



## Managing Expenses as part of IFRS 17 Reporting

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# The IFRS 17 challenge

The implementation of IFRS 17 has presented **significant challenges for insurers**, particularly in the area of **expense management and allocation**.

Many insurers have struggled to navigate the complexities of the standard, often leading to **unnecessarily intricate processes and reporting**. This complexity highlights the need for practical guidance and solutions



This paper introduces some **common challenges** insurers face when adopting IFRS 17 for expenses. Our approach focuses on **a simplified design**, bringing valuable insights and experience from peer organisations that have successfully implemented IFRS 17 and have since gone on to achieve **greater transparency** and building a solid foundation for cost optimisation

# Insurers are rethinking their initial adoption of IFRS 17

86%\* of insurers have experienced issues around implementing their IFRS17 expense allocation process

Throughout 2023 to 2024, insurers embarked on programmes to allocate costs to Groups of Insurance Contracts (GICs) to comply with the new IFRS 17 reporting standard. Deloitte observed that this resulted in complex allocations processes (e.g., multi-step allocations) that were fragmented (e.g., requiring many people) that were diverging away from the existing Solvency II and internal MI allocation processes. In many instances this resulted in an excessive number of GICs within uncontrolled and complex spreadsheets.



## IFRS 17: the standard

First attempts have created learnings around how best to manage and report allocated expenses. The standard requires: “an allocation of fixed and variable **overheads directly attributable** to fulfilling insurance contracts to **groups of contracts** using methods that are **systematic and rational**”.

Desired outcomes and benefits:

- Establishing accurate and consistent IFRS reporting
- Business unit performance analysis
- Understanding of true operating profit
- The ability to manage costs more effectively
- Evaluate the business case for Outside Service Providers (OSPs)



## Common Allocation pain points heard

**“This feels like a black box”**

Low visibility of the end-to-end process

**“No-one agrees”**

Key stakeholders not engaged

**“I don’t understand!?”**

Undocumented ruleset, lacking consistent framework; key person risk



**“There are too many GICs”**

Complex/overly granular increases spurious accuracy

**“What am I being measured against?”**

Pressure to demonstrate cost savings

**“Which driver?”**

Rationale for mapping cost to driver and data quality

\*Based on 2024 UK Survey of insurers



*IFRS 17 expense allocation is still being understood. As such many insurers are getting it wrong, often resulting in increased granularity and therefore **inherent complexity**....*

*....Managing expenses purely for IFRS 17 risks becoming a **separate reporting effort** that does not align to how the business is managed*

*In surveying over 15 leading insurers, we observed on average it **requires 30+ spreadsheets** to complete IFRS 17 allocations and in most instances, there were inconsistencies in applying the allocation methods. Furthermore, on average over **50 stakeholders from across the organisation** were in some way involved and the process typically took around **5 days each month-end to complete**.*

## Future proofed expense allocation design

Insurers who spend more effort on design achieve greater simplicity, transparency and insight.

**Start with your vision...** “*what insights do I want to gain from expense allocations?*”

We recommend **starting at the end** and working backwards by defining your ideal outcomes for all stakeholders. This involves deeper engagement with key groups to consolidate their requirements and design an end-state that is aligned to the **organisation's strategy**.

It is important to develop a series of **principles** that will guide the design process and answer important questions like “how much detail is too much?”



### What principles? Four great examples

Whilst unique to each insurer we observe the following have often been helpful:

- **Reconciliation at the Core:** The allocation process must seamlessly reconcile across all three bases: Internal management reporting, Solvency II, and IFRS 17 to enable organisations to move on from comparing these to drawing commercial and strategic insights to drive decision-making.
- **Consistency in Methodology:** A single, consistent allocation method per cost pool and using a set of easily accessible data sources should be applied across all bases. Avoid allocating the same cost pool using two different methods.
- **Simplified GIC Approach:** Consider rationalising the count of GICs by applying a materiality lens to a level that is both appropriate and manageable. This helps further reduce complexity and enhances transparency.
- **Change Management:** Making changes to allocation methods often creates unwelcomed volatility for the business (e.g. “*my prior year is no longer comparable*”). Therefore, it’s important to ensure changes are limited to key points throughout the year (e.g., as part of the annual planning process), and that key stakeholders (such as business units) are brought along the journey.



## How to future proof your design...



### Aligning to Strategy

Ensuring the cost allocation environment is aligned to the overall direction e.g. *can it identify efficiencies in IT and Claims?*



### Establishing Strong Governance

Effective allocations are supported by a strong controls framework and adherence to established key principles.



### Balancing Transparency v Simplicity

For example, defining GICs at an appropriate level of granularity and materiality.



### Financial Impact Analysis

Simulating how proposed changes will financially impact the existing allocations environment to build consensus.



### Adopting the Right Toolset

Moving away from spreadsheets to a controlled and automated solution, recognising allocations can generate high data volumes.



### Planning for Change

Anticipate the ways in which the organisation might change and determine how the allocations method will need to adapt.

# Simple yet insightful

We work with insurers globally to deliver expense allocation solutions fit for organisations' future needs



## How do we help?

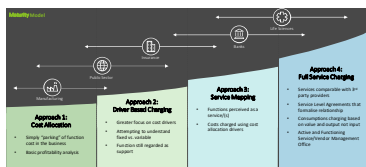


### 1. We have 30+ years allocations experience

**Diagnose:** We know the underlying root causes of the symptomatic pain points experienced.

**Design:** We understand the requirements of the different stakeholder groups that rely on expense allocations.

**Structured Framework:** We have an allocation framework ready to deploy, driven by cost type and business strategy



Maturity assessment

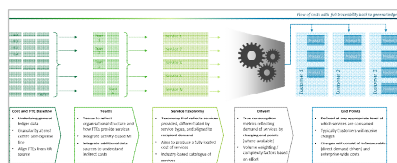


### 2. Working with you to create robust solutions

**Tailored solutions leveraging leading technology:** Partnering with leading global allocations platforms developing solutions that address your organisations specific needs

**Enhanced Control & Reduced Risk:** Strengthened controls and reduced risk exposure, including mitigation of key-person dependencies

**Pragmatic:** We have hands on experience of what works in practice



Allocations design engine



### 3. Reporting that provides true insight

**IFRS 17 Reporting:** Addressing the requirements of the standard.

**Automation & Efficiency:** Streamlined and automated allocation processes, driving efficiency gains across the month-end timetable

**Harmonised:** Single allocations capable of multi-dimensional reporting (legal entity / business unit/ GIC/product)



Insightful MI and Reporting



## Case Study: FTSE 100 Insurer

### An overly complex environment

- £ multi-bn expense base allocated/complex org. structure (LE/BUs)
- “v1.0” of IFRS17 implemented at speed resulting in complex processes that were costly to operate, with limited useful output
- Managed through multiple finance systems, 25+ legacy spreadsheets, 30+ team members. Divergence as allocations reports became less relevant to driving business operations

### A new approach and solution

- Deloitte led a team to design the end-to-end allocations process and end state operating environment
- A single allocations method/engine for all allocations including IFRS17
- Capable of addressing the needs of multiple stakeholder groups (management, legal entities, tax & financial reporting etc.)

### An effective outcome

- **70% reduction in cost to operate** / run-time reduced from **20 hours to 15 mins** (acceleration of month end close by 1 day)
- **Widespread adoption** with persona-led dashboards for different stakeholder groups.

# Contacts



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