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IFRS 17

Planning assurance throughout IFRS 17 implementation

What is IFRS 17 and why is it important?

In recent years, new accounting standards have had a major impact across financial services, with IFRS 9 **Financial Instruments** and IFRS 15 **Revenue from Contracts with Customers** now in place for the majority of organisations and IFRS 16 **Leases** effective in 2019. For insurers, however, the greatest implementation challenge is still to come. IFRS 17 **Insurance Contracts**, effective 1 January 2022, has been described as the most significant change to insurance accounting for a generation, and implementation projects are similar in scale and complexity to the implementation of Solvency II in 2016.

IFRS 17 marks a fundamental change to the way insurers report to the markets. The standard will bring the industry closer to a 'margin' model of accounting, showing insurance revenues and insurance service expenses separately and enabling the market to better compare between different insurers and across industries. This reporting change will impact functions across insurers and introduce the need for new data, new systems and new ways of working.

What should all internal auditors know about IFRS 17?

It's still moving	Big changes are needed	Confidence is high	Lower volatility in profits	Far-reaching skillsets
The International Accounting Standards Board (IASB) will enact amendments to IFRS 17 in nine areas later in 2019. This was a factor in the decision by the IASB to delay the effective date of IFRS 17 by one year from 2021 to 2022.	According to a survey by Deloitte and the Economist Intelligence Unit in 2018, **35%** of insurers expect their IFRS 17 costs to exceed €50m, **up from 7%** five years earlier. **87%** of insurers expect to need system changes to capture the data and perform the calculations needed for compliance with IFRS 17.	Despite substantial rises in costs and complexity, the same survey saw that **90%** of global insurers expected to comply on time even before the one-year extension to 2022. European headquartered insurers were most confident, with North American based insurers the least confident.	Typically, and for Life products especially, **profits will emerge more slowly** with reduced P&L volatility. This is because IFRS 17 requires the Contractual Service Margin within a group of insurance contracts to be deferred over the period that services are provided.	Unlike most new accounting standards, IFRS 17 may need the business – and internal audit – to bring in skills and capacity across Finance, IT, HR, Actuarial, Reinsurance, Legal, Change and Project Management.

What should IA teams be doing now?

Area of focus	Description
Readiness	Understanding the 'readiness' of the business for the new standards from a project governance, technology and resourcing perspective, including consideration of second-order impacts such as Investor Relations and Reward.
Audit planning	Ensuring a holistic risk-based audit plan is prepared and agreed in principle with senior audit and business leadership, which covers the length of the implementation period of the standards and covers all significant areas, whilst including time for remediation of findings. Audit functions should be prepared for slippages in the implementation of elements of IFRS 17 projects, which may also lead to shifts in the timing of audit delivery.
Technology solutions	Some insurers whose IFRS 17 projects are well progressed may be carrying out testing of new systems or tools. This presents an opportunity for IA to provide early assurance, particularly if the system is to be rolled out in other locations. There may also be an opportunity for IA's involvement during the development phase of technologies to advise on how the business can build in assurance 'by design'.

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