

# 3rd Webinar on IFRS 17

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### **IFRS 17 implementation: practical approaches & challenges**



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# IFRS 17 – Overview of Key Challenges

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. Uniquely, for an accounting change standard, IFRS 17 has a significant impact on the overall operating model of an insurer.

- How tactical should CSM solution be
- Which tool to use
- E2E architecture solution
- Multireporting requirement
- Need for determining cashflows

- New Data Items
- Data Quality issue
- Data governance
- Volume of data

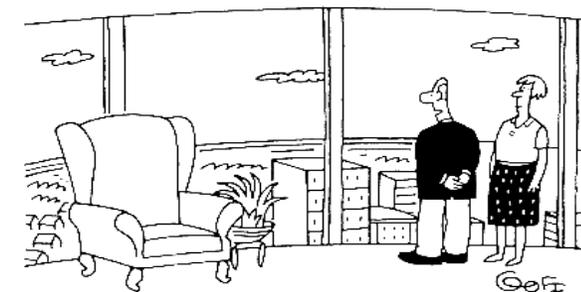
- Standard Interpretation
- Threshold decisions
- Other key decisions
  - Discount rate, RA
  - CSM - amortisation patterns;
- Transition
- Determining cash flows
- Reinsurance



- New process - profitability assessment, grouping, separation, determining contract boundaries
- Calculation, tracking, and amortisation of CSM
- Expense allocation
- Working day timetable

- Developing Chart of Accounts and Disclosure requirements
- Dealing with multi-basis accounting
- FP&A - how to run business
- KPIs/metrics and communication of them
- Interaction with external auditors
- Regulation

- Question of ownership
- Handoffs (actuarial, accounting, FP&A, FinOps)
- Education & Training
- Capacity constraints
- Inconsistency between Group and Local approach or regulatory requirement.

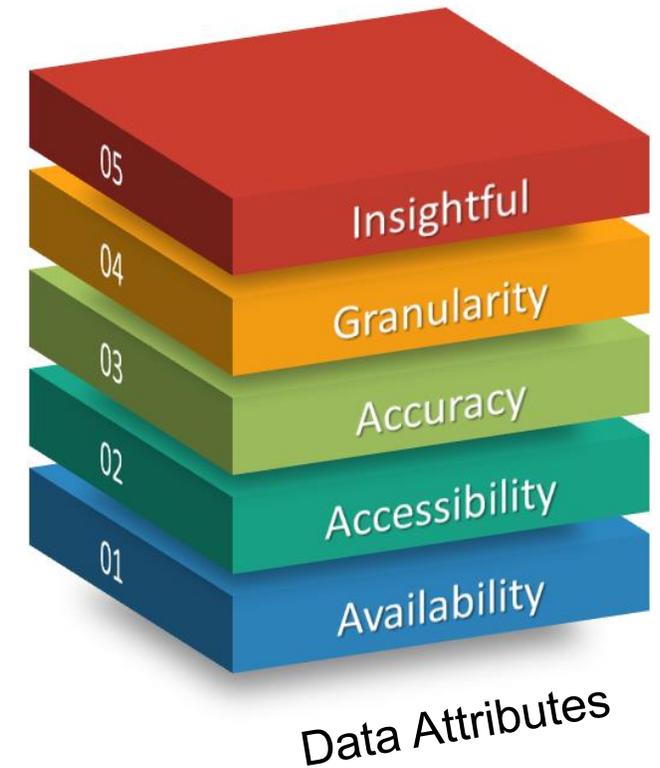


"I see change on the horizon.  
I want you to go out there  
and stop it."

# Challenge 1: Data

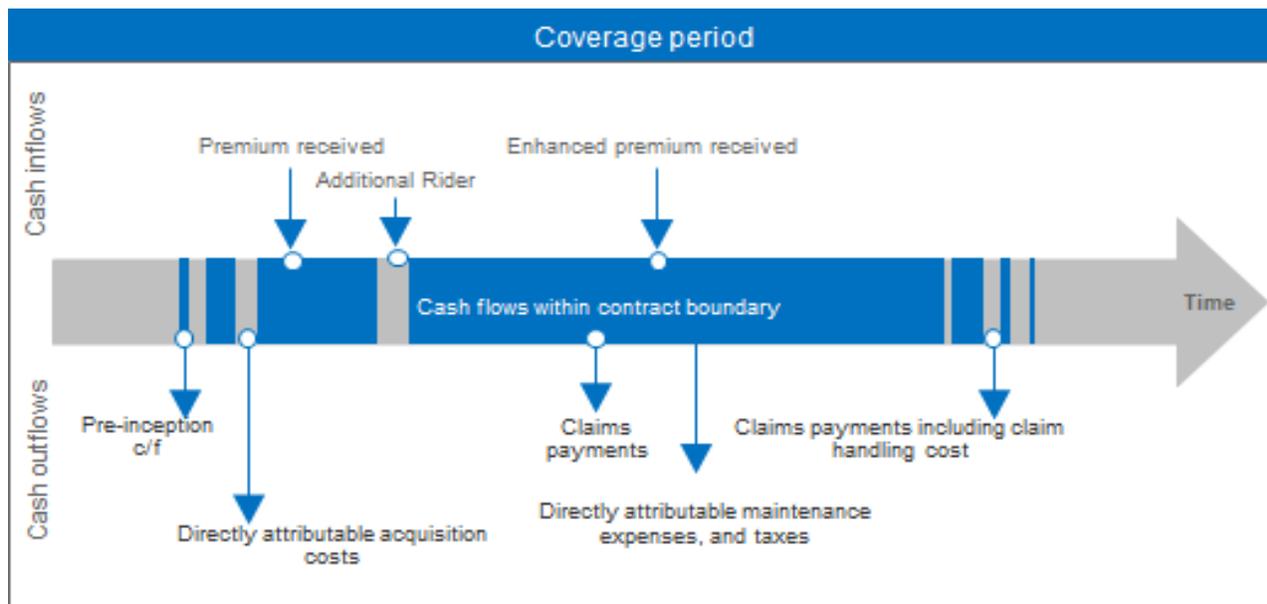
*Globally, getting the data right for IFRS 17 implementation accounts for almost half of the programme costs and effort. Below we set out the key drivers of increased data requirements under IFRS 17*

- Methodology choices (e.g. attributable expense)
- Increase in granular valuation requirements
- Restatement of prior year numbers
- More detailed disclosure and reporting
- Increase in use of market data
- Need to Planning, Pricing, and Valuation processes
- Exponential growth in the volume of data



# Challenge 1: Data – Practical Considerations

## Assessment of Cashflows within a contract boundary



## What is the Ask

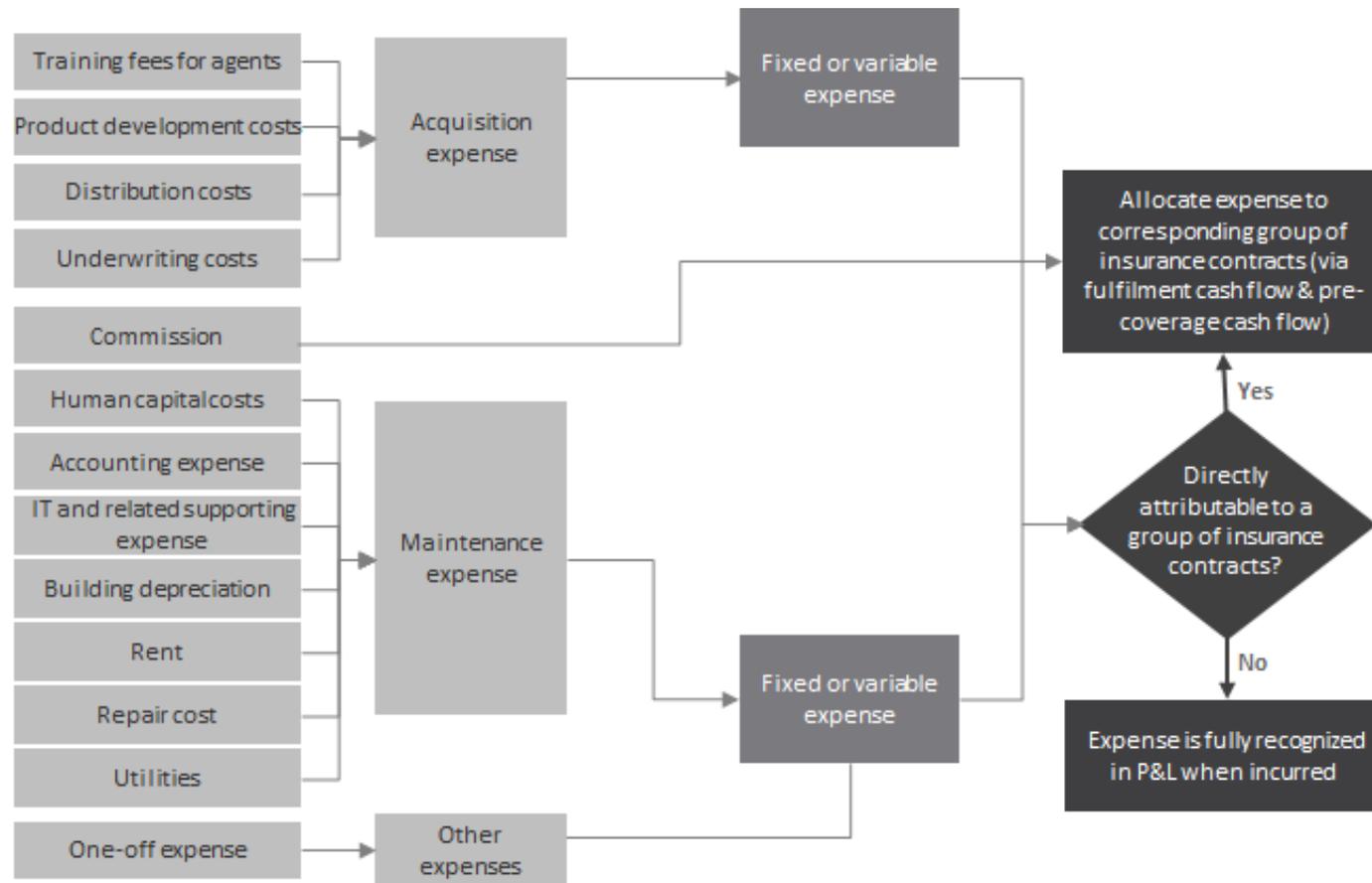
Estimate the fulfilment cash flows that relate directly to the fulfilment of the group of insurance contracts. This needs to include all cash inflows and outflows (including pre-recognition cash flows)

## Challenges we see

- Difficulty in establishing pre-inception cashflows, esp. non-direct sales channels
- Look through to policy/contract level not possible
- Timing of accrual and actual cash flows is significantly different
- Impact of Profit share, withholding tax etc.. on timing of cashflows

# Challenge 1: Data – Practical Considerations

## Allocation of expenses



## What is the Ask

The need to establish the attributable expense assumptions based on the current expense policy, and assess the corresponding impact on the Fulfilment Cash Flows.

## Challenges we see

- Expenses not recorded at a level that can be easily bifurcated
- Definition of expenses types and nominal codes is not consistent
- Expenses not recorded to the right cost centres
- Cost centres not clearly defined

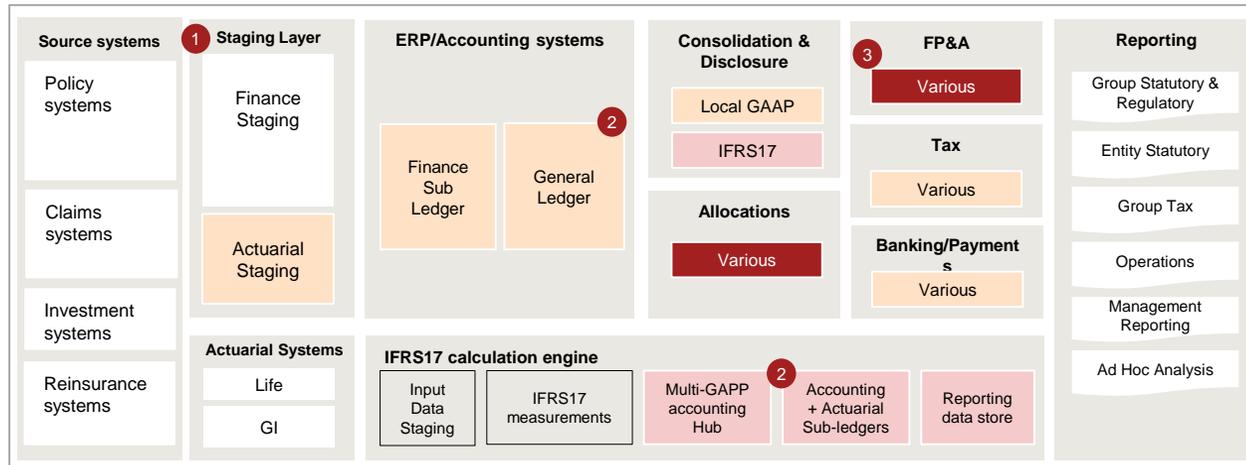
# Challenge 2: Systems

*The interpretative nature of the standard introduces a huge variation and challenge in how insurers need to consider the enablement of technology and processes to support IFRS 17 compliance. At a minimum, insurers need to consider the core capabilities that will be required to meet the needs to for a minimum viable product for compliance.*

- Enhancements to existing cashflow modelling tools
- Overhaul of current planning tools
- Introduction the new IFRS 17 Chart of Accounts
- New data warehouse capabilities
- Enhancements to existing earnings engine / allocations tools
- Introduction of CSM calculation engine
- Enhancements to Master Data Management tools

# Challenge 2: Systems – Practical Considerations

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## Key Design Decisions:

- Data Hierarchy Management
- Multi-GAAP accounting
- Allocations Engine
- Earnings Engine
- CSM Calculation Engine

### 1 Capture and flag UoA/Cohorts

- **Data:** Flag policies/contracts with onerous status, mark-up cohorts to link with contracts, Update product hierarchy
  - **System:** Capture onerous flag, cohort ID and enhanced product hierarchy
- ? How do we construct cohorts and append policies to them?
- ? How will in-period new business be captured and aligned with locked-in rates?

### 2 Enhance accounting rules and Chart of Accounts

- **Data:** New nominal codes in CoA to account for CSM accretion/run-off, amortisation, adjustments, and de-recognition
  - **System:** Update accounting rules / methodology to generate journals for posting into ledgers, Create new nominal codes for CSM components
- ? What should the ledger strategy be?
- ? For Group reporting, what will be the process to generate multi-gaap accounts?
- ? How do we reconcile cash and accrual basis?

### 3 Alignment with Planning, Budgeting, Forecasting

- **Data:** New cohort-based modelling, new profitability drivers, new pricing assumptions
  - **System:** Update new cohorts, link with ledger platform to map against expense allocations
- ? Should the PB&F process become more granular at cohort level?
- ? Should the frequency of the PB&F process change?
- ? What additional planning factors should be introduced?

# Challenge 3: Process

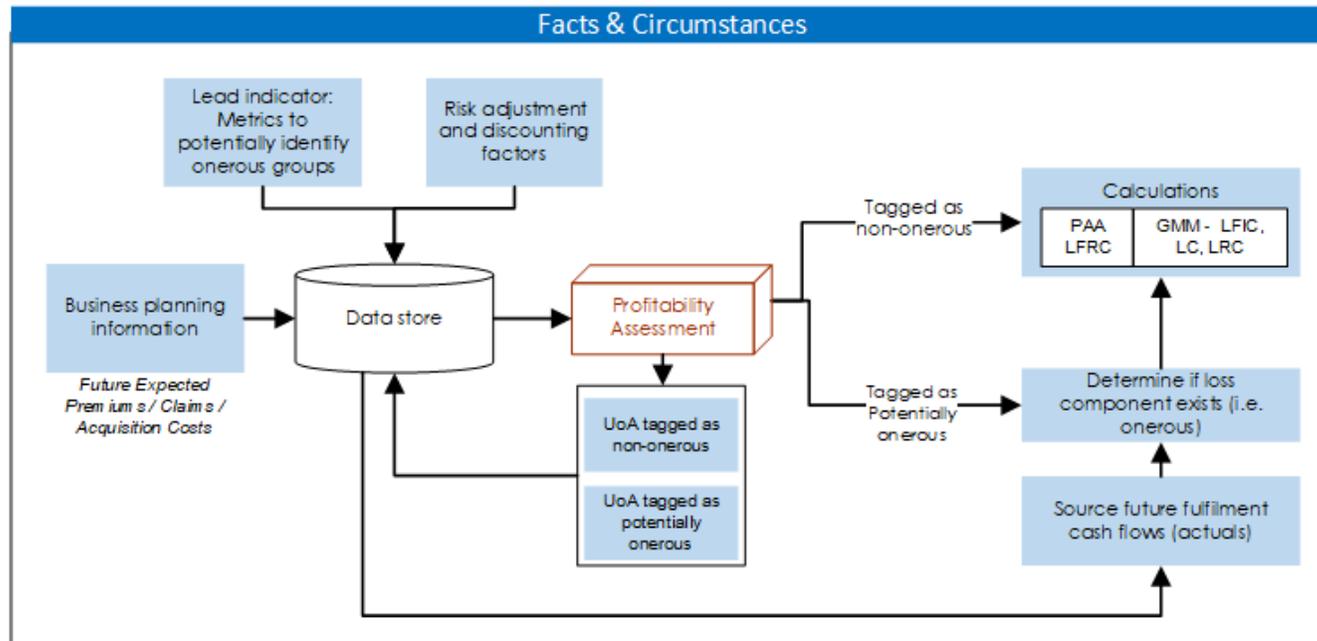
*In addition to data and systems, IFRS 17 introduces a swathe of new processes that do not currently exist. This is particularly acute for General Insurers who typically do not have a concept of cash flow based modelling or even “Facts & Circumstances”. Below is a small selection of new processes introduced with the introduction of IFRS 17. In the next slide we will consider a practical example of the challenges.*

- “Facts & Circumstances” based profitability assessment
- Segmentation of portfolios in annual profitability groups
- Disaggregation of measurements on the financial statements
- Separation of insurance and non-insurance components
- Determining the contract boundaries
- Calculation, tracking, and amortisation of CSM



# Challenge 3: Process – Practical Considerations

## Facts and Circumstances based profitability assessment



Under IFRS 17, portfolios of business are divided into groups of contracts based on a number of factors, including their expected profitability at initial recognition. Specifically under the PAA approach, the assumption made by IFRS 17 paragraphs 18 and 57 is that no contracts in a portfolio are onerous either at initial recognition or subsequently during the coverage period, unless “facts and circumstances” indicate otherwise.

Unfortunately, the standard is not explicit on the definition of what constitutes facts and circumstances and how the onerous testing should be performed.

## What is the Ask

Should “facts and circumstances” indicate that a group of contracts may be onerous, then an entity needs to assess whether the future fulfilment cash flows relating to remaining coverage (measured under the GMM principles) exceed the carrying amount of the PAA liability for remaining coverage (“LFRC”).

## Challenges we see

- The identification of the specific metrics to be used to test onerous contracts;
- The systems to be used to perform the testing;
- The source of the fulfilment cash flows (actuals) to be used to calculate the loss component;
- The discount rate to be used to discount cash flows; and
- The inclusion of an explicit allowance for non-financial risks (risk adjustment) all of which will form part of the onerous testing.

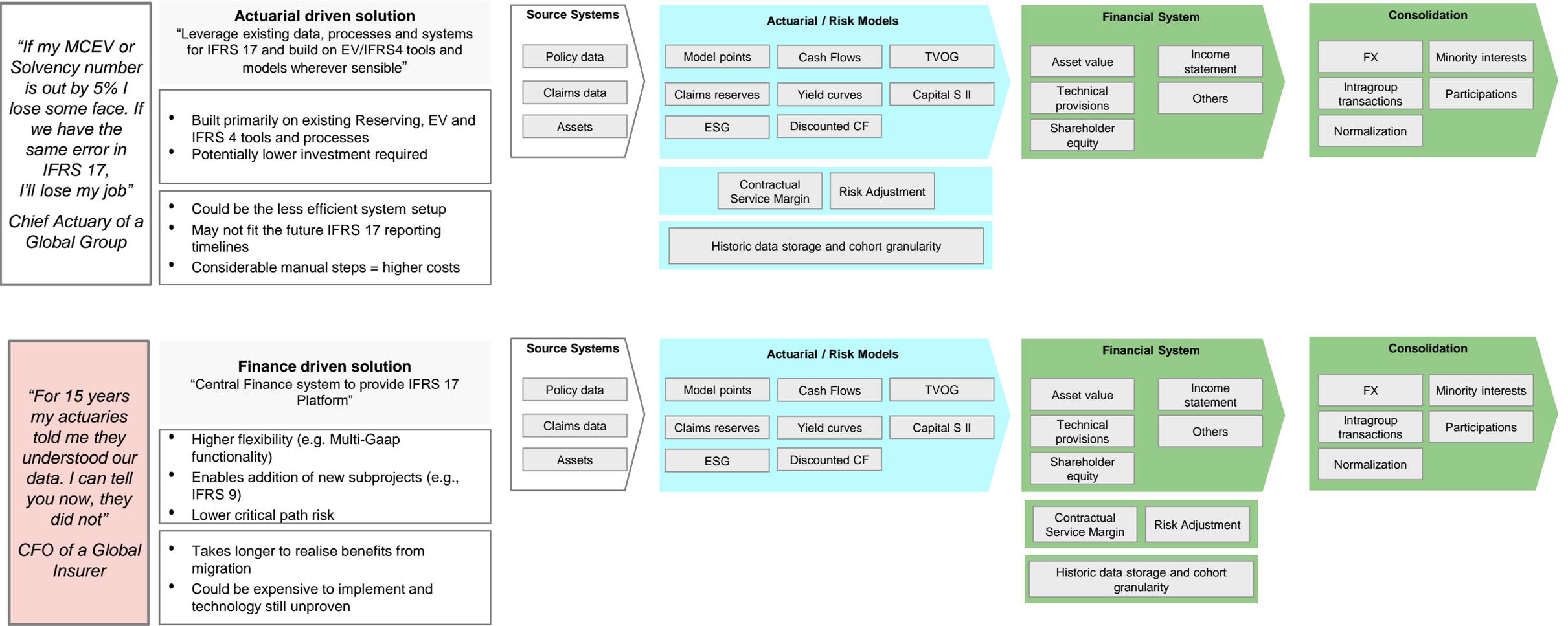
# Challenge 4: Organisation

- Question of ownership
- Talent
- Upskilling
- Executive Compensation
- Budget and cost overruns
- Design and implementation done in parallel with the definition of market practices
- Inconsistency between Group and Local approach or regulatory requirement



# Challenge 4: Organisation – Practical considerations

IFRS 17 has raised a challenge on how the future Finance process of an organisation will need to adapt. There are two main operating models that organisations can choose from, and both have their merits and drawbacks.



*“If my MCEV or Solvency number is out by 5% I lose some face. If we have the same error in IFRS 17, I’ll lose my job”*  
 Chief Actuary of a Global Group

*“For 15 years my actuaries told me they understood our data. I can tell you now, they did not”*  
 CFO of a Global Insurer

**Thank You !**

