



The pressure is rising

**Feedback from leading insurers on the
frontline of IFRS 17 implementation**



Foreword

With less than three months before the date of the IFRS 17 opening balance sheet, the pressure is rising. KPMG firms have updated their benchmarking of leading insurers' readiness focusing on a selected group of 25 global insurers and national champions which have had IFRS 17 implementation programs running for several years. By sharing this intelligence on an anonymized basis, we hope to provide useful insights to companies large and small around the world as they work to make IFRS 17 a reality. Here are the headlines and key findings from our most recent research and our observations on what you can do to help maximize the prospects of making your transition to IFRS 17 a success.



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Approach and profile of respondents

Our analysis is based on the responses of 25 insurers headquartered in 16 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. Changes are shown relative to our previous survey *Testing times*.¹

“With less than three months before the date of the IFRS 17 opening balance sheet, the pressure is rising.”

¹ *Testing times: Feedback from leading insurers on the front line of IFRS 17 implementation*, KPMG International, March 2021

Responses in numbers

| By size | > USD 50 billion ² | USD 35–50 billion | USD 15–35 billion | USD 5–15 billion |
|---|-----------------------------------|-------------------|--------------------------------|------------------|
|  ► | 16% | 20% | 24% | 40% |
| By geography ³ | Americas | Asia Pacific | Europe, Middle East and Africa | |
|  ► | 20% | 24% | 56% | |
| By segment | Composites (including reinsurers) | Life | Property Casualty | |
|  ► | 52% | 20% | 28% | |

Headquarters of participating insurers

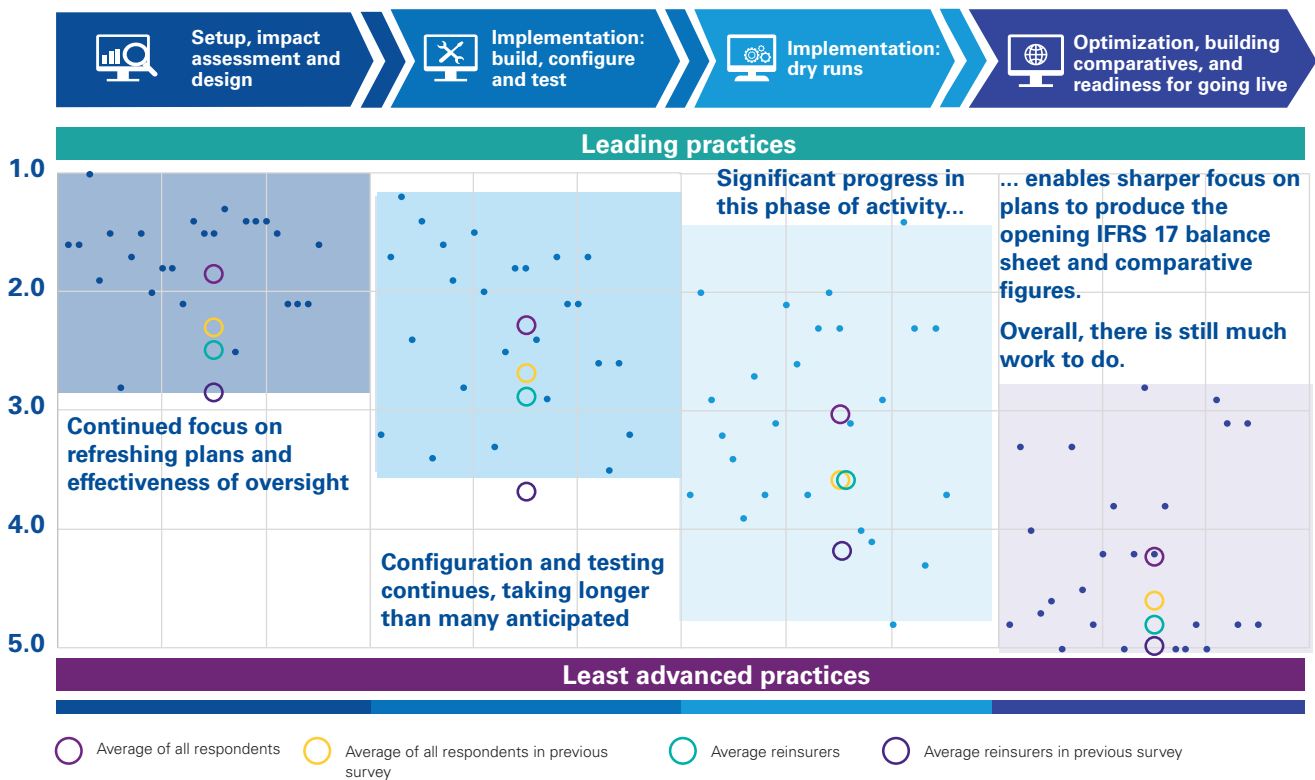


² Based on 2020 Gross Written Premiums in US dollars

³ Based on location of group headquarters

IFRS 17 implementation in four phases: overview

Forty-four percent of respondents have **completed end-to-end dry runs of their IFRS 17 systems and solutions** across pilot sites and 28 percent have completed multiple iterations of end-to-end test runs, although the majority are not there yet, completing configuration and systems integration testing.



- The above chart shows the scores in each phase for each insurer participating in the survey plus an overall average score for each phase.
- The shaded areas show the range of individual scores.
- Certain results have been baselined to ensure a reasonably consistent approach across all respondents.

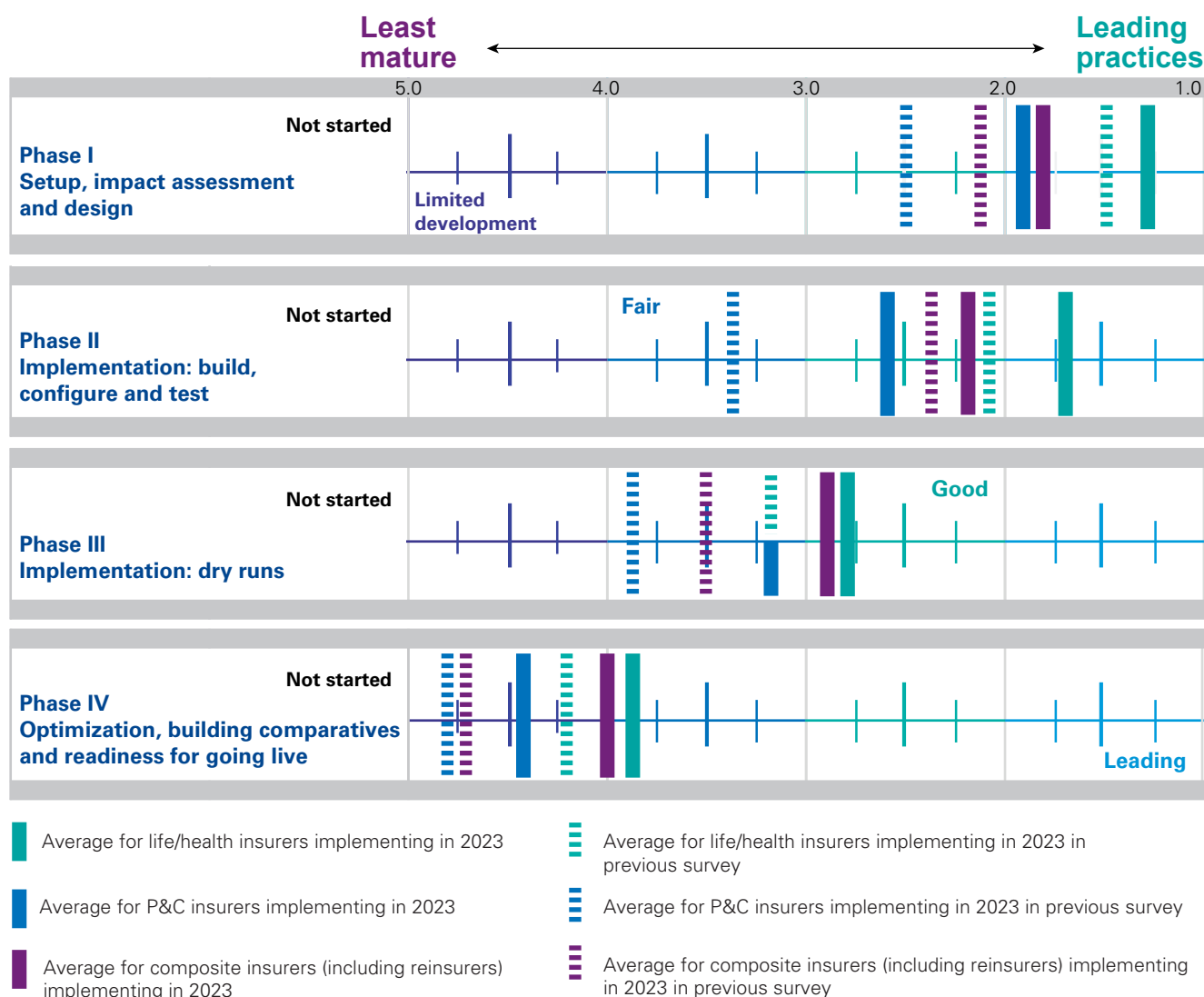
Source: KPMG International, 2021.





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, having generally embarked on implementation earlier.

IFRS 17 implementation in four phases: by sector



Source: KPMG International, 2021.

01 Setup, impact assessment and design



Average score across all respondents:

► = Average score in previous survey

Where are the leaders?

All except one of our respondents implementing IFRS 17 in 2023 have finalized the design of their target finance architecture and selected and designed the relevant IT solutions. With one exception, all are well advanced in identifying and sourcing new data requirements.

Two-thirds of respondents have updated their finance target operating model (TOM) to reflect IFRS 17 and use it to guide related design decisions.



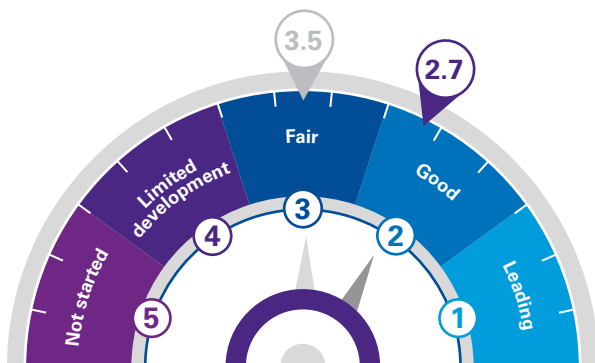
Most advanced attributes:

updating finance TOM and creating a broadly skilled implementation team

► = Average score in previous survey

What's changed?

IFRS 17 programs evolve throughout their lifecycle and require different disciplines and skill sets at different stages of the journey. Since we last surveyed them, many of our respondents have deepened and refined their plans to design updated process and controls, including their actuarial models. Plans and governance structures cannot be set for the duration and allowed to run unchecked — they require adapting, updating, and refreshing as challenges arise.



Least advanced attributes:

developing designs for updated processes and controls

► = Average score in previous survey

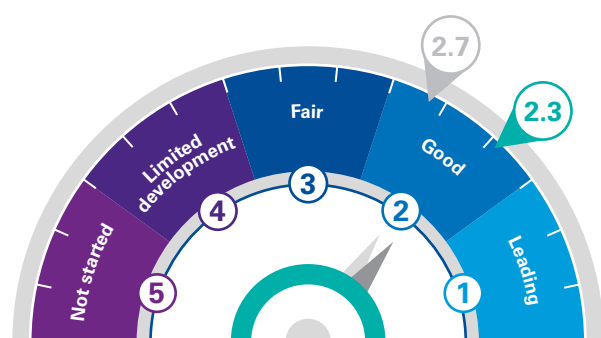
What's lagging?

Despite this activity, even among leading companies, developing designs for updated processes and controls lags other activities and is often overlooked or under scoped in this phase of activity. This is the least advanced suite of tasks, despite showing the joint greatest progress since we last surveyed respondents.

Planning the opening IFRS 17 balance sheet and transition adjustments are complex. Despite the opening balance sheet being less than three months away, only three respondents have fully evaluated and tested their planned approach to transition.

Source: KPMG International, 2021.

02 Implementation: build, configure and test



Average score across all respondents:

► = Average score in previous survey

Where are the leaders?

Almost all insurers that have purchased proprietary IFRS 17 solutions have found that the task of configuration and subsequent testing takes longer than they had originally envisaged. Despite this, 28 percent of respondents have completed user acceptance testing of updated IT systems, including contractual service engines (CSM) engines, and half have completed testing new data feeds.

Over three quarters of respondents have now completed updating actuarial models and half have completed testing these updates.

It's not surprising for industry leaders that the governance and oversight over their IFRS 17 program continue to be considered strong — the leading attribute in this phase of activity.

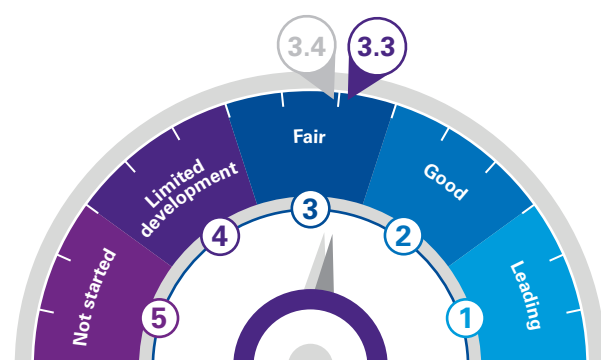


Most advanced attributes:
demonstrating governance and oversight
over implementation

► = Average score in previous survey

What's changed?

Most activity since we last surveyed respondents in this phase of the program has related to updating actuarial models, testing updates and the configuration of IT and system solutions.



Least advanced attributes:
plans for restating opening balance sheet

► = Average score in previous survey

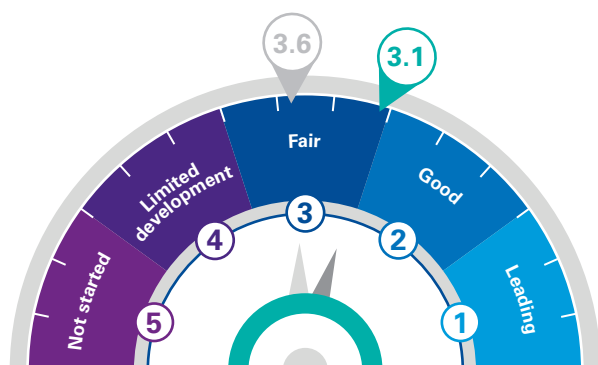
What's lagging?

Plans for restating the opening IFRS 17 balance sheet lag behind other tasks in this phase of activity — fewer than 30 percent of respondents have tested their plans for restating their opening IFRS 17 balance sheet and just under one third have yet to formulate plans to operationalize the preparation of the opening IFRS 17 balance sheet and transition adjustments.

Among the respondents, one third are still configuring their CSM solution. Faced with the complexity of configuring and testing systems, let's not underplay the basics — fewer than 45 percent of respondents have robust drafts of their future financial statements and 40 percent of respondents are still updating their chart of accounts and posting logic.

Source: KPMG International, 2021.

03 Implementation: dry runs



Average score across all respondents:

► = Average score in previous survey

Where are the leaders?

Forty-four percent of respondents have completed end-to-end dry runs of their IFRS 17 systems and solutions across pilot sites and 28 percent have completed multiple iterations of end-to-end test runs.

However, only three respondents have completed updating their consolidation systems to accommodate IFRS 17's changes. Many of the respondents that have completed dry runs are using workarounds to collate and consolidate the results.

Two respondents have firm plans on what data will be disclosed and when to help users understand the impact of the transition to IFRS 17.

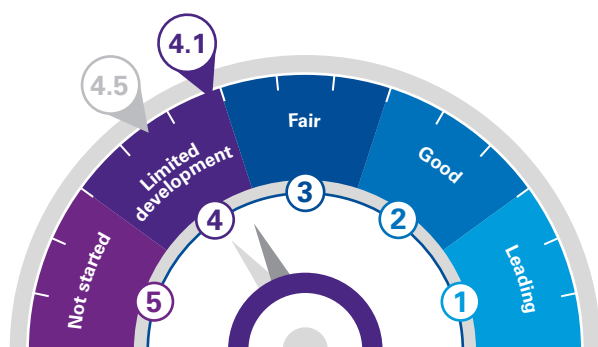


Most advanced attributes:
tracking open issues, simplifications
and workarounds

► = Average score in previous survey

What's changed?

Unsurprisingly, significant effort has been directed to performing end-to-end dry runs since we last surveyed respondents, but the picture among the respondents remains very diverse.



Least advanced attributes:
updating planning and forecasting,
management reporting and KPIs

► = Average score in previous survey

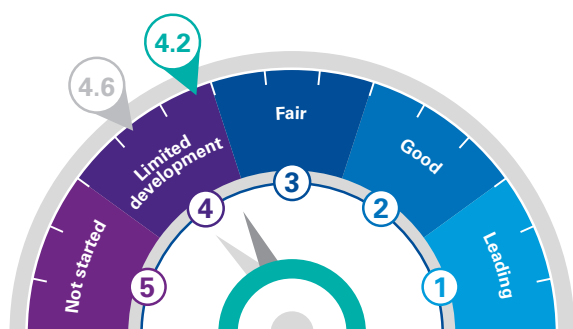
What's lagging?

Updating key performance indicators (KPIs), planning and forecasting remain the least advanced attributes — 60 percent of respondents have yet to start on this suite of tasks. Front runners have accelerated their progress by using the results from their initial impact assessments to evaluate and update their KPIs to reflect IFRS 17, which have been fine-tuned through multiple tests and dry runs. Other respondents have focused on operationalizing IFRS 17 systems and solutions first before starting to tackle KPIs, planning and forecasting.

Over 70 percent of respondents are still developing plans about when and how to disclose the impacts of the transition to IFRS 17 to external users of financial information; only two respondents have firm plans on what will be disclosed and when.

Source: KPMG International, 2021.

04 Optimization, building comparatives and readiness for going live

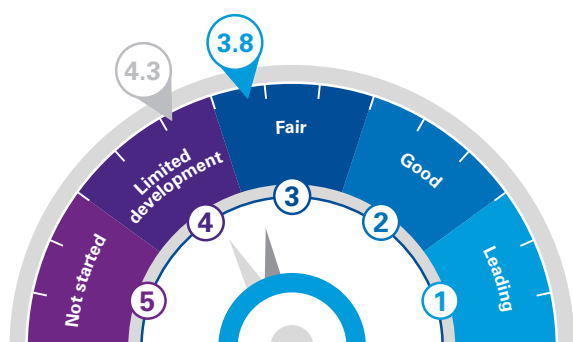


Average score across all respondents:

► = Average score in previous survey

Where are the leaders?

Given we are less than three months from the transition date for most companies in our survey it's notable how little overall scores for this phase have changed since we last surveyed respondents — reflecting the continued focus on settling down and testing new systems before planning how to use them to support the production of the opening IFRS 17 balance sheet and comparative figures.



Most advanced attributes:
process and control updates

► = Average score in previous survey

What's changed?

Since we last surveyed respondents, the biggest developments relating to this phase of activity have gone into planning for parallel running and remediation following parallel runs.



Least advanced attributes:
building comparatives

► = Average score in previous survey

What's lagging?

IFRS 17's requirements for retrospective application are complex and will impact reported results for many years after the effective date of its implementation. Even if systems are not yet fully configured and tested, we urge preparers to build out their plans to produce their opening IFRS 17 balance sheet and comparatives, to disclose the impact of the transition to IFRS 17 to internal and external users of their financial statements and to plan for their audit.

Source: KPMG International, 2021.

In conclusion

Our study covers some of the largest insurers around the world, with significant resources and bandwidth, many of which started on the journey to IFRS 17 early.

In our earlier study, *Testing times*, we set out some hallmarks to distinguish those companies that stand out from the pack and are tackling IFRS 17 with greater confidence.

Levels of concern have increased noticeably since we last polled respondents: there is a lot still to do, regulators are becoming more demanding, contingencies are being used up, running the business remains challenging and potential points of failure have multiplied. Systems integration testing takes longer than initially anticipated by many to accommodate updated releases reflecting the amendments made to IFRS 17. In turn, this requires greater input from key team members. Resourcing needs are becoming critical.

What more can preparers do now to learn from front runners to accelerate your IFRS 17 journey?

- 1 **Validate plans for transition.** Don't underestimate the complexity of IFRS 17's transition requirements, both technical and operational, and the effort that will be required to build the opening IFRS 17 balance sheet, including refinements and rework. Don't put off planning for transition and use pilots to assess, test and validate plans and resource requirements.
- 2 Take the time to **analyze, explain and understand the drivers of results** — there is no substitute for experienced resources that know the business.
- 3 Allow sufficient time to **test updated processes and controls**, including processes and controls over interim reporting where these differ from the year-end financial close process. Several of the front runners have beefed up the effort required since our last survey.
- 4 Now is the **time for a reality check**: robustly challenge future plans and resource allocations — what's working well and what isn't — and update plans and resource requirements accordingly. Take this opportunity to evaluate your implementation program. Should the warning lights be starting to flash?
- 5 **Secure resources** now for remaining testing and for parallel running to accelerate progress and reduce project risk. Resource demands will only become more acute as late starters wake up and face more ground to cover and a smaller talent pool on which to draw.
- 6 **Work in focused short sprints** in parallel and not in series. Making effective use of working assumptions can allow multiple tasks to proceed in parallel rather than sequentially, helping to accelerate 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.
- 7 **Build basic first, then refine and optimize.** Consider simplifications and workarounds as an interim measure to build the opening balance sheet and comparatives. 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 later focus 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 the interim processes and controls may be more resource-intensive than your target end state.

Planning for transition and the opening IFRS 17 balance sheet

- ✓ Develop a thorough understanding of permitted transition approaches, policy decisions, systems, and modelling capability
- ✓ Assess the information needed to apply IFRS 17 retrospectively and compare it with available information across the entity and for specific groups of contracts
- ✓ Compare identified data gaps with permitted modifications of alternative approaches and consider pros and cons — investigate the impact on transition and results thereafter
- ✓ Develop a detailed plan and instructions
- ✓ Gather and validate data for pilots
- ✓ Calculate the transition adjustment for pilots and test it to ensure the validity of results
- ✓ Refine and rework as needed
- ✓ Exercise robust governance over the transition process, including documenting decisions, assessments, and calculations, in particular those involving the exercise of judgement



How KPMG can help you

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

KPMG understands 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 clients, while building on the market-leading knowledge of KPMG professionals who:

- Have experience supporting the front runners, starting top down to allow design decisions to be taken earlier, helping to reduce demands on scarce resources.
- Bring deep market insights from advising leading insurers on IFRS 17 implementation and their experiences from this work to help accelerate thinking in the complex aspects of new requirements.
- Understand that one size does not fit all, enabling clear communication of the issues that matter to you.
- Leverage proprietary tools and accelerators for your impact assessment, tailoring their approach to help meet your needs and aspirations, including quick wins, cost savings, efficient financial and regulatory reporting, as well as improved teamwork and other benefits.
- Bring you insights every step of the way, actively promoting knowledge transfer to your people from the outset so that you can build a sound foundation on which to deliver new ways of working.

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



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