KPMG

IFRS 17:

Decision time is here

Insurers now have an extra year to implement IFRS 17. Naturally they want to use the time wisely. But what exactly does that entail? And is the answer the same for all?

When the International Accounting Standards Board (the Board) issued amendments to IFRS 17, *Insurance Contracts*, on 25 June 2020 after a year of deliberations key among the amendments was a change to the effective date to 1 January 2023.

Of course, an additional year is a bonus. Some insurers face the challenge of applying a complex standard to a myriad of different products. Many have found the new standard's data requirements a tall order. Most recognize they need more time with their software vendors to test, validate and configure their solutions to fit their particular business needs. Taken together, almost all are finding the practical steps needed to implement the standard time-consuming and complex. Some had already assumed a 2023 effective date.

The 1 January 2023 effective date does more than simply push the reset button on the implementation countdown clock. The goalposts are also being realigned to reflect amendments to the standard — albeit in ways that most insurers will welcome — and insurers will need to analyze and assess the changes, update their implementation plans and then execute on them, all while confronting the challenges that COVID-19 has presented to their customers, people and business. When the standard was initially issued, insurers had approximately 3.5 years before the effective date. With 18 months until insurers need to present an opening balance sheet reflecting a whole new basis of reporting. Despite the extra year, we all have to raise our game to hit the new targets.

What is IFRS 17?

IFRS 17 is a new financial reporting standard for insurance contracts. It was issued by the International Accounting Standards Board (the Board) in May 2017 and marks the biggest single change to insurance accounting — bigger than the introduction of the IFRS® Standards itself. The Board has recently issued amendments to IFRS 17 and extended the fixed expiry date for the temporary exemption in IFRS 4 for applying IFRS 9 to 1 January 2023.

Time well spent by all

What can insurers do to ensure they are making the most of the time they have been given? In our discussions with insurers around the world, we often focus on five key areas.

1. Focus your road map: If you have not already developed an implementation road map, do so immediately. If you already have an existing road map, now is the time to take a step back and ask whether it is practical and achievable given the other demands on time, people and resources, the additional year and amendments. Cross-check progress against plans. Don't forget to consider any areas that have been on hold while amendments have been under discussion. Ensure you have the right tools and capabilities to achieve all objectives by 2023.

2. Drill down into changes: Analyze the impact of the changes for your specific business and implementation plans, the further steps needed to make the changes operational and the opportunities they open up. Consider a phased approach - starting to test solutions at scale while evaluating the amendments in the test lab and then phasing them into roll out plans.

3. Practice, practice, practice: The additional time means more time for test runs and parallel runs. Recognize that delivering IFRS 17 results will require multiple iterations, challenge and oversight before sharing with the outside world. Particularly for the more advanced organizations, this additional year offers valuable time to ensure tools, processes and people are ready for implementation. Also, don't forget to allow ample time to design, test, and implement new controls around the revised and new processes.

4. Talk to stakeholders: Use the extra year to strengthen communication with the business, subsidiaries and stakeholders. It will be critical to build into your implementation program time to help stakeholders understand what your IFRS 17 financial results will look like and how to interpret those results. Review current performance metrics and identify the drivers of IFRS 17 results. Work with the business to consider what metrics can be continued, which need refreshing and what needs to be replaced. Consider briefing investors and analysts early and throughout your journey on the approach and progress.

5. Look for opportunities: Despite cost constraints don't overlook the potential for related opportunities on the road to implementation. Consider using IFRS 17 as the catalyst to streamline your finance and actuarial capabilities. Spending the time to understand your data architecture, i.e. the data flows and interfaces throughout your end-to-end processes, can help you understand what can be done to simplify, standardize and automate financial and actuarial processes, taking out cost in the longer term. Find opportunities to streamline. And look for commercial opportunities to optimize reinsurance arrangements, product design and pricing and asset liability management. Consider strengthening the links with the business by enhancing planning and performance management.

New year, new challenges?

Many will likely face challenges ensuring that employees and top management continue to prioritize the project. For those that are well into their IFRS 17 journey, what was already a long-haul just got longer — and keeping the costs of change under control even more of a challenge.

Keeping everyone motivated and aligned to overcome project fatigue (particularly given all of the other challenges teams are currently facing) is priceless. We find that breaking the program down into more manageable sprints and rotating people onto and off the program throughout its life are techniques that can help the program stay on track. Staff rotations to the program help people to acquire new skills and experience to meet their personal goals, inject new life and energy into the team and spread knowledge as they graduate from the program into new roles.

But is the answer the same for all?

One size doesn't fit all and entities need to find the right pace of change to fit their culture and ambition — after all, some entities are tackling this solely to achieve compliance for local reporting. For others, it represents a whole new language to explain their business.

So how might some of these different groups of entities react to the changes?

Welcome relief for 'front-runners'

For the fortunate few who started work ahead of the standard being issued, and have the discipline to regularly update their work plan to accommodate change, one option might be to press ahead. Ideally, using the additional time for further dry runs, to learn to steer their business on the new basis and to transfer to business as usual ahead of the effective date. Others will use the time to streamline their finance and actuarial capabilities, automating where possible and rethinking processes to improve agility.

A wake-up call for 'late adopters'

But what about any late starters who are not as progressed as they would like to be? The problem facing the unprepared is not just one of increased risk of non-compliance. It's also that they will likely face much higher operating costs in the future as they work to catch up with those that took the time to investigate the challenges thoroughly and invest in automation, and have put themselves at the back of the line to access a fast-draining talent pool. We urge these insurers not to hit the snooze button and to use the new timeline and proposed amendments as a wake-up call to accelerate progress.

A reality check for perfectionists

In an attempt to reach the perfect answer, some insurers find it difficult to land accounting and actuarial judgments or identify their target architecture and select a software solution provider. If that sounds like you, we would strongly recommend using the deferral as a shot in the arm to re-invigorate your program, with a focus on right to left thinking that compares where you need to get to with where you are now. Perhaps you've held off from a detailed evaluation of the impact of IFRS 17 on reinsurance ceded, in the hope that the standard would be updated. That hope has been addressed and so the time to start tackling implementation is now.

Making the most of the extra year

Ever since the new standard was announced, we've been advising IFRS filers to prepare for the single biggest evolution in insurance reporting — certainly bigger than the implementation of IFRS and even bigger than Solvency II. While the extra year will provide some welcome wiggle-room for many insurers, the reality is that it will take hard work and tight timelines to ensure you are fully prepared.

Insurers need to make the most of the extra year. With the final amendments, it's a bigger window of opportunity than many dared hope for. ■

To find out more info about IFRS 17 go to kpmg.com/insurancechange

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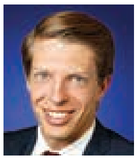

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