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IFRS 17 global technology showcase tour

What we learned

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IFRS 17 has massive implications for the technology estate of insurance firms, especially where there are significant unresolved legacy issues and hangovers from acquisitions.

We have seen first hand that IFRS 17 implementations are not going to be successful if firms think that new systems can just be layered up on existing systems to produce a new set of reports. We have also seen that insurers adopting a positive and progressive approach to IFRS 17 implementation are identifying lasting benefits.

By embracing the challenge of IFRS 17 firms can elevate their data collection, analysis and output to a new level of clarity as a key tool for informing and shaping business strategy. It can also promote a productive collaboration outside traditional internal silos.

New ways have to be found for collecting, processing and analysing all of a firm's data, including historical data that generations of systems upgrades have simply ignored because it is too hard to convert or upload. This is why IT needs to be involved from day one.

The collecting and input of data required by the new standard is going to have a big impact on an insurer's technology estate. The difficulty to then synthesise and create the outputs to present IFRS 17 to the outside world – shareholders, regulators, customers – is potentially profound.

The sobering picture that emerged from our series of global technology showcases over the last few months is that IT has not been adequately engaged with the debate so far. IT would appear to be waiting for finance to come to them with a list of requirements. They are waiting for someone to tell what they need to do and in doing so, some of the potential benefits of IFRS 17 are ebbing away.

In some European firms they have assumed that the systems work done in preparation for the arrival of Solvency II will be a robust starting point to upgrade to handle IFRS 17. Alwin Swales, lead partner in this aspect of the IFRS 17 project, says that most finance teams have not been impressed with these solutions.

'Most insurers have ended up with pretty tactical solutions that stand adjacent to or next to the current finance solution. Finance generally hasn't been very impressed with the processing and analytical tools available in these systems, with a number not on the critical path to close the IFRS result currently'.

This is not a universally gloomy picture as some insurers used Solvency II as a catalyst to completely overhaul their systems and their data collection, says Swales, citing one insurer which has migrated 30+ valuation models on to a single modelling cloud platform. IFRS 17 can be used to provide a similar stimulus.

While the need to work closely with IT and vendors – many of whom were involved in the PwC showcases – was one of the key messages that were taken out to clients, it was the intelligence gained from the frank honesty of clients at the global workshops that has provided a fresh vigour to IFRS 17 implementation.

Top of the list is the urgent need to stimulate and lock in senior management interest, says Swales: 'A lot of communication and training has to happen. We have to be clearer and find a much more concise way of describing the problem to them. It is complicated and convoluted.

'What I have really discovered is that there needs to be a really honest conversation about where a business is at today and what sort of leap it might need to take to get to truly settled (basic compliance) and strategic solutions around IFRS 17'.

Getting the right people engaged in this conversation can be done.

'We had one client who said to us they had failed to land the story with senior management. They wanted us to help land the story so they could unlock the support needed to implement IFRS 17'.

This entailed summarising the very detailed impact assessment from their first phase down to a few slides for the audit committee and devising a training programme for them and the senior members of the finance team. It worked and the training programme is being rolled out to an engaged audit committee and senior management team. This will create a solid platform for deploying the outputs from IFRS 17 as strategic business planning tools.

The lack of urgency in tackling this is most acute in the property and casualty sector where assumptions are being made that because of the short-term nature of the business the legacy data issues around contract acquisition that life insurers are running into do not apply. They believe that the simplification model allowed under IFRS 17 will be all that they need. They are underestimating the challenge, warns Swales, many companies have contracts with differing coverage periods which might mean this approach isn't appropriate, even if it is, landing on an initial recognition position for everything might prove difficult given the importance of cash receipt date.

'This is where it becomes tricky for the non-life players because the prevailing view is the simplification approach will apply, and they think they can just go back one year. What are they going to do if they find out that not all of their business qualifies for the simplification approach? Do they end up running two models with all the unnecessary complexity that entails?'

Senior management engagement is key to stimulating the involvement of the entire business: 'Moving forward with the technology perspective is very challenging. It is about ensuring the solution delivers IFRS 17 calculations and outputs and this requires good quality data from the business to go into the new systems. There is a genuine danger that some firms are underestimating the amount of change needed to bring in the additional IFRS 17 capabilities'.

It is important that firms step back and review the challenges they face as with so many headings to tackle there is a constant temptation to bolt on inadequate fixes to existing systems. They must make decisions about where to invest their time and this can only be done if they have real clarity about where they are on the road to IFRS 17 implementation.

Time is now also an important consideration for clients.

As the global roadshows moved on the confidence among finance teams about their ability to meet the delivery dates was waning. Many are going to need significant support from vendors and advisers to be ready in time. There is also a growing nervousness about the ability of the major vendors to be able to deploy the right resources across hundreds of clients around the world at the same time.

As timescales tighten the challenge of holding onto the potential benefits from a rigorous IFRS 17 implementation will grow harder but must not be abandoned.

Regional contrasts

The IFRS 17 Technology showcase event launched in the UK last November has been replicated around the world through 10 regional events. With over 1000 clients attending these events, there have been some fascinating insights into the regional differences in rising to the challenges around implementing IFRS 17.

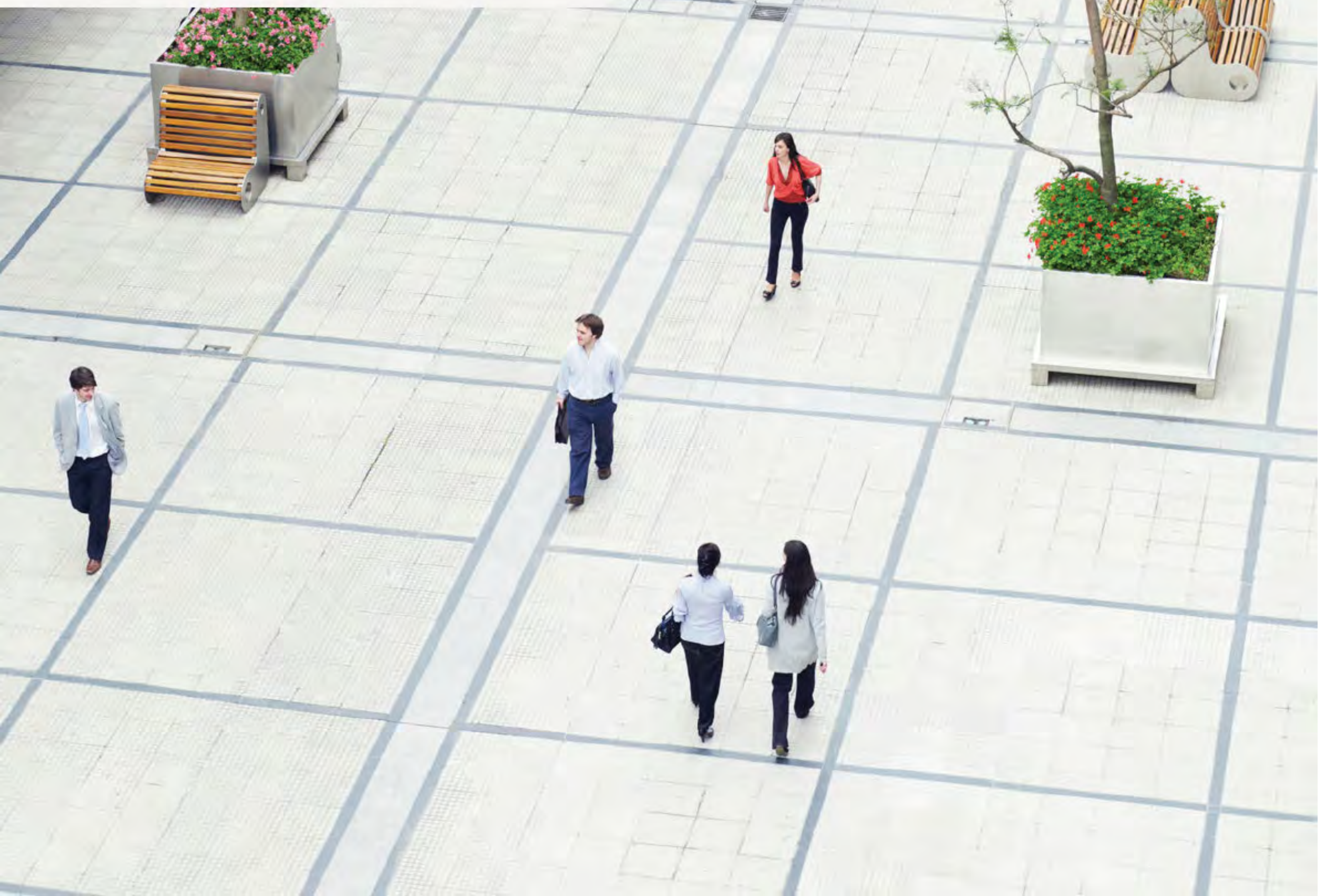
- One of the key elements in the IFRS 17 regime is the Contractual Service Margin (CSM). In the United States finance is tending to own this, while in Europe and Asia it is the actuaries who are taking control of this key measure of product viability.
- Outside Europe – where Solvency II prompted some cleaning up of data and modernisation of systems – the IFRS regime is insurers only exposure to internationally imposed standards. This means that local GAAP accounting rules have dominated data manipulation, analysis and production of results. Many of these are focused on local tax regimes.
- The prevalence of local GAAP requirements in the US and Far East means that general ledgers have been configured to meet these statutory reporting requirements, not accounting standards. Assumptions about the ease with which key data can be read across from general ledgers to IFRS 17 reporting templates may prove to be flawed. This could cause significant problems for multi-national insurers, says Swales 'In a multi-GAAP environment your ledger is going to have to perform gymnastics'.
- The capacity of vendors to support the deployment of their solutions sits mainly in Europe and the US. Elsewhere insurers are going to have to rely on distributors and third parties to support deployment.

Results timetables

Insurers may have to manage expectations about their ability to meet market expectations about the turnaround of results, especially if the arrival of IFRS 9 covering the asset side of the balance sheet, causes further heavy demands on systems.

Working day timetables have improved significantly over the last ten years, with close dates coming down from an average of 62 days to nearer 40 days. In Europe, Solvency II was a big driver as it accelerated ledger closing times after the end of year – and all the signs are that European regulators are putting more pressure on for faster turnaround of Solvency II results. This will make life tough for insurers having to make major adjustments to implement IFRS 17, says Swales: 'It is significantly deeper, much more complex and considerably more onerous and we haven't really got a considered view on how much longer it will take'.

The challenge of IFRS 9 – due for implementation by insurance firms in 2021 – is of parallel implementation programmes emerging says Swales: 'We must make sure we are not digging the road up twice'.



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