IFRS 17: Where are Irish (re)insurers on their journey?

IFRS 17 becomes effective for annual reporting periods beginning on 1 January 2023, which is now less than three months away.

Implementing a major new accounting standard inevitably presents challenges. There is substantial effort involved in installing and testing new or upgraded systems, process and controls and in co-ordinating functions such as finance, actuarial and I.T. For users of the financial statements there is the need to understand what is going to change and how it will change.

To assist Irish (re)insurance companies in understanding their level of readiness, we developed a short survey to benchmark the level of readiness in the local market. By sharing the results on an anonymised basis, we hope to provide useful insights to company management and Boards as they work to make IFRS 17 a reality.

Approach and profile of respondents

Our analysis is based on the responses received from a representative sample of 24 Irish insurers operating in the life, non-life and reinsurance sectors with PRISM ratings ranging from low to high. This has allowed us to better understand the level of preparedness and challenges faced by the industry as a whole.

Questions were grouped into four phases, corresponding to key blocks of tasks from project launch to go live.

Detailed questions in each phase had five possible answers ranging from 1 (most sophisticated) to 5 (not yet started).

Questions were grouped into four phases, corresponding to key blocks of tasks from project launch to go live, see below:

1. Setup, impact assessment and design
2. Implementation: build, configure and test
3. Implementation: dry runs
4. Optimisation, building comparitives and readiness for going live

IFRS 17
Implementation in four phases: overview

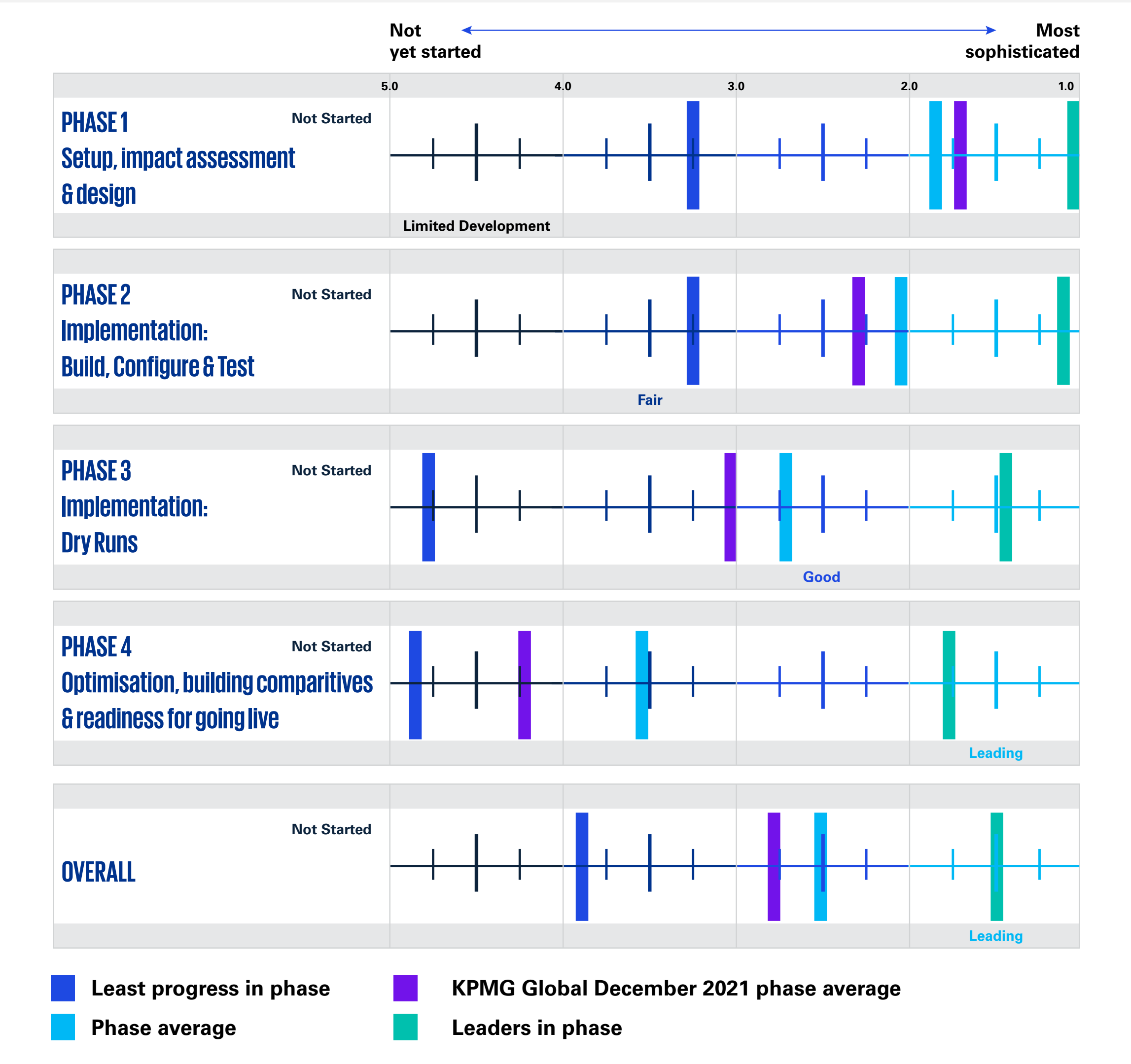
Responses from the KPMG Ireland survey, which was undertaken in Q3 2022, indicate Irish insurers are currently well aligned with insurers surveyed as part of the KPMG Global IFRS 17 survey in December 2021. Irish insurers have an average "readiness" of 2.5 compared to 2.8 of their global counterparts. This is indicative of the additional progress that is likely to have been made by global respondents in the intervening gap between surveys.

This suggests that Irish insurers are keeping pace with their global counterparts and where the Irish market is lagging behind, we have noted it in the relevant phase analysis.

As expected, progress in the design phase has been strong, with evidence of comprehensive impact and data requirements analysis performed. This carries through to the build and test phase, where Irish insurers consider themselves well placed to provide opening balance sheets this year.

Throughout the survey a consistent theme is a continued focus on the effectiveness of the oversight of IFRS 17 projects. Respondents reported a robust governance framework over the transition process, including documenting decisions, assessments and calculations, in particular those involving the exercise of judgement

The dry and parallel run phase sees the greatest variability in responses. 33% percent of respondents have completed full end-to-end dry runs of their IFRS 17 systems and solutions across pilot sites. 21% have completed multiple iterations of end-to-end test completing configuration and systems integration testing runs, although the majority are not there yet. Consequential to these results, the preparation of IAS 8 disclosures are tracking well behind schedule.



Source: KPMG Ireland IFRS 17 Readiness Survey (Q3 2022)

Setup, impact assessment and design

Where are the Leaders?

As expected, almost all respondents have created an implementation project team that have, through use of a project roadmap, performed a comprehensive analysis of data requirements, completed vendor selection and system design, designed updates to actuarial models, and designed a transition approach.

More than two thirds of respondents have developed a reasonably full suite of technical papers, with substantial internal review procedures complete.

What's lagging?

Respondents in the survey indicated three areas in the design phase where progress has been slower:

- Developing and delivering training to relevant staff, with 42% of respondents falling behind on training goals;
- 50% of respondents are yet to fully update the finance target operating model ("TOM") to reflect IFRS 17 changes; and
- Development and initial designs for updated processes and controls are yet to be completed by 42% of participants.

These areas where progress has been slower indicates that the "to date" focus is on producing initial results, impact assessments and opening balances. As projects accelerate over Q4 2022 we expect the shift in focus towards audit and embedding IFRS 17 to business-as-usual to result in increased progress in development of controls and processes, training and updating finance TOM.

How do Irish insurers compare to their global counterparts?

Irish insurers lag slightly behind respondents to our global survey in the design phase. Global respondents showed increased progress on development of finance TOM and delivering training to staff. Irish insurers are however tracking ahead of their global counterparts in the area of transition approach, which positions them well to produce opening balance sheets.

Implementation: build, configure and test

Where are the Leaders?

With no surprises almost all respondents have built or updated IT and finance systems and have performed some level of testing on these new systems. Data required for the updated systems has been identified by almost 90% of respondents, positioning new systems well to receive appropriate data feeds.

With opening balance sheets required in the short term, responses suggest that Irish insurers consider themselves well placed to provide these. 46% of respondents have agreed and validated the approach to building the opening balance sheet. 42% have agreed the approach, however testing is outstanding to validate that the approach is appropriate, comprehensive and feasible.

It's not surprising that as the IFRS 17 effective date is fast approaching, responses indicate that the governance and oversight over IFRS 17 programs continue to be considered strong — the leading attribute in this phase of activity.

What's lagging?

60% of respondents have yet to produce pro forma draft IFRS 17 financial statements and accounting policies, with almost 20% of respondents having yet to commence drafting at all. Similarly, there is much progress to be made in relation to the approach to updating KPIs and management reporting and communicating the various impacts to stakeholders. With the high degree of stakeholder engagement necessary to sign off on newly designed financial statements and accounting policies, we would expect respondents are accelerating the progress on this activity to avoid roadblocks in the coming months.

Analysis of survey responses further indicates some work is needed on user acceptance testing ("UAT"), systems integration testing ("SIT") and testing of data feeds. With the significant progress respondents have made in building new systems and identifying data feeds, performing and documenting comprehensive testing is critical to identify any issues before transition.

How do Irish insurers compare to their global counterparts?

Irish insurers are in line with global respondents in most aspects of the build and test phase and tracking in line, adjusting for timing differences in the survey issue dates, with global counterparts on development of planned approach to the opening balance sheet and comparative information.

Implementation: dry runs

Where are the Leaders?

The leading attribute of this phase of activity continues to be the governance over the IFRS 17 programme. Over 90% have documented evidence of the governance and oversight over key decisions supported by maintenance of up-to-date list of open issues and matters of interpretation. The strong governance is evident via most respondents indicating some level of planning for transition and parallel runs, with over half of respondents having advanced plans developed and considered by stakeholders.

We note that the picture of progress on this phase of the project is diverse, with some respondents significantly further ahead of others in certain key areas.

What's lagging?

Analysis of responses indicate that there is still much work to be done across the dry run phase of respondents IFRS 17 programmes, including:

- Developing a plan for their IAS 8 disclosures. We note that 63% are tracking behind schedule for this task, which is time sensitive;
- Revising management reporting and the KPI framework for findings from dry runs. Consistent with observations on the build and test phase, little focus has been given to updating KPIs and management reporting frameworks. Almost two thirds of respondents have not yet started any KPI testing at this stage, with only 12% having updated management reporting requirements and frameworks for testing purposes; and
- Performing end to end dry runs of reporting under IFRS 17. With time rapidly running out full end-to-end dry runs should be prioritised by all respondents to allow sufficient time for remediation of systems, models, processes and controls. To date 67% of respondents have yet to complete a single full end to end dry run.

How do Irish insurers compare to their global counterparts?

Irish insurers are generally lagging behind global counterparts in completing full end-to-end dry runs. This potentially reflects the nature and scale of the IFRS 17 programmes in the local market relative to larger global players. Local focus is potentially on operationalising IFRS 17 systems and solutions before starting to tackle KPIs, planning and forecasting. Similar to the global survey responses, there is significant variability in responses in this phase, with some insurers well ahead of others in certain areas.

Optimisation, building comparatives and readiness for going live

Where are the Leaders?

With the immediacy of opening balance sheet requirements, it is not surprising that over 80% of respondents have developed and implemented plans for restatement. In fact, 30% of respondents have completed restatement of the opening balance sheet and are in some phase of review and remediation. We observed that a small number of respondents have yet to start this process and will be under pressure to complete this process in order to provide meaningful IAS 8 disclosures in 2022, either from a local perspective or to align with Group requirements.

Acting on the lessons learned in the dry run phase is key, 29% of respondents have remediated issues noted in dry and parallel runs incorporating the lessons learned. A further 25% are currently in the process of remediation of issues, however 42% have yet to begin.

What's lagging?

As is expected, areas from prior phases which have been identified as lacking in progress are driving the lag in this phase. The overall theme of responses suggests most respondents are planning the activities required or in some early phase of performing those activities needed for go live e.g. parallel runs of reporting under IFRS 17, validating the close process, implementing/ updating controls and processes, opening balance sheet validation, communication plans, interim reporting capability etc.

That being said there is a marked lack of progress across respondents in the areas of:

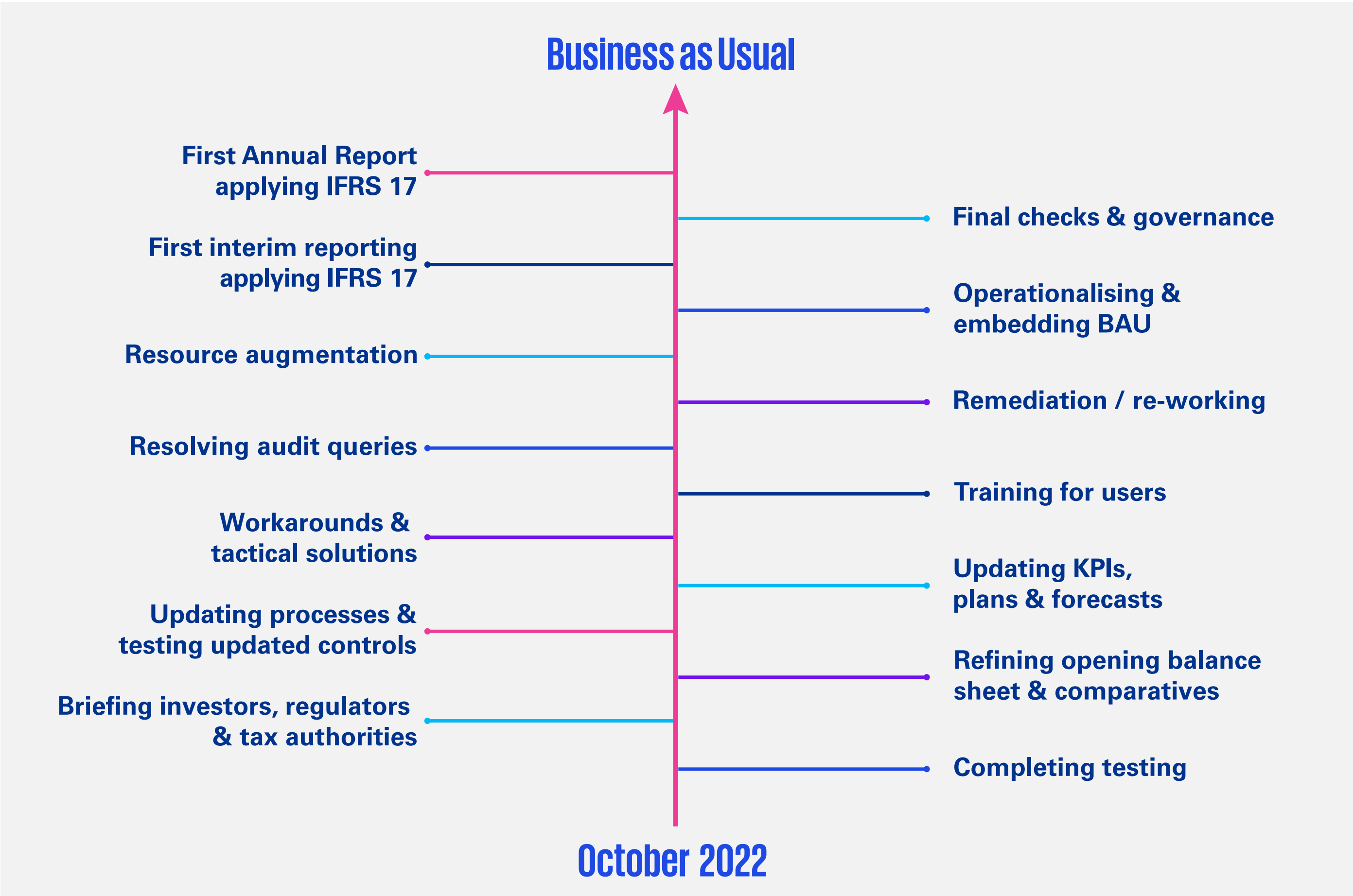
- Testing and remediation of the IFRS 17 financial close process, with 75% tracking behind;
- Implementation, documentation and testing of IFRS 17 controls, with 83% still to complete; and
- Finalisation of IAS 8 disclosures, with 92% still to complete.

Many insurers started out with ambitious plans to use IFRS 17 as an opportunity to revamp their finance operations as they implement IFRS 17. It may be more realistic for insurers now to focus on completing the basic specification and focus later on optimisation, refinement and efficiency. The basic specification needs to be tested and controlled and that interim processes and controls may be more resource-intensive than the target end state.

How do Irish insurers compare to their global counterparts?

Irish insurers are generally in line with their global counterparts in this phase, with some respondents well on track to complete plans, and some facing challenges to complete in the time remaining.

Reality check ... for many insurers the next 18 months will be highly challenging



There is still so much to operationalise, deliver and embed - and drive business forward

How can KPMG help?

IFRS 17 and IFRS 9 will bring significant change to financial reporting for insurers. Pre-transition disclosures on the impact of these standards will be required in the 2022 annual financial statements. Investors, regulators and other stakeholders will expect these to be robust. Therefore, providing timely and useful information will be critical.

Reporting in the new era will be more transparent and comparable. Inadequate pre-transition disclosures in insurers' 2022 annual financial statements could send a loud and clear message that they are not ready. 2023 interim and annual financial statements will look completely different from those published in 2022.

Insurers should next identify known or reasonably estimable information for reporting in their pre-transition disclosures this year end. nsurers shoudl also consider what additional information they may need to provide to meet stakeholder expectations during and after transition.

Our seven-step **action plan,** summarised below, can help you prepare for your 2023 interim and annual financial statements now.

- Understand the new requirements
- Review your journey to delivery
- Refine your accounting decisions
- Ensure appropriate controls are in place
- Plan your 2022 annual financial statements
- Plan for your 2023 interim financial statements
- Remain agile in your communication strategy

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