IFRS 17 – 1,000 Days to Go (Again)

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Introduction – Keep Time on Your Side for IFRS 17

In May 2017, the International Accounting Standards Board (IASB) finalized its new international accounting standard for insurance contracts, IFRS 17. Ever since, the clock has been ticking for insurers in more than 100 countries, as firms strived – and often struggled – to implement the standard in good time.

Initially, IFRS 17 was set to come into effect at the start of 2021. But with implementation proving even more challenging than expected, there was growing pressure last year to push back the implementation date. And in November 2018, the IASB voted for a new compliance deadline of January 1, 2022.

The good news is that insurers have won a year’s reprieve. The bad news is that IFRS 17 isn’t going anywhere – and is still just over 1,000 days.

Of course, we’ve been here before: a year ago, in fact. But in the intervening 12 months, many important lessons have been learned: not least that IFRS 17 takes a long time – and is incredibly difficult – to implement.

A year ago, insurers were behind schedule. And as various groups were requesting more time to properly implement the standard, there was uncertainty about the deadline for several months. With the date now clarified, we’ve seen more firms spring into action and step up the pace.

The underlying challenges of how to interpret the uncertainties of the standard and translate its requirements into your day-to-day operations clearly remain. And firms should use every moment of the extended timeline to make sure they can jump these hurdles and realize the benefits.

IFRS 17 amplifies the need for insurers to better integrate their finance and actuarial systems, and consolidate and modernize data management, systems and processes. The deferred deadline will not eradicate this requirement – and, in fact, it will never be too early to start the arduous journey of transformation that IFRS 17 entails. With more time on your side, you can gain greater business value from compliance.

So, when it comes to implementing IFRS 17, there’s still no time to lose on assembling the right team, choosing the appropriate architecture and selecting the technology platform you’ll need to support it.

**Firms in Asia were among the first in the world to start preparing for the new standard. As the partner and solution provider of choice for these early adopters, along with leading multinationals, we have been able to deepen our understanding of the challenges of supporting IFRS 17.**

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**The FIS Approach to IFRS 17**

For the team behind FIS’ award-winning IFRS 17 solution, the countdown to IFRS 17 continues apace – and, most importantly, began some years before the release of the final standard. After the IASB published a 2013 exposure draft, we set about updating our software to support its initial recommendations. Subsequently, we have continued to monitor the standard’s development, anticipate further changes and reflect them in our solution.

Additionally, like insurers in many regions, we have already been through radical regulatory change in the form of Solvency II and other similar risk-based capital regimes. Helping our clients comply with these regulations meant making significant improvements to their actuarial systems and processes. As early as 2004, we recognized the growing importance of process control to risk management and compliance – standing us in good stead for IFRS 17.

The FIS IFRS 17 solution is being expanded to provide an IFRS 17 subledger offering for clients wishing to include this in their overall solution. By utilizing our Enterprise Accounting System (EAS®), which interfaces seamlessly with the rest of the FIS suite, posting of journal entries within a subledger and generation of required financial reports can be achieved. With the addition of EAS, FIS can offer the full end-to-end IFRS 17 solution including posting into a general ledger.

**Lessons Learned from Early Starters**

By 2015, with Solvency II behind us and the latest software updates ready to go, we were already in a strong position to help clients kickstart their implementation of IFRS 17. In particular need of our help were insurance companies across Asia, where risk-based capital regimes were yet to come into force for many regions. In countries such as South Korea, firms will need to transform their operations radically to achieve compliance, not only for IFRS 17 but also to implement new capital standards in parallel.

As a result, firms in Asia were among the first in the world to start preparing for the new standard. As the partner and solution provider of choice for these early adopters, along with leading multinationals, we have been able to deepen our understanding of the challenges of supporting IFRS 17.
"In the early part of 2017, when Europe and South Africa “woke up” to IFRS 17, our experience put us in an even stronger position to assist our clients," says Martin Sarjeant, global leader of IFRS 17 and Risk Solutions, FIS. "In many cases, we have partnered with major consultancy firms, who bring their own accounting and actuarial expertise to implementation projects as well as significant local knowledge. And we have continued to incorporate the learnings and experiences of these projects into our actuarial, finance, data and process software."

Within weeks of the finalization of IFRS 17, we were able to release a comprehensive solution for compliance – allowing insurers to layer new functionality for the standard neatly onto existing systems and models, without costly re-engineering. This core solution has evolved and is the foundation of many of the IFRS 17 implementations now nearing completion.

You can find out more about how we developed part of the core solution in our Insider’s Guide. However, in this paper, we’d like to take a closer look at the implementation projects we’ve worked on so far, paying special attention to the professional services we provide to help clients get the best from our technology. With hands-on experience already under our belt, we will share what we’ve learned from helping leading insurers tackle the operational challenges of IFRS 17 across all lines of insurance business.

Developing Best Practices

With a global professional services team supporting the implementation of our technology for IFRS 17, FIS has a unique opportunity to share across regions what has worked and what hasn’t for insurance companies. "It’s exciting to see us constantly developing, honing and refining best practices with each implementation," says Tom Flanagan, senior vice president, Risk Professional Services, Insurance, FIS. As the compliance deadline draws closer, and insurers in more countries are kickstarting their implementation projects, patterns are emerging. As Tom continues, "The initial wave of IFRS 17 implementations was heavily concentrated in Asia. But in mid 2017, we saw demand from most regions as insurers all moved forward to meet the deadline. Since the IASB vote in November, the pace has picked up further across both existing and implementations, with countries like Kenya and UAE now starting their IFRS 17 journey."

"It’s increasingly clear that companies which had invested in meeting the requirements of Solvency II (or similar regulations) are having an easier time with the system implementation part of the project."

The Typical Shape of an IFRS 17 Implementation

FIS’ large-scale implementations for IFRS 17 have followed a typical arc of activity, focusing first on building models, then on working with data and finally on optimizing processes. This model/data/process (MDP) methodology has been key to the success of our partnerships with accounting consultants on IFRS 17 projects.

"Working closely with our accounting partners, it’s critical for us to bring the right solution components to the project at the right time," says Tom. "We’ve learned that doing too much too soon can lead to suboptimal results and increased effort in the long run. But we also want our clients to reach the production stage as soon as it is practical to realize a strong and rapid return on their investment. And preparation always pays off: in modern measures, a gram of planning delivers a kilo of value."

Project Insights

At the time of writing, we are working with more than 50 insurers or insurance groups around the world to implement IFRS 17 with FIS solutions. Many more insurers are actively using our software to achieve IFRS 17 compliance. Beyond just compliance, clients have a range of priorities for their implementation projects. Here are some examples of how we’ve helped them achieve their objectives and the challenges we’ve encountered.

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Tom Flanagan,
Senior Vice President,
Risk Professional Services, Insurance, FIS.
Ensuring Early Adoption for a Multinational insurer
Before the release of the final IFRS 17 standard, a leading multinational insurer approached FIS to assist with the initial phase of an implementation project, focused on the production of financial results and disclosures initially for a subset of entities within the group.

“As we designed our solution before knowing the full details of the final standard, the project presented a number of challenges,” says Oscar Weafer, director, Solutions Management, Insurance, FIS. “But it also gave us the opportunity to shape our solution to meet immediate customer requirements, as well as incorporate a more general interpretation of the developing standard into the product.”

So, this implementation was unusual in that it was being performed in parallel with product development. Central to this process was a three-way communication between the client, accountancy advisor and software vendor to align our approach. Understanding both the technical and accounting requirements was crucial to determining the appropriate product design. And regular feedback was important, as requirements, interpretation of the standard and priorities changed throughout both the implementation and development projects.

As the insurer operates in many different regions of the world, it needed to take a variety of approaches to handling the underlying actuarial models that feed the IFRS 17 reporting process. For countries where cash flow models are common, it was possible to re-use existing models and simply layer on additional reporting elements for the IFRS 17 calculations. This was particularly the case where a best estimate cash flow approach is used as part of current regulatory reporting.

However, other countries either lacked cash flow models altogether or their existing models needed significant work to meet IFRS 17 requirements. In the latter situation, the insurer had to weigh up whether to build upon those existing models or create entirely new models.

Overall, this stage of the implementation was successful in demonstrating the production of IFRS 17 results and associated disclosures through our solution, while the end delivery coincided with updates to FIS’ products.

Considering the Target Operating Model for Multinational Groups
A key decision that multinational groups must make is about their target operating model for IFRS 17: should it be a centralized or decentralized solution? While a centralized approach has the potential to simplify processes and reduce overall governance requirements, it must be balanced against the flexibility that may be necessary to perform different steps of the IFRS 17 reporting process at a local level.

We have also seen a strong desire to re-use any changes to models and technology for purposes other than IFRS reporting. Couple this with any existing approaches to reporting and consolidation of accounts, and you can benefit from a flexible, best-of-breed solution that supports both local and central reporting needs.

Another common request by insurers has been that results from other actuarial modeling platforms can be consumed by our solution and included in its IFRS 17 calculations. For this purpose, we have ensured that FIS’ IFRS 17 solution will interface with our liability models – for both life and non-life business – as well as other risk systems. This includes performing additional calculations such as discounting, where present values are not available in the source systems.

This approach has proved to be particularly useful at the proof of concept stage of projects, where sample liability results can be provided quickly in other formats to produce and validate IFRS 17 reported values. You can then work backward, by agreeing the IFRS 17 results first for sample sets, then gradually interfacing with the wider population of underlying models.

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Bridging the Actuarial and Finance Divide
A particularly complex challenge that faces insurers is the need to translate movements in actuarially calculated values over each reporting period into credit and debit items that, in turn, must be posted to a subledger or general ledger. This requires you to break down movements into more granular items that can be booked to individual accounts. At FIS, we have seen significant demand over the past year for actuarial systems to generate these IFRS 17 journal entries directly, as a natural extension of IFRS 17 calculations.
In working with a number of insurers to provide a direct feed into their ledger systems, we have expanded our existing offerings and looked to bridge the gap between actuarial and financial systems. As a result, we have developed and released an IFRS 17 toolkit that provides the foundations for a complete end-to-end reporting process, including the accounting logic required to generate journal entries directly from actuarial results. Through our enterprise accounting system, journal entries can be posted to the ledger and used to generate the financial reports and disclosures required by IFRS 17.

Processing Challenges for the Korean Market

The Korean market’s approach to actuarial modeling creates specific processing requirements for FIS in terms of policy records and associated output. As Korea is also planning to introduce the new capital standard K-ICS in parallel with IFRS 17, insurers are looking at a system capable of meeting both the requirements of K-ICS and IFRS 17 – and to ensure there are synergies across the two projects.

In early 2017, a leading insurer in South Korea chose to use FIS’ IFRS 17 suite to implement their IFRS 17 solution. The strength of our system has enabled the client to develop a robust modeling process that helps the firm enhance governance as it moves toward its new operating model for IFRS 17.

FIS worked with the client and a key consulting partner in the region to fully support the client through the evolution of its models and processes. This included making sure that performance criteria for scaling the model calculations could be fully achieved within the new model being developed. The revised liability model in our solution has been integrated with FIS’ IFRS 17 group calculations library, developed to support life insurers’ requirements for IFRS 17. This enables the client to further enhance its modeling capabilities for IFRS 17, and use our enterprise risk management platform to provide a well-governed, performant and scalable solution.

This early “blueprint” for success has now been adopted by several other insurers in not only Korea but also Asia, Europe, China, South Africa and beyond.

Supporting IFRS 17 in the Cloud

After reviewing its actuarial production and finance processes, an established FIS client made the significant decision to move its actuarial production setup to FIS’ managed cloud service for insurers. With FIS managing both our application and its infrastructure, this represented the client’s first step toward enhancing its reporting capabilities, aligning its actuarial processes and determining a strategy for supporting IFRS 17. While running our enterprise solution in the cloud, the client uses FIS’ insurance data repository to support the management of IFRS 17 and other internal and external reporting processes.

Next, the client engaged FIS to help assess the readiness of its existing liability models and integrate the required calculations for IFRS 17. Our assessment work was designed to help the client understand the integration path of FIS’ new IFRS 17 group calculations library we had developed. A key objective was to fully educate the client in how to optimize its extensive liability model calculations and link in with the group calculations library.

As the client continues to develop its modeling requirements and processes for IFRS 17, it can now make the best use of solution to meet its business requirements – with the comprehensive support of FIS.

Providing Governance, Control and Scalability

In 2017, a large insurer looking to implement IFRS 17 selected our enterprise risk management solution as its platform for compliance. To meet the increased audit, governance and control requirements of the new accounting standard, the client also chose to deploy FIS’ data management platform (DMP). By formalizing and controlling the link to the general ledger, DMP helps the firm’s actuarial and finance teams exchange large volumes of data in a controlled and reconcilable way.

In combination with business intelligence tools, DMP simplifies the communication of complex actuarial issues and results to different stakeholders, allowing them to slice and dice the data by dimensions that make most sense to them. And with a flexible process management engine linked to its data repository, the solution allows firms to orchestrate the whole IFRS 17 reporting process, from the initial inputs right through to the uploads to the ledger.

“Overall, DMP has helped streamline and strengthen the management of the close process, reducing operational risk and exposure to uncontrolled manual procedures,” says John Winter, director, Product Management, Insurance, FIS. “The ability to go beyond the actuarial envelope into the broader process is key to delivering a successful IFRS 17 project.”
Offering a Single Platform for Multi-line Insurers
With FIS’ IFRS 17 solution supporting all lines of insurance business, life and non-life, many clients naturally opt for a single platform solution. This brings the benefits of not only a single hardware and process solution but also one common IFRS 17 reporting calculations library for all business.

The powerful out-of-the-box functionality of our suite of liability libraries provides a rapid development environment for fulfilment cashflows using pre-built calculations. Where needed, the open and transparent code also allows these to be further customized and configured to exactly meet an organization’s needs. This level of access is imperative to help individual clients fully comply with the principles-based standards and to exactly model the cashflows of their business to an appropriate degree of accuracy.

Neil Covington, director, Risk Solutions Management and Strategy, Insurance, FIS, says, “Given the potentially considerable cost of regulatory projects like IFRS 17 it is important for companies to invest wisely in technology solutions that can not only meet their current needs but also be ready for the next requirement when it comes around. A single robust integrated solution like DMP provides this kind of solid, future-proof foundation in a cost-effective way.”

However, non-life insurance businesses in particular are proving slow to initiate their IFRS 17 projects, as many assume they can merely re-use existing unearned premium calculations and processes. While this is potentially true on one hand, the accounting standard in fact represents a shift to a transactional calculation approach. And with elements like contract grouping, onerous testing and disclosures to consider, firms may need to do more work than they expect.

Key Reasons Why Insurers Engage FIS for IFRS 17 Projects
• Winner of multiple awards, including the Chartis RiskTech100 award for IFRS 17 in 2018
• The excellent reputation of FIS’ IFRS 17 solution and enterprise accounting system
• Our understanding of IFRS 17 from both the actuarial and accounting points of view
• Full end-to-end IFRS 17 solution
• Coverage of all lines of life- and non-life business and all approaches
• Our grasp of regional differences and interpretations
• Working with regional partners to deliver as a single team
• Fully enabling projected balance sheets as well as meet accounting reporting requirements
• Our track record in delivering IFRS 17 projects and similar large-scale transformational projects
• Commitment to helping insurers implement IFRS 17 cost-effectively and also deliver true business value

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Globally, we see four waves of implementing IFRS 17:

- **First wave** – both implementation and gap analysis started in 2017
  - South Korea – the first country globally to start implementing IFRS 17, leading the way
  - Australia and New Zealand, China, Malaysia and Thailand
  - Multinationals
- **Second wave** – gap analysis started in late 2017
  - Western Europe – increasingly moving past gap analysis and deciding on systems, partners and methodology
  - North America – Canada is moving forward, and those insurers in the US who need to comply are also moving forward.
  - Other parts of Asia Pacific
- **Third wave** – gap analysis started in 2018
  - South Africa, Central and Eastern Europe
- **Fourth wave**
  - Africa
  - Middle East
  - Latin America

Conclusion – Use 1,000 Days (More) to Implement IFRS 17 Wisely

There are only 1,000 days to go until IFRS 17 goes live at the dawn of 2022. That may sound like a reasonable length of time, but it’s not long at all to implement a standard which will transform accounting for insurers and touch so many of their functional areas. And forget the feeling of déjà vu: try looking at another year as an opportunity to implement with real intelligence and get more from compliance.

Rather than merely meeting reporting requirements, insurers should look for new ways to improve both reporting timelines and insight into business performance, as well as reduce operational risks by increasing automation and governance of the entire reporting process. But that means getting ahead of the pack with your implementation.

FIS’ industry-leading solutions, partnerships, global presence and expertise are helping insurers to achieve compliance with IFRS 17. Our end-to-end solution is not only supporting implementation of the new accounting standard but also delivering insurers greater business value through enhanced levels of governance and control, increased functionality, and flexible, cost-effective deployment options.”

J.P. James,
Head of FIS’ Insurance and Asset Management business.
If you are in the first wave of IFRS 17, you will have progressed far down the project path and have the end goal in sight. The insurers we have been working with have made great progress in modernizing their financial reporting platform, increasing governance and reducing their close period. They are already producing IFRS 17 results and are able to forecast on that basis.

In the second wave, the clock is still ticking and you need to keep up the momentum. 2019 will be an important year for choosing the right platform and partners to move forward, so you’ll need to make some important decisions soon. Even then, tight project management will be essential as there is little time left for a project of this scale and magnitude.

If your country or company are in the third wave of IFRS 17, we can’t urge you strongly enough to start putting plans into action. Don’t make rash decisions, but do focus hard on the most pressing priorities – as the deadline looms you need to select the platform, methodology and partners who can help you achieve your objectives by 2022.

If you are in the fourth wave, there is no time to lose. In some of the regions still yet to start gap analysis, IFRS 17 will be transformative for the industry as a whole in terms of both product design and even the competitive landscape. So, being ahead of your peers in implementing the new standard will yield benefits far beyond just IFRS 17 compliance. But you will certainly also need to underpin your implementation with very strong technology. In fact, that will be the only way to meet the compliance deadline and allow your business to be managed in an IFRS 17 world.

The good news is that coming to IFRS 17 later than others has some benefits. A lot has already been learned; a better consensus has been formed about trickier parts of the standard; products are stronger; and solutions exist to help speed up IFRS 17 implementation and minimize the overall project costs.

Select the Right System
According to a recent study by KPMG, most insurers are choosing the actuarial system as their solution for calculating key IFRS 17 metrics – almost twice as many, in fact, as will use their accounting system for the purpose. As the early adopters have also learned, IFRS 17 may be an accounting standard, but it is very much driven by actuarial systems and calculations. So, when insurers look beyond compliance to consider pricing and business plans, the actuarial system soon becomes the only choice for implementing IFRS 17.

Many insurers we are working with are already approaching the end of their IFRS 17 journey. For these clients, we have moved on to the posting logic stage to directly populate the general ledger, providing a complete end-to-end solution – and dramatically cutting the implementation time.

Those insurers needing an IFRS 17 subledger solution will be able to leverage EAS. EAS is seamlessly integrated within the FIS IFRS 17 solution and offers extensive functionality for insurers. The solution was designed with the industry in mind and is currently used by over 400 insurers.

For firms that are just starting out, we have therefore already established a successful roadmap for implementing IFRS 17. We can use our experience to meticulously plan the route and, through powerful technology, accelerate your progress and make sure you reach the destination on time.

How to Turn the IFRS 17 Delay to Your Advantage
An important upside of the delay to IFRS 17 is that a more phased approach can be taken to implementation. First, insurers should focus on data management and system updates that adopt the latest technological advancements and best practices. Next should come the layering of process automation and other governance initiatives, all in time for the go-live date.

In other words, the delay gives you more time to look beyond the minimum requirements of compliance – and consider additional investments that will provide greater business benefits.

Overall, the delay to IFRS 17 gives insurers the chance to deliver maximum business benefit through their implementation program – and, for those willing to keep up the momentum, to get ahead of the competition, too.

Conversely, firms that see the delay as a reason to pause risk falling behind and missing a window of opportunity to add real value and transform their operations for the better.

Finally, remember that an experienced actuarial, finance and technology partner with a track record of IFRS 17 successes globally makes an invaluable companion on the path to compliance and will help manage the risks of implementation better for your company. So, don’t hesitate to get in touch with us for further support and advice. For more information, visit our dedicated IFRS 17 website or email getinfo@fisglobal.com.
About FIS

FIS is a global leader in financial services technology, with a focus on retail and institutional banking, payments, asset and wealth management, risk and compliance, consulting and outsourcing solutions. Through the depth and breadth of our solutions portfolio, global capabilities and domain expertise, FIS serves more than 20,000 clients in over 130 countries. Headquartered in Jacksonville, Florida, FIS employs more than 53,000 people worldwide and holds leadership positions in payment processing, financial software and banking solutions. Providing software, services and outsourcing of the technology that empowers the financial world, FIS is a Fortune 500 company and is a member of Standard & Poor’s 500® Index. For more information about FIS, visit www.fisglobal.com.