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IFRS 17: HOW TO IMPLEMENT IT QUICKLY, EFFICIENTLY & COST-EFFECTIVELY

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Insurance accounting is to be re-defined in one of the most important, wide-ranging reforms in many years. From 2023 a new standard, IFRS 17, will replace the current standard, IFRS 4.

This change comes as the industry is battling the effects of COVID-19 and, in particular, a recent decision by UK's Supreme Court allowing hundreds of businesses to claim insurance pay-outs for their losses caused by the pandemic.

For insurers, this means overcoming a number of hurdles and taking immediate action.

Why IFRS 17?

Introduced in 2004, IFRS 4 is an interim standard that allows flexibility in insurance accounting practices. However, the variations, especially across different regions, made it difficult to fulfil the key objective of an accounting standard — allowing comparisons and being transparent.

IFRS 17 is intended to be the first harmonized accounting standard across the entire insurance sector. The aim is to make it easier to compare financial statements issued by insurance companies. It will also increase the alignment of accounting practices in the industry with those of other sectors.

The objective is laudable, but implementing it is not going to be easy. The change will impact more than 450 listed insurance companies that together manage over 13 trillion assets.[1] Companies have less than two years to implement the changes, and have new systems up and running.

Understanding the Nuances

IFRS 17 only impacts the insurance side of business and not the asset management division. The impact on segments such as life and health insurance is much higher than on general, property and casualty insurance. As general, property and casualty insurance typically deal with short-term contracts, the application of IFRS 17 entails the use of a simplified model. Moreover, the existing standard for short-term contracts hews closely to the one prescribed by IFRS 17. But for life and health insurance, the application of the standard and the models involved are much more complex.

Insurance companies will have to review their finance architecture to ensure that all departments are ready for these changes with particular emphasis on systems, data, processes and people. To implement the new standard, large numbers of calculations will be required.

[1]https://www.reuters.com/article/us-insurance-accounts-regulations/countdown-starts-on-global-overhaul-of-insurance-accounting-idUKKCN18D2XU

Board members, executive leadership and managers will be required to take many decisions with little or no established processes to rely on.

While the bigger companies have already allocated substantial funds for implementation, it's important to invest heavily in new systems that are IFRS 17-enabled, and work with specialist consultants[2] to implement the changes efficiently.

Companies should streamline their finance and actuarial capabilities, and standardize and consolidate processes while ensuring that they are compliant. They need to identify areas for automation and re-engineer their systems to improve agility. Accounting, actuarial, and data and analytics functions currently operate in silos. However, IFRS 17 mandates that these functions operate as a single unit to deliver benefits as a Shared Services Center (SSC) with end-to-end accountability.

SSCs will help reduce costs while delivering superior customer experience under IFRS 17 reporting. Reducing hand-offs will improve operational efficiency as well, and enable insurers to become more lean and agile. Not to mention the added benefits of combining the knowledge of both accounting and actuarial functions. SSCs can also reduce risks by providing a clearly defined governance framework, complete with adequate controls.

By taking decisions about key issues related to systems and processes early on, insurers can monitor their effectiveness against emerging industry practices. Business leaders should ensure that systems are in place to coordinate technical issues, methodologies, and financial data and reporting practices.

Holistic Transformation

In addition to disparate accounting and actuarial functions, many policy administration systems are outdated and haven't been reviewed for years. A 'finance clean room' program can help review the architecture of systems, and lead to integration and coordination across accounting, actuarial and risk functions.

As an integral part of the IFRS 17 standard, the volume of data that is required for reporting has almost doubled. The standard requires the most granular-level data to meet compliance requirements. A central data lake that allows the system to slice and dice the data for the purpose of making reporting calculations will be key to ensuring compliance.

Companies will have to re-examine their upstream and downstream processes. This includes month-end close, reporting, planning and forecasting, control and governance, as well as consolidation.

Investing in end-to-end systems that can manage reporting and compliance requirements will lead to hassle-free operations.

The stakeholders impacted by this major change are numerous and diverse. Companies should create information buckets and dashboards that cater to the individual needs of each group.

Commitment of the senior leadership team in terms of investing time and resources will be an imperative.

[2]https://www.wns.com/solutions/functional-solutions/finance-accounting

The 5-step Approach to Seamless Implementation

1 Integrated Enterprise Resource Planning (ERP) Solution

Investing in an integrated ERP solution with IFRS 17 capabilities will help speed up the implementation process as these solutions have already been tested. It's worth remembering that this may require significant investments.

2 Building on Existing Systems

Building on existing accounting and actuarial systems that are already in place may be a faster, cheaper and simpler approach. But it will require new add-ons periodically, and may lead to increased manual interventions, and control and governance risks.

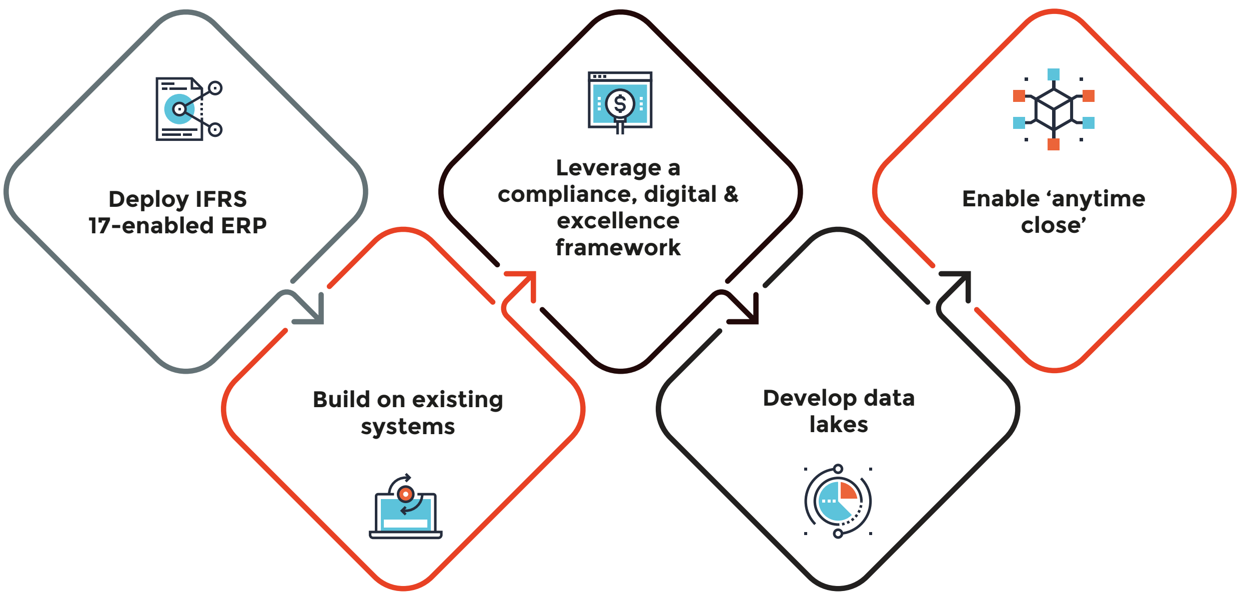
3 Compliance, Digital & Excellence Framework

A framework that builds a synchronized operating model by integrating accounting, actuarial and analytics functions into a single finance office can enable real-time and informed decision-making. Such a framework that combines compliance, digital and excellence can improve speed, accuracy and productivity, and help insurers meet the needs of internal and external stakeholders, as well as regulatory requirements.

4 Simplifying Data

Data management is fast becoming an important priority for the industry. Leading companies are under pressure to simplify data integration by developing data lakes. Insurers should first assess existing operational data sources so that they can modernize current applications and create the data lakes essential for convergence.

Figure 1: Key Steps in Implementation



5 Adopting 'Anytime Close'

'Anytime close' is an approach that enables the finance and accounting function to integrate data in a way that allows the company to close its period whenever it's best suitable. 'Anytime close' can support upstream processes such as financial reporting and regulatory reporting on a real-time basis. It's increasingly likely that regulators will expect reporting and governance to be published in real-time. 'Anytime close' will assist in developing an operating model that can meet this expectation.

The requirements of IFRS 17 are stringent and the deadline tight, but it seems unlikely that despite the industry's lobbying efforts, more concessions will be made. It's also probable that auditors will want to see companies coalesce around an industry standard approach. This means that the time to review procedures and systems, and undertake new initiatives is now!

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