



SAP Insurance Analyzer

An integrated platform for Risk and Finance – the IFRS Angle

The biggest change in financial reporting regulations in the history of the insurance industry

International Financial Reporting Standards (IFRS) are used in over 100 countries in the world as the regulations that companies must follow to prepare their annual reports and financial statements. For example, all 7,000 listed companies in the European Union have been required to comply with IFRS since 2005.

The current IFRS for insurance liabilities, which goes under the name of IFRS 4 "Insurance Contracts", is deemed unsatisfactory by companies, regulators and investors because of its lack of transparency and consistency.

This is about to be changed fundamentally and a new IFRS for insurance, IFRS 4 Phase II, is due to be published in the coming months introducing for the first time a consistent and transparent accounting for insurance contracts.

The new requirements will be onerous and pervasive but the benefit of improved communication with shareholders is expected to outweigh them. The implementation of these new requirements will be a multi-year project costing several millions per company. Many insurers have used the current draft of IFRS 4 Phase II to start their implementation plans which will materially impact their finance, actuarial and risk functions.

The solution necessary to implement the IFRS 4 Phase II requirements needs to facilitate a transformation of finance, actuarial and risk functions

The main problem posed by IFRS 4 Phase II is to find an effective and efficient way that allows insurance companies to analyse existing data from multiple and diverse sources against the new IFRS requirements to calculate the margins that the new IFRS states would be comprised in an insurance company profit: the underwriting profit with a separate component for the cost of bearing risk and the investment margin, calculated with reference to the return of investments less the insurance liabilities discount rate.

The latter component is critical for life insurers given their huge portfolios of assets backing their insurance liabilities.

Deloitte believes that the solution to the IFRS 4 Phase II requirements must have certain characteristics e.g. it must be capable of integrating actuarial and core systems with the general ledger of an insurance company and it must have a pre-defined data model that fits the new IFRS 4 Phase II requirements to allow accuracy and speed of reporting at the same time as allowing insurance companies to achieve full IFRS compliance and audit traceability. It must also be able to maintain data reconciliation with the other reporting bases of the insurance company such as other national GAAP (Generally Accepted Accounting Principles) and Solvency II.

Deloitte has collaborated with SAP and MSG Global/Nexontis as they developed Insurance Analyzer (SAP IA): the solution for the insurance market to meet the requirements of IFRS 4 Phase II. Since 2011 Deloitte and SAP launched an initiative around SAP IA. In 2012 Deloitte designed and coordinated the testing activities of the SAP IA prototype advising SAP on the new IFRS and Solvency II requirements. Thanks to Deloitte's advice SAP continued its development work and released SAP IA in Q2-2013. Deloitte, SAP and MSG Global/Nexontis are in collaboration to actively assist insurance companies around the globe in their efforts to maximise benefits that will come from this major regulatory change.

The target audience is finance and the customer benefits from the Deloitte-SAP partnership are substantial

Deloitte estimated the adoption of IFRS 4 Phase II will cost insurance companies in EMEA in excess of €3bn. This expenditure is expected over the 2014-17 periods.

Deloitte and SAP have been reaching the CFO community within the insurance sector. Leveraging Deloitte dominant finance transformation expertise and recognised leadership in IFRS, Solvency II and actuarial solutions, several insurance companies are in dialogue with Deloitte and SAP.

Insurance companies face the significant technical complexity of the new IFRS and Solvency II requirements and the opportunity to transform their finance to a more efficient yet compliant operating model. Deloitte's leading edge technical and business understanding of the IFRS and Solvency II requirements are essential to guide clients to initiate the finance transformation process that can deliver also the IFRS implementation and consider solutions such as SAP IA.

An increasing number of mutual Deloitte and SAP clients have initiated a joint dialogue with Deloitte and SAP on the impact of IFRS 4 Phase II and the resulting finance transformation programme that they would need to manage. These dialogues bring out the strategic benefits of SAP IA as an IFRS/finance/Solvency II/risk content-rich solution that delivers IFRS compliance together with substantial enhancements of finance processes and the opportunity to design around it an architecture that integrates finance with actuarial and risk.

The combination of SAP as the solution provider and Deloitte as the implementation consultant with first class accounting and actuarial expertise offers an unbeatable partnership to our mutual clients in the insurance industry at the beginning of a multi-year, technically complex and sensitive challenge.

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Designed and produced by The Creative Studio at Deloitte, London. 34508A