Navigating change

Feedback from insurers on the frontline of IFRS 17 and IFRS 9 implementation

Helping make the best insurers better

kpmg.com/insurancechange
Foreword

With the publication of IFRS 17 on 18 May 2017, an important stage of the journey to deliver a global financial reporting standard on Insurance Contracts came to a close. Insurers are now embarking on a new journey — to implement the new standard and make it operational alongside IFRS 9. As they do so a second wave of activity by local accounting standard setters, prudential regulators and tax authorities has been unleashed in some countries as they analyze whether, how and when to adopt the standard in their local jurisdictions and start thinking about the second order effects on tax and capital standards. In other jurisdictions local authorities may decide not to make any change to local regulations as a consequence of IFRS 17.

As we work with insurers around the world to analyze what IFRS 17 and IFRS 9 mean for their business and how best to implement them, we are faced with many questions. The single question we hear most often is: “How does my progress compare with my peers around the world?”

Measuring progress towards implementation is challenging — each insurer is different, with different business models and strategies, working within different regulatory frameworks, with a wide variety of legacy systems, different levels of sophistication of their finance and actuarial functions and a different appetite for change.

To help answer this question and find out how well-prepared insurance companies are for implementation, KPMG fielded a survey of insurers around the world to benchmark their readiness for IFRS 17 and IFRS 9. More than 80 insurers responded, drawn from over 20 countries, including 15 of the 20 largest insurers in the Forbes 2017 Global 2000 that report using IFRS. This report provides headlines and key findings, with more detailed analysis made available confidentially to respondents.

Its results make for thought-provoking reading and highlight the challenges of operationalizing change of this magnitude. Even in comparison to the regulatory changes the industry has dealt with in the past decade, in particular Solvency II, these new standards represent a daunting challenge. Management teams are navigating a new and unfamiliar world, interpreting two complex new standards while trying to second guess when and how they will be applied locally.

We hope this report will help management teams to validate their plans and assess their progress against their peers.

Mary Trussell
Global Insurance Accounting Change Leader
KPMG International
## Table of contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Survey highlights</td>
<td>04</td>
</tr>
<tr>
<td>Where are insurers on the journey to implement IFRS 17 and IFRS 9?</td>
<td>06</td>
</tr>
<tr>
<td>People, training and resources</td>
<td>10</td>
</tr>
<tr>
<td>Data, systems and processes</td>
<td>13</td>
</tr>
<tr>
<td>Conceptual challenges and business impacts</td>
<td>18</td>
</tr>
<tr>
<td>In conclusion, a call to action</td>
<td>22</td>
</tr>
<tr>
<td>Profile of respondents</td>
<td>23</td>
</tr>
</tbody>
</table>
Key findings
A call to action as insurers face shared uncertainties

Assessing impact — or not yet started

- **65%** of respondents haven’t started either an IFRS 17 or IFRS 9 project yet and/or are still following developments.

Larger companies are more likely to be further along on both IFRS 17 and IFRS 9.

- **Over 40%** replied "I do not know" to 10 or more questions.

The majority of respondents are targeting readiness on or before 2021 to allow for dry-running of new processes.

- **5%** plan to implement after 2021

**Top opportunities**
- 47% systems modernization
- 45% process optimization and actuarial transformation
- 41% finance transformation

Respondents foresee difficulties in securing sufficient skilled people to do the job.

Over 6/10 8/10 respondents don’t yet know if they will buy or build.

Companies further along with implementing the new standards are more concerned with securing skilled people than budget.

Late starters face a double jeopardy — more ground to make up and a smaller talent pool available from which to deliver it.

**Assessing impact — or not yet started**

- **65%** IFRS 9
- **85%** IFRS 17

© 2017 KPMG International Cooperative (“KPMG International”). KPMG International provides no client services and is a Swiss entity with which the independent member firms of the KPMG network are affiliated.
8/10 respondents foresee difficulties in securing sufficient skilled people to do the job.

6/10 of respondents are worried about securing the necessary budget.

People at a premium

Companies further along with implementing the new standards are more concerned with securing skilled people than budget. **Late starters face a double jeopardy** — more ground to make up and a smaller talent pool available from which to deliver it.

CSM calculator

Over **50%** of respondents don’t yet know if they will buy or build.

Top opportunities

Despite the scale of the challenges, two thirds of companies are keen to seize the opportunity to transform their business:

- **47%** systems modernization
- **45%** process optimization and actuarial transformation
- **41%** finance transformation
Where are insurers on the journey to implement IFRS 17 and IFRS 9?

**Time already seems to be running short**

— Eighty-five percent of respondents admit they are still assessing the impact of IFRS 17 or, in some cases have not yet begun their assessment.

— Twenty-seven percent of companies either haven’t started or are following the developments in respect of IFRS 17.

— Progress on IFRS 9 is a little more advanced, but even so 65 percent of respondents are still assessing the impact or have yet to get started.

— Thirty-six percent of companies haven’t started an IFRS 17 or IFRS 9 project yet and/or are still following developments.

**Thorough impact assessment — a critical enabler of efficient implementation**

A thorough assessment of the implications and effort required for implementation will position companies for a more effective design and execution process, but time is already running short for those companies that have yet to start on the journey. Companies that are not able to wrap up their impact assessment in the near future may find themselves challenged to design and implement process and systems changes before the effective date. Global regulators are urging action.

**What will this mean with regard to these companies’ ability to comply with the new standard?**

Time will tell. It seems likely that these companies may find themselves forced to rely on interim processes and manual controls when they ‘go live’, delaying the introduction of new systems or other automated processes until sometime after the effective date. As reliance on manual processes increases, these companies may be faced with heightened operational risks, increased costs, and less efficient operations. In summary, those companies that delay may have no choice but to reduce their implementation efforts to an accounting and actuarial ‘compliance’ exercise. They are likely to forgo the opportunity to be strategic in how they operationalize the new standards, and may miss the chance to achieve greater efficiency and become fluent in the new reporting language before going live.

---

1 Financial Stability Board encourages firms to start the implementation efforts as soon as possible http://www.fsb.org/2017/07/fsb-welcomes-new-insurance-accounting-standard/
Having adopted IFRS in 2005 Australia has been pro-active in adopting new IFRSs. IFRS 9 was adopted as AASB 9, issued in December 2014 with an effective date of 1 January 2018. IFRS 17 has been adopted as AASB 17, issued in July 2017 with an effective date of 1 January 2021. Australia has established its own Transition Resource Group to support the implementation of AASB 17.

The scale of what needs to be done to comply with IFRS 17 is underestimated by many companies. As companies delve deeper into the detail of IFRS 17, they realize that it is more and more complex and has broader operational implications than they originally anticipated. This is true of any big accounting change; it was our experience getting ready for IFRS 9.

—Briallen Cummings
Partner
KPMG Australia

36% of companies haven’t started or are still following developments for either IFRS 17 or IFRS 9

© 2017 KPMG International Cooperative (“KPMG International”). KPMG International provides no client services and is a Swiss entity with which the independent member firms of the KPMG network are affiliated.
While some might be counting on a protracted European Union endorsement process, our research shows that in Asia Pacific, in particular, insurers are lagging their global peers: 40 percent of respondents from this region have either not yet started or are simply following developments. Given the number of jurisdictions in the region that use IFRS or IFRS-based standards for solo reporting, time may already be running short for some of these entities.

**Ambitious plans for parallel running ahead of ‘going live’**

Given the complexity of IFRS 17 and IFRS 9, many companies are planning to dry run IFRS 17 ahead of the effective date of 1 January 2021. Almost six out of 10 are expecting one or two years of parallel running ahead of ‘going live’ with IFRS 17 and IFRS 9 in 2021. This will reduce the period available to assess, design and implement new systems. This brings into stark focus the extent of the challenge facing the 36 percent of our respondents who haven’t yet started assessing the impact of either of the standards on their business. Assuming most companies will want at least one year of parallel running this gives companies only two years in which to assess the business impact of the standards, and to design, build and test new systems or amendments to existing systems, as well as establish new processes and controls.

**Some companies are already planning for local implementation after 1 January 2021**

Five percent of respondents are planning for local implementation later than the IASB effective date of 1 January 2021. These are typically respondents from countries that either have adopted IFRS only recently, or where the use of IFRS is not yet mandatory, such as Japan.

---

<table>
<thead>
<tr>
<th>Expected years of parallel run prior to going live with IFRS 17 and IFRS 9</th>
<th>% of respondents (n=79)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Two years</td>
<td>16%</td>
</tr>
<tr>
<td>One year</td>
<td>47%</td>
</tr>
<tr>
<td>Half year</td>
<td>6%</td>
</tr>
<tr>
<td>Other</td>
<td>3%</td>
</tr>
<tr>
<td>Don't know yet</td>
<td>28%</td>
</tr>
</tbody>
</table>

**IFRS 9 is as relevant for insurers as IFRS 17. If you want to manage your balance sheet, you have to look at the assets and the liabilities as well as understand the IFRS 9 implications and their interaction. And this needs to be done simultaneously. Otherwise, you will end up with undesired results on both equity and the profit and loss account. These policy decisions need to fit together.**

— Joachim Kölschbach
Global Insurance IFRS Leader
KPMG in Germany
Subsidiaries may feel a double level of uncertainty. One is the uncertainty of the impact on the industry. The other is what directives and processes are going to be handed down from headquarters, while the subsidiaries also have national considerations to contend with. If you’re doing a pilot study, you’ve got to think about your geographies, do enough work to be able to have some idea of what the overall impacts might be and make sure that is communicated around the group.

—Johannes Pastor
Global Financial Services
Audit Lead Partner and
National Practice Insurance Lead
KPMG in Canada
People, training and resources

The people challenges are significant
- Twelve percent of respondents already have more than 50 internal FTEs focused on the project full time, with the numbers assigned correlating closely with the size of the company.
- Eight out of 10 respondents believe that securing enough people with the right skills is a significant challenge. All respondents plan to make some use of external resources such as contractors and consultants.
- Twenty-three percent of respondents are from companies that have not yet started training people on IFRS 17 and 31 percent have not yet started training on IFRS 9.
- Six out of 10 respondents find securing the necessary financial budget to be challenging.

The resource challenges are profound, with people challenges reported as a greater concern than securing the necessary budget.

The financial cost of the implementation effort is front-of-mind for many insurers, but our survey shows that the scarcity of people with the right skills is potentially of even greater concern. Most larger companies already have between five and 50 internal FTEs dedicated to IFRS 17 and 9, with 12 percent of respondents, typically from the very largest companies, having a task force of over 50.

Expectations of signification resource challenges in implementation
% of respondents, select all that apply (n=81)

Before you start on the IFRS 17 implementation project, you worry about the budget. And once you’re started, you’re more worried about the scarcity of skilled people and the complexity. There is a genuine fear in the industry that skilled people will get poached by the competition.

—Laura Gray
Principal
KPMG in the US

77% 58%
Yes — securing sufficient skilled people Yes — securing adequate budget

© 2017 KPMG International Cooperative (“KPMG International”). KPMG International provides no client services and is a Swiss entity with which the independent member firms of the KPMG network are affiliated.
Mid-size companies have up to 25 internal FTEs assigned and most smaller companies have four or fewer dedicated internal FTEs. For an industry that faces severe competition for talent, these demands are significant and, for many, it is unprecedented.

Experience tells us that, for some organizations, securing the right people has been a catalyst for an early start to IFRS 17 and IFRS 9 implementation. We see smaller companies that are commencing late facing a double challenge having both to run to catch up on implementation efforts and to compete for staff in a shrinking talent pool, as other companies’ secure skilled people earlier.

This transition requires cultural change

Training is needed to ensure the business is aligned and could help expand the internal resource pool, but it does not yet seem to be well aligned with the tasks at hand. Training on IFRS 17 is running slightly ahead of training for IFRS 9, even though most large groups contain some entities that will need to adopt IFRS 9 on a solo basis in 2018. For both standards, companies are focusing their training on key staff rather than all layers of the organization. In due course, all layers of the organization will need to be trained. This will involve learning a whole new language to understand and explain the results of the business. This requires a cultural change, as well as the acquisition of new knowledge.

The mega-insurance companies see beyond the project costs to the impact process improvement (or the lack thereof) will have on their on-going running costs. Smaller companies are generally focused on compliance. They typically don’t suffer from the same degree of legacy systems-related issues and are more focused on how they free up sufficient resources to get the job done.

— Dana Chaput
Insurance Accounting Change Leader
KPMG in Canada
Initiation of IFRS 17 and 9 training among staff and board
% of respondents (n=77)

Companies should consider whether they have set aside enough in their budget to cover the costs of completing the implementation

For a change initiative of this scale and complexity, the cost of both internal and external resources can be substantial. In our survey the majority of respondents were able to provide a cost estimate, with 3 percent currently estimating the cost to be greater than US$250 million, 8 percent currently estimating the cost to be greater than US$100 million, 11 percent greater than US$50 million, 24 percent greater than US$20 million and 43 percent with current budgets of less than US$20 million. These estimates correlate closely with the size and complexity of the company.

Given that many companies are only in the early parts of their assessment phase, cost estimates at the lower end of the range may increase as companies gain better insight into what is involved.

—Pierre Planchon
Global Audit IFRS 17 Lead Partner
KPMG in France

Having implemented the EU’s Solvency II directive, many European insurers have already gathered the main tools and skills to master the topic from a technical perspective. But then they need to layer on the granularity of the data and the level of aggregation, which is driving the mass of data that they are going to have to cope with. This is not linear and the requirements can quickly appear overwhelming. To overcome this requires awareness at the top of the house — and significant discipline.
A high proportion of respondents do not yet have an answer to a number of conceptual IFRS 17 questions and the more they dig, the more they conclude their approach might vary by geography and portfolio. The answer to most of those questions needs to be embedded in the IT systems and if insurers don’t know what approach they will take, then they don’t know how to design the systems architecture of the future.

—Ferdia Byrne
Global Actuarial Lead Partner
KPMG in the UK

### Critical factors on the path to implementation

Most respondents expect to implement new systems or to change existing systems in order to operationalize the new standards and to centralize and automate actuarial modeling systems.

- Thirty-seven percent of respondents expect these changes to have a significant impact on their core administration and feeder systems and 64 percent expect them to have a significant impact on their finance and actuarial systems.

- Fifty-four percent of respondent do not yet know whether they will buy or build a contractual service margin (CSM) calculator. Among those that do know, there is a small preference towards building rather than buying. This is an important component of their target systems architecture since the need to calculate the CSM is wholly new.

- Despite the scale of the challenges in implementing the new standards, two thirds of companies are keen to seize the opportunity to transform their business: top opportunities include systems modernization (47 percent), process optimization and actuarial transformation (45 percent each) and finance transformation (41 percent).

- Only 3 out of 10 respondents are not considering other opportunities and this is significantly higher among smaller companies.

### The impact on systems is significant and the need to specify, design, implement and test new systems is a key driver of the implementation timeline

#### Level of change expected

% of respondents (n=76)

- Core administration systems and feeder systems
  - High: 21%
  - Medium: 37%
  - Low: 42%

- Finance IT systems
  - High: 64%
  - Medium: 32%
  - Low: 4%
Most companies expect significant change to their finance systems with the bigger insurers reporting that they expect greater change. As companies get further through their impact assessment the perceived extent of change increases. In contrast companies are more evenly divided as to whether core administration and feeder systems need wholesale change.

Implementing systems, including configuration of the software, can easily require between nine and 18 months. Insurers need to work hard to wrap up their assessments and complete their design activities, including the selection of software, as soon as possible, so they can begin that implementation process.

A systematic approach to analyzing the impact of IFRS 17 on finance systems

The following schematic shows the typical layers of an insurer’s finance and actuarial systems and illustrates a systematic approach to analyzing the impact of IFRS 17 on each layer of the systems. It ‘peels the onion’ layer by layer for those companies yet to commence this analysis. Few companies have the budget or the appetite to contemplate end-to-end replacement or overhaul of their finance systems and this schematic helps analyze the minimum changes needed to get ready for IFRS 17.

### Reflective system challenges

<table>
<thead>
<tr>
<th>Layer</th>
<th>Key components by layer</th>
<th>IFRS 17 challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Workflow management tool</td>
<td>— re-use</td>
</tr>
<tr>
<td></td>
<td>Consolidation system</td>
<td>— new chart of accounts</td>
</tr>
<tr>
<td></td>
<td></td>
<td>— redefine consolidation measures</td>
</tr>
<tr>
<td></td>
<td></td>
<td>— new disclosures</td>
</tr>
<tr>
<td></td>
<td></td>
<td>— double working during dry runs</td>
</tr>
<tr>
<td>2</td>
<td>General ledger</td>
<td>— re-use</td>
</tr>
<tr>
<td></td>
<td></td>
<td>— new chart of accounts</td>
</tr>
<tr>
<td></td>
<td></td>
<td>— new reports</td>
</tr>
<tr>
<td></td>
<td></td>
<td>— double working during dry runs</td>
</tr>
<tr>
<td>3</td>
<td>Posting engine</td>
<td>— update for new requirements</td>
</tr>
<tr>
<td></td>
<td></td>
<td>— automate</td>
</tr>
<tr>
<td>4</td>
<td>CSM engine</td>
<td>— define solution</td>
</tr>
<tr>
<td></td>
<td>Accounting and reporting</td>
<td>— buy or build</td>
</tr>
<tr>
<td></td>
<td>Actuarial</td>
<td>— sub-ledger or boutique solution</td>
</tr>
<tr>
<td>5</td>
<td>Actuarial results database</td>
<td>— reuse or upgrade</td>
</tr>
<tr>
<td>6</td>
<td>Actuarial tools and models (including input database)</td>
<td>— configure and enhance</td>
</tr>
<tr>
<td>7</td>
<td>Feeder systems</td>
<td>— harden and control</td>
</tr>
<tr>
<td></td>
<td></td>
<td>— limit change</td>
</tr>
</tbody>
</table>
Since insurers have such different starting points it follows that their paths to IFRS 17 implementation differ. Nevertheless, there are some important common steps to build a useful implementation road map: first, address those parts of IFRS 17 that are going to have the biggest impact on data and systems design and development. Then, focus on those that have the biggest impact on steering the business. Make assumptions about such things as the discount rate and risk adjustment, and then design, test and learn. Assumptions can then be fine-tuned in the run up to go live.

— Martin Hoser
Global IFRS 17 Data and Systems Lead Partner
KPMG in Germany
In addition to the mandatory changes necessary to meet the new requirements, other insurers are taking a more strategic approach and are using IFRS 17 as the catalyst to selectively overhaul key components of their finance and actuarial systems. Here we most commonly see forward-looking insurers investing to upgrade actuarial modeling systems and implementing automated workflow management systems. This will help provide structure and controls around the new more complex close cycle required by IFRS 17 and IFRS 9.

The CSM — a whole new challenge

One of the most significant systems challenges that insurers are facing for the first time is operationalizing the CSM. Our survey revealed that a significant majority favor positioning their CSM calculator within their actuarial systems. Yet despite the focus the CSM has received as a completely new concept and the central role it plays in the IFRS 17 finance operating model almost six out of 10 respondents have not yet formed an initial view on whether to buy or build their CSM calculator. A small majority of those that have decided currently favor building rather than buying. Smaller companies show a greater propensity to build rather than buy — perhaps reflecting the fact that they are typically progressed less far along the impact assessment. Hence, the complexity of the system changes required have not yet been fully evaluated. This is an important decision underpinning the target finance architecture and needs to be made soon in order to meet made deadlines.

Companies need to wrap up their assessment and complete their design activities, including a decision on whether to buy or build a CSM calculator. If buying, they need to work out what solution to select so they can begin the process of implementation and testing. Whether buying or building they need to work out where best to position it.

Plans for the CSM engine

Current plan to source CSM calculation module

<table>
<thead>
<tr>
<th>% of respondents (n=76)</th>
<th>Buy CSM calculator</th>
<th>Build CSM calculator</th>
<th>Don't know yet</th>
</tr>
</thead>
<tbody>
<tr>
<td>38%</td>
<td>45%</td>
<td>12%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Current plan for location of the CSM calculation module

<table>
<thead>
<tr>
<th>% of respondents (n=76)</th>
<th>Actuarial systems</th>
<th>Accounting systems</th>
<th>Independent of both</th>
<th>Don't know yet</th>
</tr>
</thead>
<tbody>
<tr>
<td>54%</td>
<td>26%</td>
<td>20%</td>
<td>12%</td>
<td>5%</td>
</tr>
</tbody>
</table>

© 2017 KPMG International Cooperative (“KPMG International”). KPMG International provides no client services and is a Swiss entity with which the independent member firms of the KPMG network are affiliated.
Ambitious plans addressing pre-existing operational challenges — particularly among the largest insurers

We asked our survey participants whether they plan to tackle existing operational challenges as part of implementing the new standards. Sixty-nine percent of respondents have ambitious plans to explore related opportunities at the same time as implementing IFRS 17 and IFRS 9, particularly so among the largest companies. This is a laudable goal. However, companies that are behind in their implementation efforts may soon realize they are running out of time and therefore no longer have the scope to address these pre-existing operational challenges, reducing the business benefits of their investment in implementing new systems.

Related opportunities explored while implementing the new standard
% of respondents, select all that apply (n=78)

- **47%** Systems modernization
- **45%** Process optimization
- **45%** Actuarial transformation
- **41%** Finance transformation
- **13%** Cost reduction
- **10%** Robotics and digital labor
- **4%** Others
- **31%** No — Only compliance with IFRS 17 and IFRS 9

It would be a mistake not to make the most out of what you have to do anyway. If you look at the combined effect with other regulatory changes, such as changes in capital regimes, that is an extra argument to say, okay, do it once and do it right.

— Erik Bleekrode
Asia Pacific Insurance Accounting Change
Lead Partner
KPMG China
The extent of uncertainty is significant

- Across 16 survey questions related to implementation where, “I do not know” was an option, over 40 percent of respondents answered “I do not know” to 10 or more questions. This confirms the need to press ahead with assessment activities.

- Three groups of related conceptual challenges dominate:
  - transition including the impact on opening equity and difficulties with historical data — 27 percent haven’t started work on it or are following developments and difficulties with historical data (41 percent)
  - determining the unit of account and hence an appropriate level of aggregation and identification of onerous contracts — 68 percent
  - more generic data requirements including their granularity — 64 percent.

- Almost all respondents expect the business impacts of IFRS 17 and 9 (beyond the implementation itself and related systems changes) to be significant. The most frequently cited product design and pricing (79 percent), costs and cost allocation (71 percent), investment policy and asset liability management (69 percent) and risk management (57 percent).

- Seventeen percent of respondents expect that local prudential regulators will alter regulatory capital requirements to some degree due to these changes.

Biggest conceptual challenges in implementing IFRS 17 — (Top selected)

% of Respondents, select top 5 (n=77)

- Difficulties with historical data/opening equity impact/transition requirements — 89%
- Determining the appropriate level of aggregation/Onerous contracts — 69%
- Granularity of data requirements/Identifying data requirements — 65%
- Determining the amortization of contractual service margin — 31%
- Redesigning key performance indicators — 29%
- Determining the risk adjustment and related disclosures — 23%
A high degree of shared uncertainty among insurers

We asked respondents whether they had formulated working assumptions to address some of the key decisions required by the new standards. The greatest single level of uncertainty relates to the determination of the risk adjustment (nearly seven out of 10 do not have an initial view of the approach to be adopted) and the next greatest uncertainty relates to the approach to be used to determine the discount rate (where nearly six out of 10 have not formed an initial view of the approach to be adopted and nearly seven out of 10 do not have a view on whether they would add an illiquidity premium if using a bottom up discount rate).

But as these conceptual challenges have a lower impact for systems design companies may be deferring solving these challenges and waiting to see what industry norms develop in these areas.

There are however a number of important judgments which have systems implications and where respondents still report significant uncertainties. These include:

— forty-six percent of respondents are unable to estimate how many different groups of contracts they will identify within each annual cohort.

— only 5 percent of respondents have a good understanding of which groups of contracts within particular portfolios and cohorts are expected to be onerous.

— transition is reported to be a much more significant conceptual challenge for those companies that have already embarked on design and implementation (50 percent) as compared with only nine percent of those that haven’t yet initiated their projects.

This presents a significant call to action. Not only are the conceptual challenges many and complex but also some have the potential to become even more complex upon detailed investigation as implementation evolves.

The business impacts are real and are a further reason why the whole of the organization needs to understand the changes coming up

The number and complexity of the conceptual challenges is compounded by the extent of the business impacts that our respondents report, such as product pricing and cost allocation, among the impacts most commonly noted. Other impacts such as KPIs, tax, capital management, M&A and distribution strategy are among those they have identified and need to manage. Other second-order effects that will need to be addressed include controlling, performance measurement and investor relations.

In addition, 17 percent expect local prudential regulators to change regulatory capital requirements to some degree, due to these changes. This adds to the complexity of the upcoming changes for respondents in the Asia Pacific region, in particular.

Insurance reporting to date has been highly driven by regulation, and so insurers are not used to exercising their judgment. So, applying a complex, principle-based standard is particularly challenging, and that involves thinking through the interaction of different choices and decisions.

—Viviane Leflaive
Partner
KPMG in France

The IASB’s Technical Resource Group (TRG) is supporting implementation of IFRS 17, but if companies wait until all questions on potential diversity in practice are resolved they will run out of runway. So companies have to make some assumptions about what the most likely permissible outcomes are, and build a testing model that is flexible enough to be able to change some of the parameters without starting over, once the TRG’s discussions are published.

—Michael Lammons
US Insurance Accounting Change Lead Partner
KPMG in the US
IFRS 17 will take the industry one step further than Solvency II, in terms of the demands for transparency, security, clarity of communication and trust. At the executive level, IFRS 17 will be at the heart of how you communicate to the capital markets. The top decision makers need to understand the impact of IFRS 17 on the profit and loss account. You need to educate up to the very top of the company.

— Mary Trussell
Global Insurance Accounting Change
Lead Partner
KPMG International
Business areas expected to be most impacted
Among respondents that expect more than a financial impact, % that selected top 4 (n=58)

- Product design and pricing: 79%
- Investment policy: 71%
- Risk management: 59%
- Reinsurance strategy: 57%
- Executive compensation: 34%
- Mergers and acquisitions: 24%
- Distribution strategy: 21%
- Other: 17%
- Don’t expect significant impacts: 3%
- Other: 6%
In conclusion, a call to action

Insurers are divided in their views regarding the urgency of implementation. As one respondent said to us “We expect this will bring challenges. However we consider we have sufficient time and flexibility to overcome these.” Yet another shared with us, “Our biggest risk is time — ensuring we have the time to assess and consider all the second order impacts on tax, control processes and can appropriately explain our results to users.”

With 85 percent of respondents admitting they are still assessing the impact of the new standard or have not yet begun their assessment, we believe we are seeing the first signs that it will be a struggle for some in the industry to get over the line by 2021. Much needs to be achieved in three years.

There are some important near term steps on this journey:

— identifying the working assumptions that are going to have the biggest impact on the design and development of IT systems
— focusing on the second order effects that will have the biggest impact on steering the business, including transition
— developing a roadmap to implementation that provides sufficient time for systems selection or building that allows adequate time for testing, refining and building the necessary controls in sufficient time for dry runs
— securing the necessary resources and educating the workforce and the board.

These lay the foundations for implementation.

Nobody has said that this will be easy. But results from our survey clearly show that the risks of delay are significant in terms of a shrinking talent pool and a more limited runway for systems integration.

Our survey, which we will be repeating at regular intervals, presents a vivid picture of the dilemmas facing insurers as they embark on the journey to implement IFRS 17 and IFRS 9. Whatever the positioning of the individual firm, the message is clear — the time for delay is over; the time for action is now.

It’s going to be like learning to navigate in a whole new world. While insurers are getting used to it, it’s going to feel like steering in the dark. But KPMG is there to help guide your path.

—Laura Hay
Global Head of Insurance
KPMG International
Who took the survey?

In order to develop a benchmark study of approaches to the implementation of IFRS 17 and IFRS 9, KPMG conducted an initial face-to-face and online survey of 82 executives from insurers around the world between September 26 and October 16, 2017. Fifty-two percent of respondents are C-level executives, including 35 from parent companies, 42 from subsidiaries and four from stand-alone companies.

Sixty-two percent work at companies with European headquarters, 28 percent have Asia-Pacific (including Australian) headquarters, seven percent are headquartered in the Americas and two percent are headquartered in the Middle East and Africa. Thirty-eight percent of the companies have annual global premiums of US$10 billion or more, and forty-nine percent have annual global premiums greater than US$5 billion. Most of the companies are either life & health insurers (37 percent) or composites (37 percent). Seventeen percent are reinsurers and 10 percent are property & casualty insurers and 17 percent are reinsurance companies. Eighty-six percent are shareholder owned.

To contribute to the continuing body of knowledge about the implementation of IFRS 17 and IFRS 9 by global insurers we will be repeating this survey in the spring of 2018 and regularly throughout the journey to implementation.

How KPMG member firms can help you

The implementation of IFRS 17 and IFRS 9 can be a daunting task. However, if you look beyond simply compliance, this can present you with opportunities to realize real benefits for your business.

KPMG understands that IFRS 17 and IFRS 9 implementation is more than just an accounting and actuarial exercise: insurers need a finance operating model that will support efficient and informed reporting. Our approach is tailored to help us answer the questions that are important to our clients, while building on our market leading knowledge:

— We have a hypothesis-driven approach, starting top down rather than bottom up with a gap analysis. This allows design decisions to be taken earlier, reducing demands on scarce resources;

— We bring deep market insights from advising many leading insurers on IFRS 17 and IFRS 9 and bring the experience from this work to accelerate thinking in the most complex aspects of the new requirements.

— We understand that one size does not fit all enabling clear communication of the issues that matter to you.

— We leverage our proprietary tools and accelerators to fast-track your impact assessment, tailoring our approach to meet your needs and aspirations, whether quick wins, cost savings, high quality and efficient financial and regulatory reporting as well as improved teamwork and other benefits.

— Highly-qualified teams bring you insights every step of the way, actively promoting knowledge transfer to your people from the outset, so that you have a sound base of expertise to deliver the new ways of working.

To learn more about how KPMG member firms can help unlock value from your IFRS 17 and IFRS 9 programs please contact your usual KPMG contact or any of the contacts listed on the back outside cover of this report.