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Effects of the delayed implementation of IFRS 17

In March 2020, the International Accounting Standards Board (IASB) announced the deferment of the IFRS 17 Insurance Contracts implementation for another year with an effective date of 1 January 2023. IFRS 17 is an International Financial Reporting Standard, released in May 2017, aimed at establishing one set of financial reporting requirements for all types of insurance contracts globally.

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The deferment of the Standard's implementation enables insurers worldwide to regroup and reflect on their IFRS 17 agenda. Insurers now have the opportunity to tackle the implementation of the IFRS 17. However, insurers need more granular data and extensive calculations, going beyond the information required for current accounting practices to achieve compliance.

Assumedly, most insurers underestimate the effort required for the Standard's implementation. During the implementation of IFRS 9, most regional banks waited until the last minute, which led to a rushed and possibly inadequate execution. Therefore, a structured approach helps maximise benefits from the extension of the Standard's effective date. Recognising the key drivers of the implementation journey will give insurers an indication of their IFRS 17 readiness.

Budgeting

Budgets have a significant role in determining the success or failure of a project. IFRS 17 is a budget intensive investment for the insurers, given the complexities inherent that involves people, processes, data, and systems.

Ideally, Insurers spend their budgets relatively evenly between four key categories: buying and building technology solutions, engaging external consultants, expanding internal teams, and engaging contractors for the development and implementation of technology solutions. However, the level of the overall budgets vary depending on the size of the insurer.

Learnings from the global implementations suggest that insurers locally are also likely to underestimate budgets for their IFRS 17 agenda. Therefore, insurers should develop a sufficient budget by assessing the company's current state for each of the key categories mentioned.

Resourcing

The IFRS 17 brings aboard a new corporate culture that requires acquisition of new knowledge that will transform the traditional reporting language for insurers. This necessitates the training of all layers of the organisation to ensure alignment of the business towards a common goal.

Insurance firms will need experts to document key decisions, knowledge, and capable of training and mentoring new team members as needed to keep the project on track. Overall, the expectation is for insurers to have a mix between part-time and full-time employees across their finance, actuarial, and information and technology functions.

Acquiring the right talent will facilitate an earlier adoption of the Standard. However, insurers seeking to delay their implementation efforts will experience resourcing strains due to a shrinking talent pool. This further creates a budget problem, especially when seeking contractor engagement as the effective date draws nearer.

It is also important to realise that the IFRS 17 project will not run in isolation because businesses will be steering other transformation initiatives. This poses tough decisions on how to allocate the available scarce resources and may require firms to put on hold non-IFRS 17 related work-streams. Generally, IFRS 17 implementation projects have taken longer than expected, and insurers who have invested in a dedicated IFRS 17 project management team have been able to complete milestones earlier than companies that do not have dedicated project managers.

Data requirements
Implementing IFRS 17 will bring significant changes to an entity's process and systems, requiring significant coordination between many functions of the business – notably between finance and actuarial. These changes can also create a fundamental shift in the way data is collected, stored and analyzed, and can significantly affect business operations, financial systems, and forecast methodologies as they adjust to the new standard.

"How an organization manages and uses its data to derive business insights that are accurate and timely will be critical to its success."

Companies will need to come up with an efficient way to process large volumes of data, and this may require relooking at their data infrastructure from end to end. This will form a critical component of the IFRS 17 gap assessment with a focus on the historic data maintenance and storage, which is dependent on the retrospective reporting approach chosen by the company. Insurers can identify the current data gaps through deliberation with internal and external stakeholders.

There is no "one size fits all" solution, and each company will need to develop its unique Data Management System (DMS). Investing in a DMS is critical to a successful IFRS 17 implementation, enhancing automation and integration to work with the specific needs of the company.

The clock is ticking
"The biggest blessing is time and the biggest risk is time."

The experience from early implementations have indicated that the undertaking is hefty given the challenges observed. An assessment of current day processes against the "to be" sustainable state under IFRS 17 will help crystalize what is appropriate for an insurer's size and business complexity. In the next two years, insurers need to focus on the goal ahead as we countdown to 1 January 2023 for the IFRS 17 Insurance Contracts implementation.

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