IFRS 17 is an opportunity to rethink and revolutionise accounting and steering in the insurance industry
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1. Introduction – Purpose and objectives

Insurance companies in over 120 countries, where IFRS is the applied accounting standard when companies report to shareholders, will have three and a half years to comply with IFRS 17, effective 1 January 2021. Implementing IFRS 17 implies a major transformation in actuarial and finance reporting processes, systems and data. The key challenge for insurance companies right now is to take the most appropriate decision that best fits their needs and aspirations for their Finance Operating Model.

The answer to this challenge can no longer be reactive, tactically implementing another isolated reporting solution, each time a new regulation comes into force. Implementing a solution that addresses only IFRS 17 requirements might not address the recurring challenges of today’s finance organisations – fragmentation, too many manual processes, lack of an integrated data model and a time consuming reporting process which is prone to error. This approach can lead to limited business insight, a lack of ability for scenario modelling or what-if analysis and prevents an intuitive and straightforward understanding and explanation of differences across valuations.

Swiss Re and SAP recently announced the start of a multi-year innovation project focused on addressing the increasingly complex demands from regulators on reporting and financial steering. The result of the project will be a new solution that streamlines and standardises these processes. The main focus of the joined project is to enhance foundational SAP solutions and technologies, such as S/4HANA and subledger functionality, to support the insurance and reinsurance industry in this transformation.

Besides new technologies and a modern finance system landscape, innovative approaches on how to master multi-valuation accounting are required. A recent article co-authored by Swiss Re’s Reinsurance CFO on LinkedIn1 introduced the Baseline Delta Approach: ‘The Baseline Delta Approach represents a true Multi-GAAP approach and at its core is about splitting accounting entries into two components: the Baseline and the Deltas’. The Baseline Delta Approach establishes a common component across all valuations, while valuation adjustments (‘Deltas’) are specific components to a given valuation.

This raises the following questions with regards to upcoming IFRS 17 implementation projects:

- To what extent can the Baseline Delta Approach and an innovative finance subledger be the solution to your IFRS 17 challenges and beyond?
- Is it wise at this stage to adopt a strategic instead of a tactical solution by considering the overall accounting approach and finance system landscape prior to the IFRS 17 compliance deadline on 1 January 2021?
- Is it an option to leverage IFRS 17 as a meaningful first step towards an innovative future finance solution, defining the common component baseline (best estimate cash flows) and protecting the significant investments with a sustainable long-term solution?
- Which implementation path should be followed to minimise risks while optimising long term benefits, beyond reporting compliance, such as concurrent fast close, continuous and insightful analytics and the reduction of reporting production?

This publication provides our views on these key questions and demonstrates how an IFRS 17 implementation project can be a meaningful investment towards a strategic, long-term solution.

1 https://www.linkedin.com/pulse/innovative-approach-multi-gaap-accounting-industry-how-lohmann
2. IFRS 17, additional challenge with deep transformation implications

**Key financial reporting challenges today**
Over the previous decades, the insurance industry has been facing many challenges in its financial management. Due to fragmentation, a lack of automation as well as the absence of an integrated data model, the reporting processes are time-consuming, prone to error and are not supported in a cost effective manner.

Although speed, frequency, lack of insight and cost have been on the agenda of many Finance Transformation programmes in the insurance industry in the past, these challenges are greatly amplified by the number of valuations (such as local GAAPs, IFRS, US GAAP, Solvency 2, Swiss Solvency Test (SST)) that insurance companies have to report to various stakeholders and regulators. The combination of short timelines, complexities and frequencies of the various reporting requirements makes these challenges even more acute.

**IFRS 17, a new challenge for the industry**
With the introduction of IFRS 17, Finance is facing an additional challenge on top of existing ones in understanding and interpreting the figures of this new accounting standard while explaining the differences with existing valuations. Insurance companies have been waiting over a decade for a single global accounting standard that fits their unique and complex industry. The new accounting framework introduced by IFRS 17 ‘Insurance Contracts’ and IFRS 9 ‘Financial Instruments’ is considered the most significant accounting change in the industry:

- **IFRS 17 is a new way of thinking in insurance accounting.** Implications on economics and operations are going to vary depending on the specifics of each company, but, nonetheless, it will push a substantial change to accounting treatments. The IFRS 17 accounting standard requires a closer collaboration of actuaries, risk managers and finance professionals, as calculations must be based on a comparison of expected and actual cash flows.

- **The new accounting standard will have an international impact and is aiming to increase consistency, comparability, and transparency in financial reporting across the insurance industry.** The upcoming adoption of IFRS 17 will affect actuarial models (with an aim to open up the “black box” of current insurance accounting), IT systems, product design, profit, equity and volatility as well as reserving and financial reporting processes.

IFRS 17 introduces a general measurement model based on a risk-adjusted present value of future cash flows that will arise as the insurance contract is fulfilled. New actuarial modelling for IFRS 17 is required to determine the best and most appropriate estimate fulfilment cash flows, risk adjustment methodology and Contractual Service Margin (CSM). A company applying IFRS 17 will need to re-measure its estimates each reporting period using current assumptions, which will require significant effort and new processes and controls in actuary, risk and accounting.

The increased volume of data due to greater granularity requirements at inception/fulfilment of an insurance contract will have a large impact on the ability of current application architectures to store and process the data in a timely manner.
Impact of IFRS 17 on the insurance industry

More than just a compliance exercise, the adoption of IFRS 17 is going to have significant impact on the fundamental aspects of the insurance business and its financial management.

Business Impact: The new reporting basis will require adjustments to the performance management and key performance indicator framework (KPI). At this point, many insurers are very keen to understand the financial impact of IFRS 17 on their current products when they reprocess historical data based on the current design and economics of their products. The current set of key metrics for volume, revenue and profitability will have to be adjusted to the new regime, which will impact the entire performance management process. Reporting multiple key metrics (IFRS, SST, Solvency 2, Market Consistent Embedded Value (MCEV)) will necessitate an increased demand for reconciliation with IFRS.

This will also require alignment of these new KPIs and metrics with investors, showing exactly how management is planning to adopt IFRS 17 and IFRS 9 to manage volatility in their balance sheet and income statement. Communications with capital markets will be challenged by overall changes in the presentation of financial results and increased complexity in the calculations. Companies will need to explain results to the investor community and, during transition, distinguish the impact of movements due to changes to accounting bases from those related to underlying business performance. The increase in volatility of financial results and equity will require more advanced forecasting and simulation capabilities to provide reliable financial forecasts.

Operational Impact: Adapting actuarial modelling for IFRS 17 will be required to determine the best and most appropriate estimated fulfilment cash flows at the required granularity, risk adjustment methodology and CSM. New controls over financial reporting and strong auditability capabilities will have to be in place to meet minimum regulatory requirements and mitigate risks during the financial reporting process.

System Impact: Insurers depend on technology as never before. The recent introduction of IFRS 9, IFRS 17 and other complex accounting rules under IFRS will pose a significant challenge for insurers. Today, business and technology innovation are inextricably linked, and the demand for technology-enabled business and finance transformation services is growing rapidly. Organisations are looking to transform their IT operations to suit new business goals, dynamics, accounting and regulatory pressures.

Organisation & people impact: The new accounting regime imposes transformational change on Finance, which needs to be addressed by a clear people agenda. Early communication and raising awareness will be essential to build a structured training and development framework to explain the accounting changes, new KPIs and to develop the technical expertise required to support the introduction of this new accounting standard.

For decades, regulators changes have been a constant in the industry. IFRS 17 will not be the last one and more regulatory changes are on the way: for example, the new International Capital Standards (ICSs) for insurance companies, under the responsibility of the International Association of Insurance Supervisors (IAIS). IFRS 17 is just a milestone to reach until the next one, but it is also an excellent opportunity to fundamentally prepare for upcoming challenges.
3. Baseline Delta Approach as innovative Multi-GAAP solution

Making a complex world simple
Swiss Re have designed a true Multi-GAAP approach to accounting, known as the Baseline Delta Approach. This approach is described in a recent article by their Reinsurance CFO and Multi-GAAP Project Lead. The Baseline Delta Approach considers all amounts making up a valuation, as either a common component across all valuations (known as the Baseline) and specific components to a given valuation (the Deltas). The Baseline represents past and future cash flows and thus naturally facilitates cash and dividend planning, economic valuation and cash flow statements. The Deltas are the accounting rules specific to the valuations and have been structured intuitively to allow understanding, both in terms of the conceptual reason a Delta exists (‘why’) and the methodology used to implement it (‘how’). These are illustrated in the table below. Such an approach also enables the number of Deltas to be under control, with a mere 26 currently envisaged as well as meaningful and automated walks between valuations to be produced.

Additional benefits
In addition to its core multi-valuation capabilities, the Baseline Delta Approach incorporates a number of additional benefits:

1. Fast continuous closing: The Baseline Delta Approach uses an event-based booking model, where amounts are booked in near real-time and thus a full daily balance sheet becomes reality.

2. Automated analytics: As the Baseline Delta Approach is enabled by granular bookings including for reserves, an automated bottom-up framework for analytics is provided. These automated analytics explain any relevant changes eg experience variances and the effect of assumption changes, as well as allowing the value of new business to be explicitly recognised at the point of sale.

3. Projection and planning: As the approach is based on a granular and integrated data model it can also support a seamless production of future financial statements, since cash flows from the existing assets and liabilities are the starting point for any future financial statement.

4. Simulations: The ability to understand changes to data, assumptions and methodology is key for an insurer. Testing ‘what-if’ situations as well as implementing stress tests are enabled through the Baseline Delta Approach using the same data model and production process as for the core base balance sheet, thus enabling all of the standard analytics and explanation also in stressed conditions.

In conclusion, the Baseline Delta Approach brings together all accounting for all assets and liabilities into a single place with standardised and highly automated production and analytical capabilities. Implementing this approach is a decisive move from Balance Sheet Accounting to Balance Sheet Management allowing not only a continuous close with event driven booking model, but also concurrent fast close, and providing insightful analytics and business steering capabilities with valuation walks by comparing various valuations.

Figure 4: The ‘why’ and the ‘how’ of the deltas
4. Validation of the Baseline Delta Approach for IFRS 17

A team of experts from KPMG and Deloitte have conducted a study in order to validate if the Baseline Delta Approach would meet the requirements of IFRS 17. In particular the aim of the validation work was to answer the following questions:

- How do the Baseline Delta Approach cash flows relate to the IFRS 17 requirement of fullfilment cash flows?
- Do the required Deltas exist to meet the fullfilment cash flows and valuation requirements of IFRS 17 for both the General Model and the Premium Allocation Approach (PAA)?
- How does the Baseline Delta Approach address the booking requirements of IFRS 17, including those of the Income Statement and the disclosures, at the required level of granularity?

The requirements of IFRS 17 begin with estimating the cash flows. To derive the estimated cash flows, entities will need to apply adjustments ie Deltas, to their full best estimate cash flows, which currently exist either for economic or solvency related valuations. For example, an entity would have a set of cash flows, which would be expected to also be used for IFRS 17 purposes. These cash flows then would be adjusted to reflect the requirements of IFRS 17 around: directly attributable expenses, contract boundaries, separating distinct investment and service components. These adjustments would provide the ‘fulfilment cash flows’ as required by IFRS 17.

Then the Standard requires that these cash flows are adjusted for uncertainty (risk adjustment) and the time value of money (discounting).

If there is a positive amount left the entity would recognise a CSM. The CSM booking is captured through PX2 ‘Residual Cash Flow Deferrals’ Delta under the Baseline Delta Approach. Similarly the other adjustments described above are captured through the remaining Deltas.

In other words, the Deltas of the Baseline Delta Approach align closely with the fulfilment cash flow and valuation requirements of IFRS 17. The Booking Model and Performance Unit aspects of Baseline Delta Approach also allow for agility with respect to the granularity of those calculations to be performed at a contract, group or portfolio level depending on the particular circumstances at the respective entity. The movement of the Deltas over time is then used to produce the Income Statement and many of the quantitative disclosure requirements of IFRS 17.

The example below shows how the Baseline Delta Approach Deltas can be combined to produce the IFRS 17 Income Statement. The movement analysis aspects of the disclosure requirements can be derived by a similar approach.

The conclusion of the validation work is that the Baseline Delta Approach is a comprehensive and intuitive approach to meet the requirements of IFRS 17 including the ability to provide a large number of the quantitative disclosures leading to a significant acceleration in the closing process. The Baseline Delta Approach can be applied for IFRS 17 and entities implicitly or explicitly will need to follow a ‘Delta’ approach to meet the requirements.

<table>
<thead>
<tr>
<th>Account</th>
<th>Baseline/Delta Sub Mechanism</th>
<th>Analytical Type</th>
<th>IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>UBI Premium</td>
<td>Baseline</td>
<td>Initial recognition</td>
<td>-297.0</td>
</tr>
<tr>
<td></td>
<td>TD1 Delta - Nominal risk free discounting</td>
<td>Expected</td>
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</tr>
<tr>
<td></td>
<td>Total</td>
<td>Expected</td>
<td>16.9</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Expected</td>
<td>-8.4</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total</td>
<td>-188.5</td>
</tr>
<tr>
<td></td>
<td>Baseline</td>
<td>Actual</td>
<td>-100.0</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Settled</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premium</td>
<td>Baseline</td>
<td>Initial recognition</td>
<td>-148.5</td>
</tr>
<tr>
<td></td>
<td>TD1 Delta - Nominal risk free discounting</td>
<td>Expected</td>
<td>-50.0</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>Expected</td>
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</tr>
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<td></td>
<td></td>
<td>Expected</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>Total</td>
<td>94.2</td>
</tr>
<tr>
<td></td>
<td>Baseline</td>
<td>Actual</td>
<td>50.0</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td></td>
<td>50.0</td>
</tr>
<tr>
<td>Settled Claims</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Baseline</td>
<td>Initial recognition</td>
<td>11.4</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>Expected</td>
<td>5.8</td>
</tr>
<tr>
<td>Risk Margin</td>
<td>UM1 Delta - Margin for capital costs</td>
<td>Initial recognition</td>
<td>128.7</td>
</tr>
<tr>
<td></td>
<td>UM1 Delta - Margin for capital costs</td>
<td>Expected</td>
<td>-46.8</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>Expected</td>
<td>85.8</td>
</tr>
<tr>
<td>Residual</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cashflow</td>
<td>PX2 Delta - Residual Cashflows deferral</td>
<td>Initial recognition</td>
<td>128.7</td>
</tr>
<tr>
<td>Deferral</td>
<td>PX2 Delta - Residual Cashflows deferral</td>
<td>Expected</td>
<td>-46.8</td>
</tr>
<tr>
<td></td>
<td>PX3 Delta - Interest on deferred cashflows</td>
<td>Expected</td>
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</tr>
<tr>
<td></td>
<td>Total</td>
<td></td>
<td>85.8</td>
</tr>
<tr>
<td>Profit</td>
<td></td>
<td></td>
<td>-52.7</td>
</tr>
</tbody>
</table>

Consider a 3 year term life contract with a death benefit of 5'000. The best estimate premiums are 100.00, 99.0, 98.0 and the best estimates claims are 50.0, 49.5, 49.0. The risk free interest rate is 3%. There is also a risk margin of 6.0, 5.0, 4.0 applied for IFRS

Figure 5: Example how the Baseline Delta Approach deltas can be combined to produce IFRS 17 Income Statement.
5. Components of a modern accounting approach

**Current challenges of today’s landscape**

The current challenges to be addressed by a finance system landscape (speed, frequency, lack of insight and cost) have not changed significantly over the last years but have become even more evident due further increasing requirements in regards of reporting content, timelines, complexities and frequencies.

Most of the finance transformation initiatives in the past have focused on harmonising the general ledger and group reporting and/or consolidation components. For the feeder system integration layers and their respective finance subledger areas, the focus has been on integrating source systems into one single finance platform but there was limited effort spent on consolidating the isolated reporting solutions and defining a common data model across all areas.

Looking at the current challenges of speed and frequency, most Finance organisations are still spending the majority of their time processing data, producing reports and doing control and reconciliation work. Due to several data layers, a lack of an integrated data model and isolated reporting solutions, closing and reporting is very labour intensive and time consuming.

CFOs express their ambition to transform their finance organisation towards a new role of a strategic advisor providing enhanced business insight, however, most Finance organisations are still lacking process efficiency, data availability, data analysis capabilities and forward-looking predictive insights to support decision-making and business performance steering.

The pervasive cost pressure is also affecting finance. The Finance function and the enabling technologies need to become more cost-effective, automated and focused on value adding services.

Today’s typical finance system landscapes are highly standardised and harmonised in the following areas: general ledger, consolidation and reporting area, but are typically highly fragmented in the subledger/integration layer area.

How to explain the current fragmentation in the subledger/integration layer area?

- Various types of businesses run on various applications that need to be integrated – a situation that mostly developed over time as well as due to mergers and acquisitions
- Data are stored in different places, and, in most cases, not based on a harmonised data model
- Transformation rules, valuation methods and posting logic are captured and maintained across the whole architecture
- Strong separation of accounting, actuarial and risk data has always been a common practice – each department has their own solutions which limit data integration
- The process of transforming and aggregating data from the feeder systems to the integration ledger and the general ledger was a logical thing to harmonise data and was also necessary due to restrictions in data storage and processing capacities in the general ledger. However, this leads to limitations in drill-down possibilities and to reconciliation and tracking challenges.

Figure 6: Traditional accounting data flow
Harmonising the integration layer may also require adjustments to the feeder systems which may be costly and complicated. Those investments have been limited due to the already high investments done in the general ledger environment.

New requirements have been solved with tactical solutions, adding new layers and isolated reporting solutions to the landscape, resulting in complex dependencies and reconciliation challenges.

The fragmentation of the landscape, the isolated reporting solutions and the related dependencies are limiting automation. Many activities need to follow an exact sequence and cannot be performed in parallel. Occasionally, an Excel sheet or an Access database, which requires manual intervention, may be found.

### Additional requirements implied by IFRS 17

On top of the above described challenges, IFRS 17 adds additional new requirements in the finance system landscape:

1. **Data granularity and volume**: IFRS 17 requires more granular data with a focus on cash flows and cash flow adjustments. Not only actual data but also retrospective and future data flows are required. The quantity and quality of historical data available will determine the transition abilities and flexibility in calculating eg the CSM. The increased data granularity will also lead to a higher data volume.

2. **New modelling and computing capabilities**: For the best estimated cash flow, risk adjustments, discounting and CSM calculations specific applications need to be put in place which can deal with a large amount of data, high data granularity and complex calculations.

3. **New posting capabilities**: Best estimate cash flows and experience adjustments need to be translated into financial postings. This requires new capabilities compared to traditional posting engines.

4. **Enhanced governance and control**: IFRS 17 includes specific accounting treatment for difference between actual and estimated future cash flows (experience adjustments) to reflect proper accounting under the new model. A set of new rigorous controls and governance framework will be required for all new IFRS 17 financial reporting processes.

5. **Chart of Account changes**: IFRS 17 triggers significant changes to the chart of accounts to accommodate new financial postings and enable the new financial reporting.

6. **New disclosure and reporting requirements**: The current reporting environments and reports have to be changed and adjusted to fulfil the new disclosure requirements.

These requirements are placing significant new challenges to an already complex and mostly fragmented system environment. Due to the high level of standardisation in the general ledger, reporting and consolidation solution, the impacts from the IFRS 17 requirements may also be addressed and approached in a common and standardised manner. This is good news and is paying off the investments done in related finance transformation programmes.

The key challenge, then, is in the connection of the integration layer(s) and respective subledger area. The question is how to address the IFRS 17 requirements in this area facing an already complex and fragmented system landscape. Will adding additional patches to achieve compliance make the environment even more complex? Or will taking the opportunity to fundamentally solve the challenge and to think about a more strategic solution – a modern accounting approach – which goes beyond IFRS 17 achieve a better result?

### Components of a modern accounting approach

New technical capabilities such as in-memory technology allow us to find radically new solution designs. IFRS 17 is a unique opportunity to move towards the design of a new modern accounting approach instead of just applying another tactical solution to reach compliance.

Our vision of a subledger solution as key element of a new finance system landscape has four key components:

1. **Extract and optimise source data from feeder systems**: The relevant data is extracted from source systems at the maximum level of granularity in order to unbundle and allocate groups of contracts in the relevant portfolios. All related business events information (new policies, termination, claims, etc) related to a contract and additional information such as market data, business partner etc can be extracted if available. The source data is enriched with modelling parameters and inputs ie identification of onerous contracts as required by IFRS 17 and all data is harmonised and transferred into the subsequent subledger for further processing.

2. **Generate cash flows**: Best estimate cash flows are calculated based on data provided at the relevant granularity and storage for further usage. The cash flow generation implies an allocation of various items such as expenses, investment income, taxes and capital costs. Any actual cash flows can be extracted from source systems, since they will be a key component of further calculations, allowing the generation of a variety of content and explaining the differences and movements observed. Steering relevant information is enabled through comparisons, movement analysis per account, results analysis, valuation walks and valuation specific analytics.
Prepare calculations for accounting records: Once estimate and actual cash flows are prepared, a Multi-GAAP valuation is conducted, for example for IFRS 17 the CSM (in full) projection, the allocation of risk adjustment and an analysis of change in cash flows will take place in the subledger accounting tool. Finally, all these elements will be transferred into respective postings.

Generate subledger and general ledger bookings and consolidate: Best estimate cash flows from subledger accounting are mapped to balance sheet and P&L accounts in the general ledger. The general ledger receives data from other sources, for instance non-technical information. An accurate reconciliation is a prerequisite for meaningful financial figures and is conducted during the data transfer from source systems to the subledger and from the subledger to the general ledger and reporting applications, consolidation of data for financial reporting and preparation of improved disclosures.

Systems have to be able to store and consolidate thousands of transactions from all group entities using a single measurement model in IFRS 17. We see the following benefits in such a solution, which go far beyond the IFRS 17 compliance:

- **Simultaneous production of valuations**: Multiple valuations can be produced timely and independently, concurrently
- **Generation of future Balance Sheet and P&L**: Projections and planning are enabling mid/long term vision & strategy setting
- **Analysis and reporting in real-time**: The solution allows for easily prepared, timely, thorough and meaningful analysis and reporting
- **Drill down to the most granular level**: Drill-downs support an in-depth understanding of results and their analysis
- **Simulation of scenarios**: All required data are available to allow for simulations and ‘what if’ analysis

We believe that IFRS 17 is a unique opportunity to invest not only in compliance, but in a modern accounting approach which fundamentally addresses today’s challenges of financial reporting and steering in the insurance industry.

The next chapter highlights possible implementation scenarios of a modern accounting approach and present a potential roadmap to be ready on time for IFRS 17 compliance.

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**Figure 7: Design of a modern accounting approach**
6. An innovative solution approach for IFRS 17 and beyond

IFRS 17, the trigger to a sustainable strategic solution instead of a tactical move

We consider the Baseline Delta Approach as a real, integrated multi-valuation solution and a promising long-term approach to cope with present and future challenges in financial management. The implementation of IFRS 17 will require heavy investment due to its focus on cash flows and adjustments of cash flows, new requirements with regards to data availability, modelling and calculation capabilities and enhanced governance and control requirements in today’s often fragmented system landscapes with isolated reporting solutions.

We strongly believe that the implementation of IFRS 17 should be a meaningful first step towards an innovative future finance solution. The cash flow and adjustment approach underlying IFRS 17 is intuitively aligned with both the Baseline and Delta aspects of the Baseline Delta Approach.

Timeline to reach IFRS 17: the clock is ticking!

The timeframe presented below describes the way forward until 2021:

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>IFRS 17 final standard available</td>
</tr>
<tr>
<td>2018</td>
<td>Go Live IFRS 17 solution; Cut off date for 1st IFRS 17 opening balance</td>
</tr>
<tr>
<td>2019</td>
<td>Publication of first IFRS 17 financial statement</td>
</tr>
<tr>
<td>2020</td>
<td>Previous comparative period</td>
</tr>
<tr>
<td>2021</td>
<td>Current reporting period</td>
</tr>
</tbody>
</table>

Figure 9: Timeframe for IFRS 17 implementation

Given the above timeline, the key question to be addressed is how to be compliant with IFRS 17 on time while using the significant investment as a fundamental step towards a target finance system landscape supporting a modern accounting approach. Other questions may include:

- When does the solution for IFRS 17 have to be ready, eg to allow for dry-runs and parallel runs?
- What components of a sustainable strategic solution can be realised as part of the IFRS 17 implementation?
- What implementation options and scenarios are available?

Scope of potential implementation scenarios

Most organisations intend to be ready with their data, systems and processes before 1 January 2021 to allow for dry and parallel runs well before the required compliance date. In order to structure the implementation scope for the IFRS 17 implementation, we consider the following dimensions as meaningful:

- Legal entity: ie Business Unit A, Business Unit B, etc.
- Valuation dimension: ie IFRS 17, Local GAAP, Solvency 2, etc.
- Functionality dimension: ie IFRS 17 calculations, walk through, Forecast, what-if scenario, etc.,

We consciously do not separate by segments since functional requirements across segments should not be significantly different and, therefore, should be harmonised. Considering the above dimensions, we propose a diverse combination of scenarios, as illustrated in the next page, that can be adjusted as needed.
A full transformation to a target solution along all dimensions within the given timeline is the most preferred scenario. Keeping in mind the tough deadlines for implementing IFRS 17, and the particular constraint of being ready ideally well before 1 January 2021 to allow a parallel run before the hard deadline of 1 January 2021, we would recommend an incremental implementation approach with IFRS 17 as the first focus. This approach minimises risks while optimising long-term benefits beyond reporting compliance such as concurrent fast close, continuous, insightful analytics and reduction of reporting production costs. Once the IFRS 17 solution is implemented, the Baseline which establishes a common component across all valuations is live, and any Deltas to a given valuation are an easier implementation.

Focusing on IFRS 17 solely within the Baseline Delta Approach subledger solution implementation reduces implementation risk substantially. The implementation of other valuation principles in parallel will increase effort and might be postponed at a later stage. Considering that every insurance company has a working Solvency 2 and statutory reporting solution in place, it might make sense to postpone the integration of these valuations until after first publication of IFRS 17 financial statements. As the data model and the baseline are the basis for all other valuations, adding further valuations at a later stage will happen with much reduced effort.

Although a comprehensive standard software to support the Baseline Delta Approach subledger solution is not readily available on the market, every insurance company may begin to focus on a number of topics:

- Agree on a modern accounting approach and corresponding target system landscape
- Perform an initial fit-gap analysis and system impact assessment
- Familiarise themselves with the Baseline Delta Approach subledger data model and the corresponding concept(s)
- Establish roll-out plan for Baseline Delta Approach entities including tactical approach for other entities
- Train key people
- Identify and initiate possible pilot(s)
- Explore available vendors’ products and components
- Engage with solution vendor(s) early (eg through early adopter programmes) to gain insight into the enhanced business content (eg data model) and consider it in the analysis and data sourcing concepts

The Baseline Delta Approach is a fit-for-purpose solution to implement IFRS 17. It may be customised to fit each company’s journey towards a sustainable and strategic finance solution.
Potential roadmap
Independently of the implementation scenario and the software solution chosen, there are several accompanying project streams to be considered regarding transformation of IFRS 17.

The following exemplary and high-level project schedule should give an additional insight into further aspects required to consider in the implementation project.

As previously mentioned, implementing IFRS 17 has a much broader scope than a purely technical project – this is a cross-functional initiative mobilising the full organisation within a challenging implementation timeline for a deep transformation journey, not just a compliance exercise, where Change Management topics, including people and talent, will be of particular importance to be successful.

![Figure 11: Potential roadmap – IFRS 17 implementation more than just a technical project](image-url)
7. A potential solution – the Swiss Re example

In February 2017, Swiss Re and SAP announced the start of a joined co-innovation project focused on addressing the increasingly complex demands from regulators on reporting and financial steering.

The project aims to add a new specialised subledger for insurance contracts and financial instruments to the SAP S/4 HANA Business Suite. The solution is planned to fully support the aforementioned Baseline Delta Approach concept. The standard includes sample business content for IFRS, US GAAP and Solvency 2 while many other valuation standards can be added in an implementation project. Swiss Re is planning to use this Baseline Delta subledger solution to implement IFRS 17.

The business and solution approach aims to:

- Manage increasing regulatory complexity with the ability to easily incorporate new valuations and reporting standards (such as IFRS and US GAAP) on an ongoing basis
- Reduce reporting efforts through generating multiple financial valuations concurrently
- Reduce the time spent on operational tasks and controls
- Increase the capacity for analytics
- Create the ability to steer the allocation of financial resources

Focus areas of the new solution architecture as shown in the chart are:

- A modern general ledger solution based on S/4 HANA.
- A subledger accounting component that adds specialised functional capabilities to centralise accounting logic and to support Multi-GAAP approaches, such as the Baseline Delta Approach.
- A calculation component that supports the preparation of future/actuarial cash flows for further processing in the subledger component.
- A data management component and reference data model to manage all relevant sources and result data in a central place.
- Seamless integration of the components mentioned above.

All components make use of in-memory technology to support an ever increasing demand for more granular and effective real-time reporting on large data volumes. Swiss Re has identified numerous benefits which come along with this integrated and future oriented solution:

1. Single source of truth: one comprehensive integrated database for risk and finance data
2. One audit trail-enabled transactional system
3. One unique platform for assets and liabilities
4. Management and processing of big volumes of data
5. Granular data and analytics functionality in the accounting subledger
6. Automatic walks between GAAP’s reducing reconciliation efforts
7. One integration solution of source systems, sub & general ledgers for all valuations
8. Business steering capabilities
9. Automated analytics and drill-down functionalities
10. Clear split of roles and responsibilities between actuaries and accountants

Swiss Re has decided to take a full strategic IT approach to cope with IFRS 17 and plans to use this new SAP solution described above.
8. Conclusion

We consider the Baseline Delta Approach supported by the Baseline Delta Approach subledger solution as a promising long-term solution to cope with present and future challenges in financial management.

The implementation of IFRS 17 should be a meaningful first step towards an innovative future finance solution based on the Baseline Delta Approach. The cash flow and adjustment approach underlying IFRS 17 is intuitively aligned with both the Baseline and Delta aspects of the Baseline Delta Approach.

At a time when the best approach for the implementation of IFRS 17 should be considered, we strongly recommend to seize this unique opportunity to explore a more strategic approach beyond IFRS 17 proposed by the Baseline Delta Approach subledger solution, with the goal of reducing operational costs of IT solutions for Finance in the long term and fundamentally address today’s challenges of speed, frequency and lack of business insight.

Keeping in mind the challenging deadlines for implementing IFRS 17, we recommend an incremental implementation with IFRS 17 as the first focus in order to minimise risks while optimising long term benefits beyond reporting compliance such as concurrent fast close, continuous, insightful analytics and reduction of reporting production. Once IFRS 17 is live – the Baseline which establishes a common component across all valuations is set and any Deltas to a given valuation are just an easy step away.

Many choices and decisions to implement the IFRS 17 standard need to be made now – Deloitte, KPMG and ifb are happy to support your organisation to define the way forward through taking the decision that fits your needs and aspirations for your long term strategic goal.
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Contact:
Andy Hefti, Partner – ahefti@deloitte.ch
Roger Kuhn, Partner – rokuhn@deloitte.ch
Jean-Pierre Manfredi, Director – jmanfredi@deloitte.ch

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Contact:
Marc Goessi, Partner – mgoessi@kpmg.com
Ferdia Byrne, Partner – Ferdia.Byrne@kpmg.co.uk
Nick Kinrade, Director – nkinrade@kpmg.com

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Contact:
Johannes Balling, Partner – johannes.balling@ifb-group.com
Dr. Kai-Oliver Klauck, Partner – kai-oliver.klauck@ifb-group.com
Notes