

Insurers: Are you ready for IFRS 17?

Top 10 things to look for in an IFRS 17 solution



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Introduction

For many insurers, this accounting process will look familiar:

- Tools and processes vary for different lines of business.
- The needed data is stored in hundreds of files.
- Calculations are performed by multiple, undocumented spreadsheets, with little or no version control.
- Humans must step in to help cobble together data from different channels.
- The process of preparing and presenting financial data is not manageable or traceable.
- The path from input data to P&L numbers is largely a black box.

In a simpler time, this patchwork was passable. But regulations such as IFRS 17 (International Financial Reporting Standard) and LDTI (Long Duration Targeted Improvements) bring greater complexity to the accounting process for insurers. As a result, semi-manual legacy processes look like a house of cards and raise doubts about the validity of the final numbers on the P&L sheet.

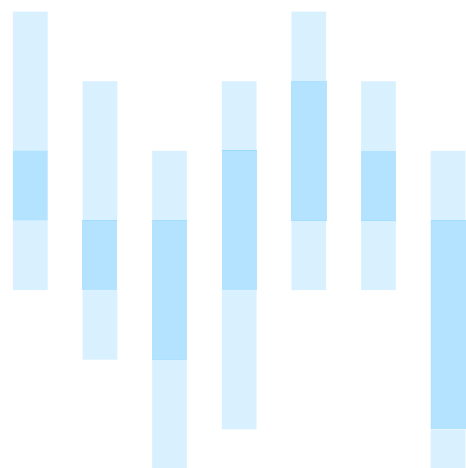
IFRS 17 was issued by the International Accounting Standards Board (IASB). It defines how accounting will be done by insurers in the more than 100 countries that adopted IFRS. IFRS 17 replaces IFRS 4 Phase II, which isn't a comprehensive international standard but rather a structure for grandfathering in the use of countries' national standards.

"If you look around the world, we see the use of myriad national standards, which are highly divergent and often a bit antiquated, so the quality of the information is often substandard and certainly not comparable," IASB Chairman Hans Hoogervorst told [Accounting Today](#). "... The current practice is highly divergent and not of sufficient quality, so it was high time that we produced this standard."

IFRS 17 ushers in a new era that puts insurers on a level footing internationally. For starters, the new standard:

- Defines clear and consistent rules that will increase the comparability of financial statements.
- Introduces new approaches for the valuation of insurance liabilities.
- Requires insurers to report on their business performance far more granularly.
- Brings new requirements concerning the calculation and disclosure of financial measures.
- Requires the calculation of some completely new measures.
- Limits the ability to offset onerous contracts against profitable ones.
- Has an impact on profitability monitoring processes.

This greater transparency gives analysts and investors more insight into a company's financial health than ever before. As insurers go through the transition to IFRS 17, many find that there's a visible impact on financial statements and key performance indicators – and not in a good way.



What IFRS 17 means for insurers

While many insurers adopted IFRS 17 standards as of January 2023, there are others who will comply at a later date. There are several considerations for insurers that have already begun their implementations and for ones that will begin in the future.

- IFRS 17 represents substantial changes for IT, finance, accounting and actuarial departments, primarily due to the demand for more detailed data and more frequent actuarial system runs. This kind of change management takes time.
- The P&L statement under IFRS 17 is different from the current one and the Solvency II one. The significant differences between these logics require new steps for data analysis and reconciliation.
- Since insurers need to get used to running the business according to new metrics and KPIs, a transition period – a parallel run of old and new accounting methods for one to two years – is currently taking place and recommended for all.
- Insurers implementing now or in the near future must allow for adequate time in their preparation journey for parallel processing during the transition period.
- Even companies that are not required to adopt IFRS 17 standards may do so in order to present comparable information about their business and financial position – a growing expectation from investors.

The impact of IFRS 17 on finance and actuarial processes depends on several factors, such as the current reporting basis, the complexity and maturity of the business, and whether it depends on a collection of legacy systems or has recently undergone a major finance IT transformation.

For international insurance organizations that are accounting under generally accepted accounting principles (GAAP) – as is the case in the United States – the situation is even more complicated because GAAP is a set of rules, conventions and procedures while IFRS is principles-based.

A US-headquartered insurance group with business in IFRS countries must support both these international standards in parallel. While there are efforts to bring together these two standards, the differences mean that a coordinated application of both GAAP-related and IFRS-related standards affects international insurers now and in the coming years, including the implementation of CECL (current expected credit loss) in the US.

Regardless of where an organization is in its IFRS 17 implementation, it must consider how it will:

- Manage the increased granularity and complexity around the accounting of insurance contracts.
- Deliver monthly run, consolidation and reporting with far more data in compressed time frames.
- Prepare, test, document and manage the underlying models that support the calculations.
- Provide rigor, governance and transparency for every step of the process.

What is IFRS 17?

The IFRS 17 accounting standard is designed to provide more transparent, comparable reporting on how insurance contracts affect an entity's financial performance and risk exposure, and how it earns profits or incurs losses through underwriting services and investing customer premiums.

Challenges in the transition

As insurers move forward in IFRS 17 implementations, they face challenges in several areas.

Disparate systems and processes

One of the biggest challenges is that current accounting systems and actuarial tools are designed with traditional compliance in mind. They were created in isolation and have little or no integration capability. This may cause significant problems as insurance companies seek to understand the full impact of the new standard.

In addition, many of these system integration points still rely on manual processes. This makes it difficult to scale and add the necessary layers of automation needed to deliver the speed, accuracy and visibility demanded by IFRS 17.

Functional silos

Since many measures in new disclosure reports are calculated based on comparing expected and actual cash flows, IFRS 17 calls for greater cohesion among diverse players in the process, such as:

- **IT**, which is responsible for uploading the data and checking data quality.
- **Actuaries**, who are responsible for IFRS 17 calculations and, in cooperation with accounting, for postings. There might also be cases where thematic actuaries will be responsible for some parts of business and a chief actuary will approve the overall values.
- **Accountants**, who are responsible for preparing the data set for the general ledger and, in cooperation with actuaries, for postings. There may also be an additional step of approval by a chief financial officer or comparable person.
- **Financial control department**, which is responsible for evaluating the impact on future probability performance based on scenarios of portfolio evolution and/or market factor changes (e.g., interest rates).

What's needed is a common platform that provides common ground for these roles and consistent data, processing and reporting for both financial and risk reporting.

Gen Re: A comprehensive approach to IFRS 17

Global property/casualty and health/life reinsurer Gen Re is using SAS® to create a comprehensive platform that covers all IFRS 17 requirements. “We were looking for a platform that we believed could help us comply with IFRS 17 but also which could potentially provide leverage for future global efficiencies,” said Edward Nosenzo, North America Chief Financial Officer at Gen Re.

The importance of integrated functions

Solvency II brought different functions – such as actuary, finance and accountancy – closer together, but IFRS 17 makes this integration even more important than before. Under the new regulations, most profit and loss comes from the actuary rather than from accountants, and this represents a significant change.

Accountants will pull financial statements together, but the actuaries will play a much more significant role in preparing the numbers.

Overlapping compliance initiatives

For many companies, meeting IFRS 17 requirements overlaps with Solvency II compliance efforts and makes things even more difficult. Implementation synergies minimize rework and costs. Companies need an information foundation that can support both compliance efforts and be flexible and scalable to support similar, future regulations.

Limited solution functionality

Most IFRS 17 solution vendors only support part of the compliance process. Insurers then must make heavy investments in acquiring and integrating multiple solutions. The resulting architecture is not well structured or easily traceable. Instead, insurers need a centrally managed solution that integrates all the stages of the compliance process, from data collection and management to calculations and allocations to reporting and governance. The solution must also provide various planning and reporting capabilities beyond pure IFRS 17 compliance to support them in this new era.

Processing bottlenecks

IFRS 17 involves a lot of new calculations. So if insurance companies haven't recently updated their data processing capabilities, those with large portfolios may struggle with data performance issues. Meeting the time windows for monthly runs will be a huge challenge. Insurers need the means to calculate all measures and analyze the results at the required detail with nearly real-time speed.

Process gaps

IFRS 17 adds new steps and interactions that add complexity, require process changes and a better way to manage information flow among systems. An organization's actuarial and accounting functions must be fully integrated, with automated processes among them as illustrated in Figure 1.

Existing tools and systems lack the flexibility that's needed to support IFRS 17 without additional investment. Insurers must assess whether the IT infrastructure can meet the new requirements. There may be a temptation to respond by making a full-scale "rip and replace" of existing accounting systems and actuarial tools. However, this could be a costly mistake if the systems in place still provide significant operational effectiveness.

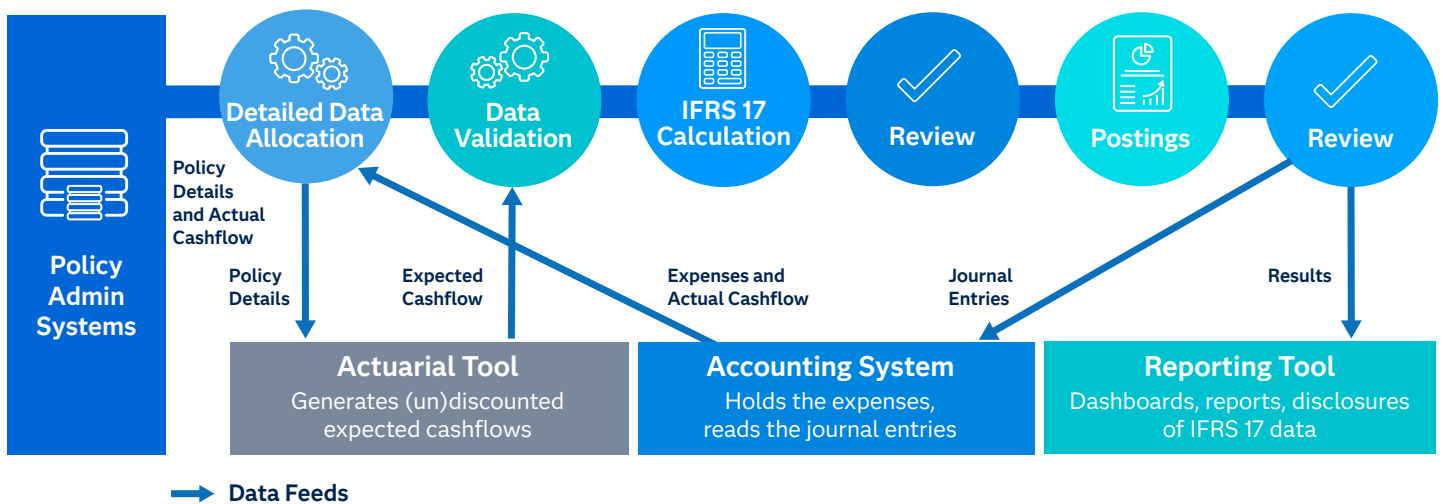


Figure 1: IFRS 17 high-level process.

Complex change management

The insurance market needs time to get used to the new measures and operate based on them. The sooner the IFRS 17-based numbers are available the better since implementation is a big undertaking. Insurers need a road map that defines the final architecture/process but gets there in incremental stages – adding data, quality rules and processes, models, validation and reconciliation rules, reports and more over time in a structured way.

Since IFRS 17 is based on principles rather than strict technical specifications, insurers might make various attempts to determine the best implementation for their lines of business, regions, etc. – which are subject to change in the future.

10 things to look for in an IFRS 17 infrastructure

Some insurers may talk to advisory consultants as a way to prepare for compliance. That's a great start, but these assessments typically focus on business questions. "How will this new standard affect our financial results? How do we interpret IFRS 17 in the context of new business? If we are not mandated to adopt IFRS 17, should we migrate or continue with our present accounting practices?"

Before going too far down this path, organizations should also assess the technical aspects – the IT infrastructure and orchestration of data, systems and processes.

"What data will we need that we don't have today? What changes will be required in our accounting and risk management architectures? Do we have the processing horsepower to meet reporting deadlines with much higher data volumes? What's the best way to move forward?"

To answer the last question, here's a quick view of the top 10 capabilities or attributes insurers should have in their IFRS 17 information architecture.

No. 1: A single, unified platform

Many solutions cover only part of the picture. Vendors of pure accounting solutions focus on preparing the structure of accounts, on the booking itself and on some reporting functionalities. Vendors of actuarial tools focus on valuation methodologies and some advanced model calculations. Technology-oriented vendors focus on data warehouses and support for reporting.

Few vendors support the end-to-end process and also provide the business logic. With one integrated, centrally managed, traceable platform, insurers can run the entire process for IFRS 17 – from source data to reporting – ensuring that all contributors and users are working in a consistent and well-managed framework.

No. 2: Consistent data

A common platform helps ensure data consistency in new financial and risk reports and eases collaboration between actuaries and finance. However, in most cases, solution vendors focus either on capabilities related to risk or finance-related capabilities – not both.

That separation makes sense to a degree because there are differences. The scope of data required can be different, calculations follow different algorithms, the processes have unique steps, and reports present different measures. However, there is a broad common area of data, calculations and measures that should be reconciled.

Furthermore, IFRS 17 brings risk elements into calculations and disclosure, so consistency between finance and risk is a must-have.

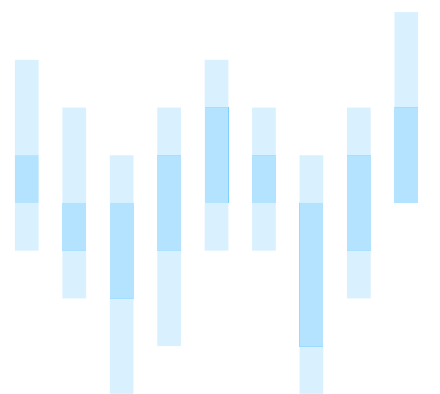
No. 3: High-performance processing

Most calculation tools available today have severe performance issues when pressed to generate cash flows and perform calculations at the level of detail required by IFRS 17 – a real concern for making reporting deadlines. It's important to have a solution that can accelerate any of these calculations. For example, a high-performance processing engine can:

- Distribute a pool of active processing sessions among cores/servers for parallel processing.
- Automatically determine task dependencies and assign processing tasks to active sessions to run.
- Optimize the assignment of processing tasks to sessions closer to where the data resides for efficiency.
- Find a previously calculated result (rather than repeat a computation) if the inputs have not changed.

Intelligent data processing capabilities on distributed computing platforms can dramatically reduce the time to run the numbers. However, insurers might want to retain their existing actuarial engines as long as possible, provided they can seamlessly integrate those third-party technologies into the IFRS 17 reporting process.

A single platform for risk and finance calculations and reporting ensures consistency in common data, enables comparability of data, and eases the reconciliation of results. The result is closer collaboration among actuaries, risk managers and accounting staff around reporting of expected and actual cash flows and metrics.



Parallel execution and in-memory processing can accelerate required processes and calculations by orders of magnitude.

No. 4: Traceability and auditability

Runaway spreadsheets and undocumented processes are now obsolete. IFRS 17 requires end-to-end accounting processes to be fully transparent and auditable for every controller.

When evaluating solutions, look for the ability to define processes as a flow of logical, documented steps. For example, a process could define specific pieces of calculations, detailing the roles involved, data sets used as inputs and the process outputs. Every step should be automatically documented as it occurs. The solution should store information about versions of each process, model and instance run. All manual changes to the data (configuration or results) should be stored along with related comments and attachments. This kind of governance ensures that processes are consistent, supportable and repeatable.

No. 5: What-if capabilities

Look for the ability to define and run a process based on several different configurations, each representing a different set of assumptions. Users can verify how changing the assumptions (or scenarios) would influence the stated financial condition of the company.

This is critical for determining which final numbers to put into the P&L statement. If you haven't calculated different scenarios, you won't have alternatives from which to choose when defining the final numbers.

During the initial implementation, asking "what if" will also be useful to see what the final numbers on your portfolios will look like and verify whether those numbers are the right ones or what needs to be changed to get the correct numbers in the final financial reports. What-if capabilities are essential from the outset for refining models, identifying data issues and arriving at the most meaningful results.

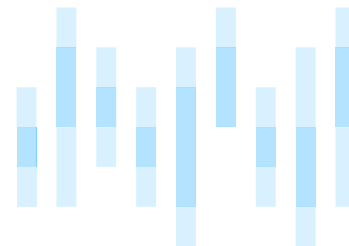
No. 6: Financial planning capabilities

Being able to project the future IFRS 17 carrying amounts of insurance and reinsurance contracts (the financial position) as well as service results (the financial performance) under various scenarios will allow the insurance organization to support activities such as financial planning, financial health reviews and multiperiod scenarios.

Such capabilities allow for a smooth transition and adaptation to IFRS 17. They also provide a way to identify potential risks earlier and their future impact in terms of profitability performance. Plus, these capabilities effectively accommodate changes as the accounting standard evolves by transforming the financial statements into more insightful assets.

It's also important to have a holistic and optimized approach in place since this exercise can be quite resource-intensive by nature.

What-if analysis – the ability to run different scenarios based on different assumptions – is a powerful tool for mitigating the higher volatility expected in P&L statements under IFRS 17.



No. 7: Out-of-the-box structure with outside-the-box flexibility

Insurers can jump-start their implementation with a solution that offers prebuilt rules, models and templates with embedded business logic, such as:

- Dedicated configuration data.
- Models for the general measurement model (GMM) or building block approach (BBA), premium allocation approach (PAA), variable fee approach (VFA) and more.
- Predefined rule sets for validation, posting and reconciliation.
- Predefined report sets for IFRS 17 calculations and disclosure.

Then look outside the box for the flexibility to refine and customize. For example, an insurer may want to define custom sets of rules to assign/allocate the results of calculations to elements in the Structure of Accounts to be disclosed in the final reports. The rules may be different for different reporting periods – if the Structure of Accounts or the approach to it changes over time – or for entities in a different geography or type of business. Look for a solution that offers this level of flexibility.

No. 8: Data quality and process quality management

The quality of data used for calculations and financial reporting is critical, whether it's input data or the intermediate results of calculations. Start with an insurance-specific data model that can load all the data required for IFRS 17. Beyond that, look for a solution that is both flexible and automated, one that:

- Enables users to define the data packages and data quality rules for various steps of the process.
- Monitors the delivery, completeness and quality of this data.
- Automatically triggers data quality and reconciliation rules at required states of the process.
- Feeds policy data into a wide variety of actuarial and reinsurance systems.

No. 9: Advanced reporting with drill-down capabilities

In the early stages of operating under IFRS 17, everybody will have to get used to the new metrics and understand the reason (source) behind individual values. So from the start, having a set of properly designed, maximally informative reports is important.

This process is greatly simplified by starting with predefined financial reports that can be customized, and providing an interactive interface where users can drill down to the details and the source data used for calculating the final values. And of course, there should be support for Microsoft Excel as well as web-based reports.

Validate before taking the leap

Validate the chosen implementation approach by performing a comprehensive proof-of-value exercise that assesses the process from end to end:

- Analyze input data.
- Test calculations and post entries.
- Evaluate downstream data.
- Measure data processing performance.
- Assess the hand-offs among functions and people involved.
- Ensure that the process is transparent and auditable.

No. 10: Adaptable, extendable architecture

Like Solvency II, nobody expects IFRS 17 to be static. All regulations evolve and change. Businesses evolve and change. Look for an expandable and resilient infrastructure that will adapt to these realities. A flexible data and analytics architecture can resolve issues throughout the business while paving the way to add future functionality in a modular way.

Incremental implementation

Transitioning from legacy GAAP accounting to IFRS 17 is a major undertaking. Insurers can reduce transition struggles and risks by evolving in phases. For instance, a company could start by upgrading less mature processes and models, and then move on to more advanced processes and target models that apply to the whole portfolio.

Here's how this might look: The solution enables the insurer to define a template of the end-to-end process, then run calculations as instances of this template. Insurers might start with a simpler process where just certain steps are implemented, such as basic validation rules, initial models created in Microsoft Excel or external tools, and preliminary versions of reports. Step by step, these basics are replaced with more mature versions. Look for a solution that supports this kind of incremental adoption.

Synergies between Solvency II and IFRS 17

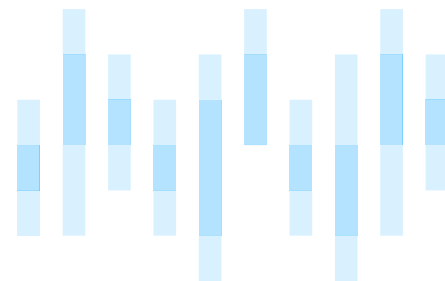
Many insurers affected by IFRS 17 also have to comply with the Solvency II Directive, which concerns the amount of capital European Union (EU) insurance companies must hold to reduce the risk of insolvency.

Although IFRS and Solvency II differ in the details (such as identification of contracts, level and approach to calculations, reported measures and responsibilities), the basic requirements regarding data, structures, auditability and traceability of processes and supporting systems are very similar. Both regulations call for a comprehensive approach using an integrated framework.

Many insurers have made significant investments to comply with Solvency II. These new systems and processes may need only little additional development to meet the requirements of IFRS 17. Considering Solvency II and IFRS 17 implementations jointly offers several benefits:

- **Opportunities for wider transformation.** Meeting Solvency II and IFRS 17 requires a substantial change in the external reporting environment – a prime opportunity for insurers to transform the broader suite of management information across actuarial and finance functions. The business gains greater decision-making agility and responsiveness to opportunities and threats.
- **More effectiveness, lower cost.** Implementing Solvency II and IFRS 17 in a coordinated fashion minimizes the amount of reworking on data, systems and processes. The joint approach reduces operating costs for data management and modeling, and makes actuarial and finance functions more effective.
- **Smoother implementation.** Both Solvency II and IFRS 17 call for a framework that supports both financial reporting and enterprise risk management in a sustainable way. The higher the level of integration between the two, the more effective (and cost-effective) each will be.

IFRS 17 brings new approaches for valuing insurance contracts and new metrics that describe company performance – both changing the way reporting is done and how insurers will be evaluated.



If you only remember three things

Think holistically

There are significant business benefits from choosing a unified platform that supports all IFRS 17 requirements. A single platform for risk and finance analytics and reporting ensures consistency in common data, enables comparability of data, and eases the reconciliation of results. At the same time, it fosters closer collaboration among actuaries, risk managers and accounting staff.

Similarly, thinking about Solvency II and IFRS 17 in harmony can make both implementations more efficient and reduce redundant effort and operating costs, while opening up opportunities for broader transformation of information systems for the betterment of the business.

Think layered, modular

A layered architecture provides a common foundation for multiple business functions. Modularity provides clear, logical delineation of functions and enables phased implementation.

The SAS Solution for IFRS 17 is based on a technical platform that's also the foundation for other SAS offerings, including LDTI, firmwide risk for Solvency II, stress testing, IFRS 9 and more.

The IFRS 17 package comprises discrete functional modules with embedded logic for data management, calculations, business rules and flows, reporting and process governance.

The last thing insurers need is to have to build an entirely new system from scratch, or build a solution based on a ledger that might not even exist when it's time to implement IFRS 17. Select a technology platform that has the flexibility to support late-breaking process changes without disrupting what is being developed or already in place.

One platform, multiple benefits

SAS offers a solution for Solvency II based on the very same analytical platform as the solution for IFRS 17. Functional modules and business logic sit on this common platform. Separating the platform from content modules means an insurer must only invest in the analytical platform once, then add business components for Solvency II and IFRS 17 on top of that platform.

Plan well ahead for IFRS 17 implementation

IFRS 17 represents substantial changes for finance and actuarial departments and their IT architectures. This implementation takes time and is best handled in increments.

Forward-thinking insurers will plan to complete their implementation projects long before they intend to comply with IFRS 17 so there's enough time for extensive comparisons and testing before the compliance deadline. This testing period may entail parallel runs for one to two years to enable the insurer to adapt to new processes and to running the business by new IFRS 17 metrics.

Start preparing now

The primary objective of IFRS 17 is to provide more comparability of financial reports and insight into the reasons for change reflected in them. IFRS 17 implementation means making a long-term investment in a system that will be used for the next 10-15 years. It introduces new valuation approaches for insurance contracts and substantial changes in basic financial reports.

Supporting this process requires new actuarial calculations, a new structure of accounts and key performance indicators that accounting and reporting systems must adapt to manage. But the final impact will be much broader than that.

IFRS 17 significantly affects financial performance, operational processes and data, requiring an integrated approach, based on an open and scalable platform. The platform should be designed to manage both today's and possible future requirements of IFRS 17 and more.

Learn more

Ready to take the next step in the journey toward preparing for IFRS 17?

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