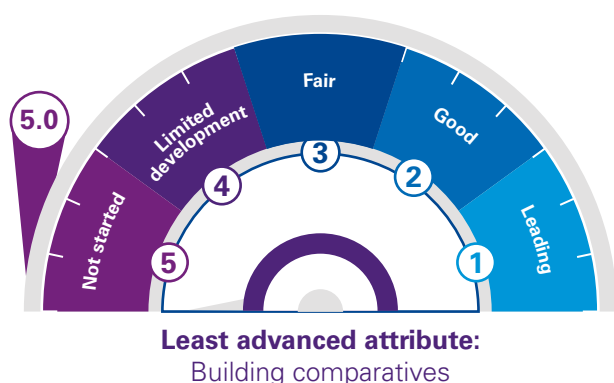
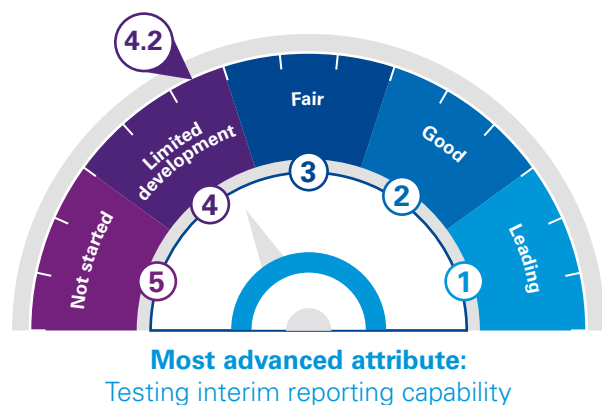


Where are the leaders?

Unsurprisingly, few companies have yet to develop detailed plans for this phase of activity. Of those that have developed plans to tackle transition and build comparatives, a quarter have developed plans to test their interim reporting capability separately from their full close — a subtlety often overlooked.

We will revisit and share progress over future months and years.

“Forty percent of companies are not tracking and prioritizing open issues, workarounds and matters of interpretation creating challenges in demonstrating governance and oversight.”



Source: IFRS 17 benchmarking survey, KPMG International, December 2020.

In conclusion

Our study covers some of the largest insurers around the world, with significant resources and bandwidth. What hallmarks distinguish those that stand out from the pack and are tackling IFRS 17 with confidence?

Early analysis of data and disclosures: Front runners identify disclosure requirements rigorously at an early stage of their implementation program and use this to guide data requirements and design decisions, avoiding costly rework.

Effective use of working assumptions: Allows multiple tasks to proceed in parallel rather than sequentially, accelerating progress in a compressed time frame. Front runners define working assumptions, keep them under careful review and refine them as interpretations evolve, rather than back end loading critical decisions.

Staying in control: Front runners implement effective governance and oversight from the get go, allowing them to identify slippages and correct where needed. They understand the need to design and test controls throughout implementation as well as controls over new reporting processes, avoiding a scramble to back-fit controls close to the finish line.

Rigorous testing: Closely linked to controls, front runners understand the importance of testing; testing new data feeds, new systems, new processes and new reports and results. They plan for rigorous testing and know they need to allow the time for re-work and re-testing in order to face the new world of IFRS 17 in confidence.

So what should you be doing?

Use our study to harness the experiences of leading insurers to accelerate your IFRS 17 journey. With less than a year to run before the date of the IFRS 17 opening balance sheet, the clock is ticking. The journey to implementation is not easy, and late starters face multiple jeopardies — more ground to cover and a smaller talent pool on which to draw. Those who delay also risk forgoing the opportunity to be strategic in how they operationalize the new standards and to achieve greater efficiency. Even front runners don't have the luxury of much time to spare. And even among the largest and best resourced insurers some are finding they need to take decisive action to re-invigorate their implementation program and secure more resources to accelerate progress and reduce project risk.

Take this opportunity to evaluate your implementation program. Should the warning lights be starting to flash? If so, here are five techniques to help re-frame and recover the program, and if applied diligently, return its risk-rating to green.

1. Check from right to left: Given that insurance entities are implementing the complexities of IFRS 17 for the first time some project creep is inevitable. Working from right to left involves sense-checking what tasks need to be completed by which date by working backwards from the date of going live, identifying everything that is truly needed. Use this to align resource requirements and focus efforts on what is truly crucial to the critical path.

2. Work in focused, short sprints: Having identified what tasks are truly on the critical path after allowing for testing, remediation and adequate re-testing, break tasks down into short sprints for targeted effort by multi-disciplinary teams to help unblock delays.

3. Bring your people in: Few programs have as many dedicated people as they would like. The time spent in building training and on-boarding materials can reap dividends if the materials can be re-used by multiple people in the business to expand the resource base. Not only does this help share the heavy lifting it also helps to raise awareness of IFRS 17 among those who will deliver, use and explain results in due course.

4. Work in parallel: Working on tasks in parallel based on consistent working assumptions helps create capacity in pressurized time lines.

5. Build basic first, then refine and optimize: Many insurers started out with ambitious plans to use IFRS 17 to revamp their finance operations as they implement IFRS 17. Rather than getting to the target end state in one leap it may be more realistic to focus on building to a basic specification first and focus later on optimization, refinement and efficiency. But don't lose sight of that vision and don't forget that the basic specification needs to be tested and controlled and that interim processes and controls may be more resource-intensive than your target end state.

How KPMG firms can help you

IFRS 17 presents the opportunity to realize real benefits for your business, although implementation of IFRS 17 and IFRS 9 is a daunting task.

KPMG firms understand that IFRS 17 implementation is more than just an accounting and actuarial exercise: insurers need a finance operating model that supports efficient and informed reporting and powers enhanced performance. This approach is tailored to help answer the questions that are important to our clients, while building on the market leading knowledge of KPMG professionals who:

- Have a hypothesis-driven approach, starting top down to allow design decisions to be taken earlier, reducing demands on scarce resources;
- Bring deep market insights from advising insurers at the forefront of IFRS 17 implementation, offering practical solutions to complex requirements that can help accelerate progress;

- Understand that one size does not fit all, enabling laser focus on the issues that matter to you;
- Leverage proprietary tools and accelerators to fast track your implementation, custom-fitting our approach to meet your needs, whether quick wins and streamlined reporting or enhanced teamwork, insights and performance management;
- Experienced teams bring you insights every step of the way, actively promoting knowledge transfer to your people from the outset so that you build a solid foundation to deliver new ways of working.

To learn more about how KPMG firms can help unlock value from your IFRS 17 program please speak to your usual KPMG contact or any of the contacts listed on the last page.



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