



IFRS 17: New technology, new capabilities, and new business benefits

Foreword

Large-scale regulatory change programs have historically followed a recognizable investment and implementation pattern. The goal was to get across the line in time for the regulatory go-live date, herald the achievement, and then rapidly close the chapter as a neat career and corporate milestone. IFRS 17 is different.

The term “IFRS 17 Day 2 scope” has been used more and more in the last year or so to describe what is left on the delivery list now that the regulatory go-live date has passed. This “Day 2 list,” along with other elective items, is forming the follow-on programs to which businesses are committing investment for the next few years.

Typically, this scope covers:

- Closing items where tactical solutions were used to get the business through compliance in the time leading up to the go live date. A good example of this is full

business planning on the IFRS 17 basis.

- Aligning the finance and actuarial operating model with the IFRS 17 process and killing off historic processes which should now be redundant. For multinationals, this has re-opened the desire to look across countries to see if the new operating model can find efficiencies by working across businesses and reducing duplication of effort.
- Catching up on investment areas where topics got crowded out during the IFRS 17 delivery window. A major example is the journey to the cloud. Almost all of the large accounting enterprise reporting packages have an upgrade path to the cloud with various sunset milestones that would make non-cloud packages more expensive in terms of software maintenance costs.

- The potential that cloud technology brings in terms of agility can be extended to other key technologies across their operating model and with added focus on finance and actuarial functions.

When considering these outstanding items, a few thoughts come to mind. It is common and rational for businesses to want to formalize an end to their IFRS 17 program (“It’s done, isn’t it?”). Key personnel may want to move on to fresh priorities after this extended period of focus on delivery. However, bearing in mind the “Day 2 list” above, it will be smart and cost-effective to allow some churn in the program in terms of roles, while keeping the delivery infrastructure in place for the next wave of improvements.



On January 1, 2023, IFRS 17 went live marking the culmination of years of preparation for what has been a once-in-a-lifetime compulsory change in finance, actuarial and accounting systems. With the bulk of the implementation investments made, and with insurance accounting set to be transformed, what long-term benefits can insurers expect beyond compliance and how can they be seized?

In this next wave, it is fair to challenge the finance and actuarial functions to get more value out of the investment just made to achieve IFRS 17 compliance. This is all the more important in light of the changes in the macroeconomic environment, such as higher interest rates, inflation, and wider market volatility. Typically, this means returning to topics like expense management, asset-liability management, wider capital management, and reinsurance optimization as a re-energized set of priorities.

It has been a busy time delivering IFRS

17, but the investment and change journey will continue for some time to come. The next wave of change involves pivoting from just regulatory compliance to the modernization of functions involved in reporting, a wider technology upgrade, and a retuning of the operating model to enable cost-effective and high-quality delivery from the finance and actuarial functions. Another sprint lies ahead of us.

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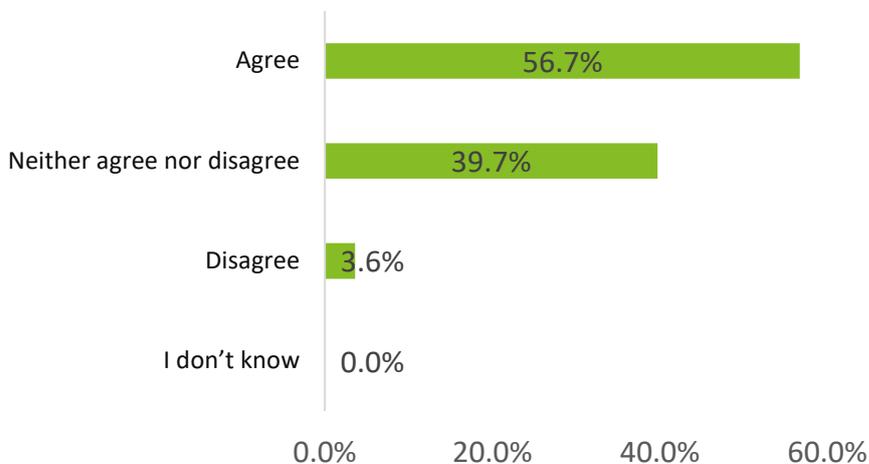
Introduction

After years of preparation by insurers globally to apply IFRS 17 for the first time, they will be relieved that some of the hardest work lies behind them. But, with this historic change now in place, and as their efforts to refine implementation of the standard continue, what will the future look like?

Broadly speaking, insurers are optimistic: respondents to our survey, which we conducted in mid-2022, were far more likely to feel that IFRS 17 would have a positive impact on their business than a negative one.

And, for the first time since Deloitte and Economist Impact surveyed insurance executives, more than half of respondents (57 percent) said IFRS 17's benefits would outweigh its costs (see Figure 1) – up from 40% when we asked the same question in the 2018 survey and 21% in the 2013 survey. Most of the rest were on the fence. We also found that life insurance firms were twice as likely (17%) as non-life firms to strongly agree that the benefits would outweigh the costs.

Figure 1: “Please indicate whether you agree with this statement: For my business, the benefits of adopting IFRS 17 will outweigh the expected costs. Select one.”



For Roman Sauer, Allianz’s Head of Group Accounting and Reporting, IFRS 17 brings a new perspective on numerous aspects of the business as well as a more granular view, thanks to the increased use of data.

“It’s great – as are the new insights [that are available],” he says. “When you look from an analytical perspective on the profitability of your business, the new perspective

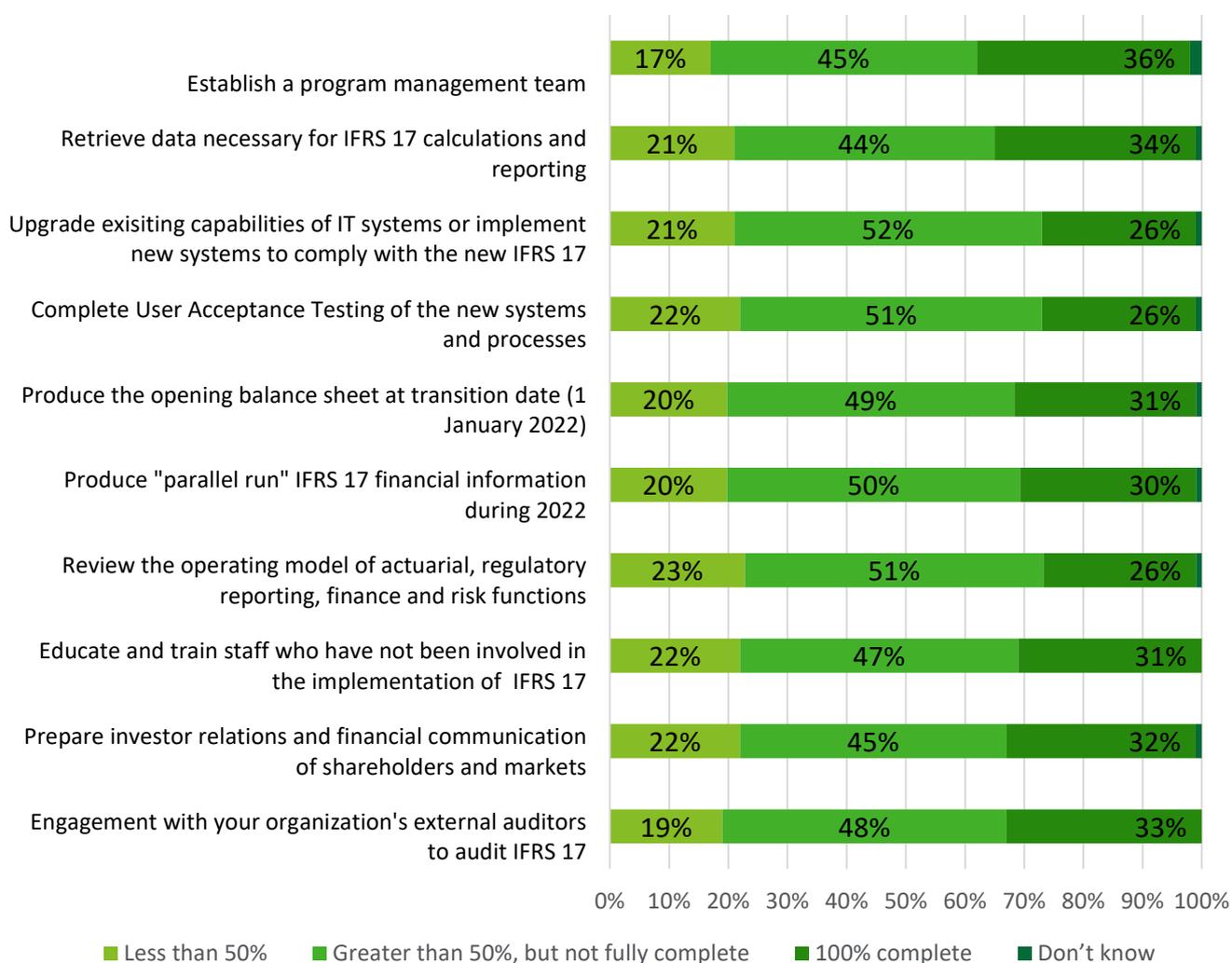
creates, I think, some new discussions, and that is positive overall for business development in terms of profitability steering and for internal steering.”

Although many aspects of IFRS 17 implementation are positive, our survey also identified several areas where insurers are behind the curve.

Around three-quarters of respondents said that as of mid-2022

they had not yet fully completed, or had completed less than half of, the following work: reviewing the operating model of actuarial, regulatory reporting, finance, and risk functions; upgrading existing capabilities of IT systems or implementing new systems to comply with IFRS 17; and completing user-acceptance testing of new systems and processes (see Figure 2).

Figure 2: “What is your organization's current progress toward the completion of each workstream before the go-live date?”
Select one answer in each row.



While insurers will have completed some of that work since the survey was fielded, there is still much to do, and insurers have stayed focused in 2023 on completing the aspects that remain outstanding.

With IFRS 17 implementation substantially complete, many insurers expect improved technology will boost operations and capabilities, increase the granularity of data, and generate figures that are easier for

investors and markets to understand and compare.

Innovative tech means increased potential

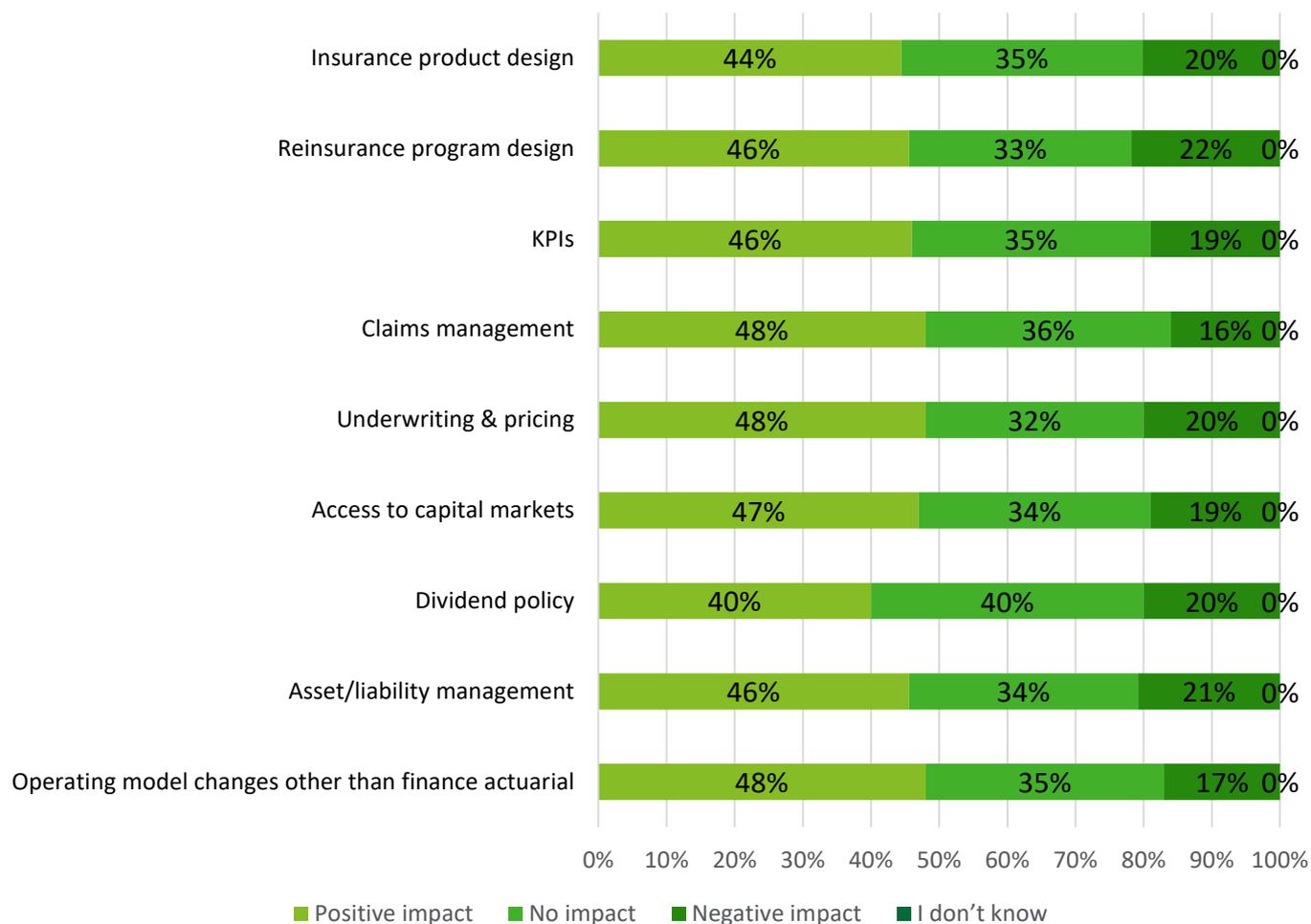
Nearly half of respondents say improved technology has brought new capabilities – with that proportion far higher for those participants working for the biggest

firms surveyed: roughly two-thirds of those working with firms that have reported net written premiums (NWP) of €1bn and above.

When we asked what impact the new standard would have on certain areas of their firms’ business, about half of respondents expect a positive impact

on areas like claims management, underwriting and pricing, and operating model changes other than finance or actuarial (see Figure 3). Conversely, about one-in-five expect a moderate or significant negative impact in areas like reinsurance program design, dividend policy and asset/liability management.

Figure 3: “What impact do you think IFRS 17 will have on the following parts of your organization's business?” Select one answer in each row.



Karthik Thilak, Group Head of Financial Accounting and Reporting at Zurich, says a key advantage of IFRS 17 is the consistency it brings across the life insurance sector globally, which will benefit investors. That is an improvement from IFRS 4, he notes, which allowed firms to carry forward simplifications from US GAAP and other standards and meant firms

could measure similar businesses in different geographies on a different basis.

Additionally, he says, IFRS 17 has broken down traditional silos between finance and actuarial, increasing efficiencies, and made automation a prerequisite due to the volume of data involved.

Mr. Thilak expects that IFRS 17 will provide greater predictability, particularly for long-tail businesses with a contractual service margin (CSM) and will allow the insurers to better understand business performance and the impact on it of internal and external factors. In this way, he says, IFRS 17 could lay a foundation that makes it easier for firms to model future performance.

More data, better numbers, satisfied investors

Interviewees were particularly positive about the benefits of the increased volume and granularity of data that IFRS 17 will bring – even if getting to that stage has proven to be among the biggest compliance challenges.

Under IFRS 17, respondents expect improved analytical capabilities, helping them to perform better. Armed with better data, insurers should be able to improve forecasting, compare performance across regions, product lines and peers, and provide greater clarity about the value of different contracts.

Ian Kelly, Group Chief Financial Officer at SCOR, a global reinsurer based in France, is one of those who expects IFRS 17 will eventually bring the ability to analyze and understand the business at a more granular level, though he cautions that “the benefits are going to be a little more back-ended”.

“Our focus at the moment is very much on making sure we can report – that we can properly understand and explain to the market,” he says. “When it comes to leveraging the investment to help us optimize our business and support it in the decisions that it makes, that’s more of a second step.”

“[IFRS 17] could accelerate a bit of consolidation in the insurance market ...And I would say it could also create more pressure to act – because things are more visible to the outside world than in the past ... and that could create more pressure on management to act.”

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In short, Mr. Kelly says, the focus for now remains ensuring that data captured into SCOR’s systems work as it should and that the data flows properly through the accounting chain. After that, he expects the increased granularity of data will bring benefits, including helping the firm to make improved decisions.

Another key finding from our survey is that being IFRS 17-compliant will bring benefits in terms of easier access to capital markets for M&A and fundraising activities (the opinion of 33% on average, led by EMEA firms where 38% selected that option), greater operational efficiencies in key functions (29%, with that rising to 45% for smaller firms with NWP of €300-500m), and financial statements that better reflect performance (29%).

Interestingly, smaller firms (NWP less than €1bn) were twice as likely (20%) as larger peers to cite better risk management as a benefit of compliance.

Other expected benefits of compliance include improved cross-functional collaboration internally (particularly for Americas-based respondents, where 40% selected that option), and improved transparency in financial reporting under IFRS 17 than IFRS 4 – which links directly to the improved volumes and granularity of data, and the greater comparability between firms once the industry settles on the new KPIs.

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Ian Kelly, Group Chief Financial Officer, SCOR



Figure 4: What benefits do you foresee for your organization once it is IFRS 17-compliant? Select up to three.

Response	#	%
Easier access to capital markets for M&A and fundraising activities	117	32.5%
Improved operational efficiency of finance, actuarial and other functions	106	29.4%
Financial statements that better reflect the results of business performance	104	28.9%
Better cross-functional collaboration within the company's functions	101	28.1%
Greater transparency in IFRS financial reporting than currently	92	25.6%
Improved internal controls over financial reporting	82	22.8%
Improved forecasting and planning	79	21.9%
Better risk management	59	16.4%
Improved technology systems	57	15.8%
Lower cost of capital	53	14.7%

Given that the ultimate KPI, one could argue, is return on capital, and given that IFRS 17's architecture integrates the assessment of risk and return in a way its predecessor did not, this combination could prove the winning factor for insurers in 2023 and beyond.

Ultimately, says Allianz's Roman Sauer, IFRS 17 should improve comparability between companies' financial statements and performance, which could improve the visibility of how well or badly insurers in different markets are performing – "which at the moment may be covered in stable accounting rules and figures ... [so] issues [would emerge] relatively late".

And, says Mr. Sauer, this could have an impact on M&A activity in the sector.

"That could accelerate a bit consolidation in the insurance market, which in some countries is taking place very slowly," he says. "And I would say it could also create more pressure to act – because things are more visible to the outside world than in the past ... and that could create more pressure on management to act."

What to expect?

With IFRS 17 now live, insurers can look forward to a future in which the sums they have invested to become IFRS 17-compliant will make them more competitive, transparent, and efficient – with data at the heart.

As James Turner, Group Chief Financial Officer at Prudential plc, says, complying with IFRS 17 has provided a single lens that allows for greater granularity in the insurer's financial systems.

"And that means we've got a much more detailed comparison between the actual and expected results at the cohort level, which is where the IFRS 17 calculations are performed," Mr. Turner says. "Ultimately, that will derive benefits."

But, he adds, it has not delivered them yet. And, he adds, "I could probably have got them – and more – for a lot less without IFRS 17."

As Mr. Turner points out, insurers have spent large sums to become compliant. Looking ahead, they will need to keep spending (though at a reduced rate for many) not least to bed in IFRS 17, to further integrate finance, actuarial and risk management, and to close the implementation gaps noted in our

survey. Another challenge, as cited by several interviewees, is that firms will need to retain their staff who are skilled at IFRS 17.

If there is one area of universal agreement, it is that interviewees are glad the bulk of the implementation work is behind them.

"This has been really painful for the industry, because you're trying to do two things at once," says Redmond Murphy, SCOR's Deputy Group Chief Financial Officer, of the need to run two standards in parallel. "We will be happy when we can get to [2023] and, whatever IFRS 17 really brings, deal with it on its own and not have IFRS 4 as well."

For his part, Prudential's James Turner has two main hopes for the future: first, that countries endorse IFRS 17 as issued by the International Accounting Standards Board to prevent local variations and inconsistencies; and second, that the industry gets a period of stability before any further changes.

"There's always going to be a desire to iron out improvements," he says. "Going back to Solvency II, they took a very measured approach to doing subsequent reviews. So, our focus is more on embedding IFRS 17 across the industry, and not having any further large-scale changes."

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