After nearly 20 years of discussion, the International Accounting Standards Board (IASB) finally published IFRS 17 Insurance Contracts in May 2017. IFRS 17 is a comprehensive standard that sets out the accounting treatment for insurance contracts and is expected to lead to one of the most significant changes ever in financial reporting regulations for insurance companies. The effective date of the new standard is for periods beginning on or after 1 January 2021. IFRS 17 introduces a principle-based measurement approach to insurance contracts, which focuses on the use of current market data and the explicit reporting of the components that influence insurers’ results, hence demanding a significant increase in high-quality data. Substantial effort will be required across the global insurance industry to successfully implement IFRS 17, especially in the areas of data and systems.

The new standard introduces a new, more granular system of reporting for both insurance revenue and insurance contract liabilities, which is likely to have a pervasive impact throughout the insurance entity business. It is important to recognise that it is not just an actuarial project, nor is it just a finance project – it will have an impact across a company’s entire operating model. As a result, insurance entities will need to involve teams throughout their business in their implementation journey.

Drivers of increased data volume and quality
The implementation of IFRS 17 is expected to result in a considerable increase in data volume with a corresponding increase in data storage requirements. The increase in data volume is mainly driven by:

An increase in granular valuation requirements: the need to measure and report insurance liabilities using an explicit building blocks approach. The “building blocks” consist of the best estimate liabilities (BEL), the risk adjustment (RA) and the contractual service margin (CSM). This granularity is much greater than the current demands of IFRS, however, and there may be some similarity to Solvency II reporting requirements. Nonetheless, each individual company will need to assess what Solvency II reporting they can leverage to meet IFRS 17 requirements.

Restatement of prior year numbers: the need to apply the standard retrospectively will call for a comprehensive data mining exercise to combine current and historical data to calculate the one-off restatement of the accounting history of all insurance contracts that will be in force when IFRS 17 is first applied.

Greater granularity of disclosure and reporting: the need to change the chart of accounts of the general ledger and produce new financial information – including extensive disclosures – which are more granular than what is currently required. An insurer’s primary statements will fundamentally change, with some commenting that the income statement will be unrecognisable from its current state.
An increase in the use of market data: the need to measure discount rates based on current market interest rate data feeds, which is not required under current IFRS. If the option to present the interest rate volatility out of the statement of profit or loss (P&L) is adopted, these market rates will need to be stored based on what they were at the time an insurance contract was sold. These rates will be used for P&L reporting while the balance sheet will be revalued with current rates at the balance sheet date. The difference is accumulated in equity and represents a potentially significant challenge for insurers.

Segmentation of portfolios in annual profitability groups: the need to split each portfolio of insurance contracts into three separate annual profitability groups that cannot include contracts issued more than one year apart. Each of these annual groups will need to be accounted for as a separate unit of account with an obvious increase in the volume of data to be produced by the actuarial valuation system and captured by the accounting system.

System requirements
IFRS 17 requirements accentuate the need to have high-quality data that is accurate and auditable to support the financial reporting process both to the market and for internal management consumption to direct the business. Table 1 (above) highlights some of the key system requirements to ensure that IFRS 17 data is of high quality.

Business needs to be addressed as a result of IFRS 17
Most insurance companies operate fragmented and complex legacy finance and IT infrastructure. This often leads to high operational costs, mainly driven by significant duplication of data and processing. To address these challenges, insurance companies should assess their business needs as a result of IFRS 17:

- Efficiency: the amount of data output from the actuarial, finance, asset management and risk functions is expected to increase significantly as a result of IFRS 17. It will be critical for companies to find solutions that will save time in processing this increased volume in data output with the same or even greater efficiency. The need for efficient and controlled processes is important to ensure that an insurer meets its deadlines. The challenge will be to ensure the introduction of efficient processes and effective controls that operate in a well-governed environment at an acceptable cost. A number of insurance companies are currently looking into ways to streamline IFRS 17 and Solvency II reporting so that synergies can be achieved.

- Control framework: one of the key requirements under IFRS 17 is the need for accuracy and auditability of processes and data used in financial reporting. In addition, insurance companies will need to provide reconciliations of the different reporting balances to the different stakeholders – investors and analysts in particular. It is therefore vital to have a robust control framework surrounding IFRS 17.

- Disclosure requirements: IFRS 17 will increase the volume of disclosures. This is partly in response to a need for...
greater explanation of what is a more complex measurement approach to insurance contracts and, more generally, the demand from investors for greater transparency for the reported numbers. IFRS 17 will allow global investors to more easily compare reported numbers across jurisdictions as accounting for insurance contracts will be prepared using the same accounting language.

Management information: insurance companies need to effectively manage their risks and enhance returns. Understanding how risks and returns interact is data intensive and requires timely and accurate data. Insurers should consider increasing the data used for analytics with new IFRS 17 finance and actuarial data to enhance the quality of their business insights and ultimately their business decision-making processes.

Insurance companies should assess their current IT architecture to identify where current systems can be leveraged to meet IFRS 17 requirements. For each system that forms part of the finance and actuarial IT architecture, a technical and business fit assessment should be performed to evaluate if the system is an appropriate platform that can meet the current and future business requirements and IFRS 17 technical and operational requirements.

A challenge that will be faced by most insurers is to turn existing fragmented legacy finance and IT systems into strong, scalable and flexible platforms capable of managing multi-reporting requirements. It is likely that data management solutions (DMS) will be utilised and companies should look at targeted investments in this space.

The choice of DMS will be based on a number of considerations that include the nature of an insurer’s current finance and IT infrastructure, the insurer’s size, the nature and complexity of its business operations, and the maturity of the insurance market and regulatory environment in which the insurer entity operates.

Where IFRS 17 components should be calculated
One question insurance companies need to address is where they will calculate their IFRS 17 components. They can be calculated in actuarial systems, in accounting systems or a hybrid of the two. Unfortunately, there is no “one size fits all” solution. The right fit depends on the characteristics of each company’s system architecture and system usage.

current state with the company’s target operating model;
• Validation workshops: run validation workshops to confirm the “gaps” identified in the current state and validate the proposed target state;

“” A challenge that will be faced by most insurers is to turn existing fragmented legacy finance and IT systems into strong, scalable and flexible platforms capable of managing multi-reporting requirements.

Next steps
A good way to start your journey towards IFRS 17 implementation is to perform an IFRS 17 business impact assessment (BIA). Experience shows that projects that fail to carry out a robust BIA from the outset suffer during the execution phase because they have not planned appropriately. An illustrative five-step BIA approach is set out below:

• Implementation plan: prepare an implementation plan that will include an assessment of the effort required to remediate the “gaps” identified and implement the target state. A roadmap may be created to assist the implementation journey.

Insurance entities should also consider the interaction with IFRS 9 Financial Instruments, which will also be implemented over the next few years.

Conclusion
While there are a range of DMS available and there is no “one size fits all” solution, it is important that insurance companies choose the right solutions to define their data management strategy. Insurance companies can address challenges around their finance and IT infrastructure by investing in DMS that enhance their data integration and automation. The choice of the solutions will be based on individual business needs including the maturity of the existing architecture. Investing in DMS is a necessary and substantial step in addressing the business and compliance requirements of IFRS 17.

Complex regulatory change implementations, such as the new IFRS 17 accounting standard, take significant time and effort so remember: start early, start small and keep it simple.

Where entities should calculate their CSM is a key question presently being debated in the insurance industry. If an insurance entity plans to calculate the CSM in an actuarial system they will need prior year data, whereas an accounting system tracks opening and closing balances effectively. However, the calculation of the amortisation of the CSM is not ideally suited to an accounting system – it would be more suited to an actuarial system. It is a very important commercial decision for your business and again, it is important to note that one size does not fit all.

• Training: provide training to key stakeholders, which will ensure a common ground and an understanding of the requirements of IFRS 17;
• Current state workshops: gather available information to assess your current ability to meet IFRS 17 requirements in areas such as processes, systems and models, and data;
• Perform a gap analysis: compare the