

Getting the business ready for IFRS 17 & 9



Business readiness for IFRS 17 & 9 implementation is a top priority for leading insurance companies

Insurance companies have spent the last few years assessing, designing and implementing IFRS 17 & 9 requirements into their closing cycle. With Solvency II fresh in our collective memory, we have observed that Dutch insurance companies initially seemed reluctant to lead the implementation of IFRS 17 & 9. The one-year delay of implementation afforded the sector much needed breathing space to complete their designs and/or implementation of IFRS 17 & 9, allowing some insurance companies to get ahead in their testing and start to get meaningful results from their Dry Run activities.

With just 1.5 years to go, this year testing the design and analyzing first results through Dry Runs needs to become the top priority of all insurance companies before being able to hand it over to the Business as Usual (BaU) for a final test run during the Parallel Run next year. Now is the time for preparing for business readiness if you have not already done so.

In discussion with the insurance companies

On the 7th of April 2021, KPMG hosted a round table with the five largest Dutch insurance companies and other international insurers to discuss how they are getting the business ready for reporting under IFRS 17 & 9. In that discussion, a number of discussion points came up, which we highlight below.

Focusing the approach of the Dry Run

- Insurance companies need to decide on the basis for their Dry Run. Do they choose their Dry Run cycle to fit either their interim reporting (PtP) or year-end reporting? Regardless of the option chosen, there is to a large extent consensus to have a Dry Run based on a full year reporting cycle.
- Some insurance companies are proposing to include IFRS 9 in the Dry Runs for this year, in order to get familiar with the numbers and facilitate the (optional) restatement of comparatives in 2022. However, at this point in time, they accept working with practical solutions or manual work-arounds for systems not yet ready/implemented.



Planning the handover to BaU

- Most insurance companies want their BaU staff to benefit from 'Training on the Job' during the Dry Run and Parallel Run before program handover. However, insurance companies find it difficult to find a suitable balance for providing sufficient BaU resources who can also work on their Dry Runs and Parallel Run. This balance is particularly challenging to realize given the scarce availability of capable resources. This could potentially serve as a bottleneck for the handover of the IFRS 17 & 9 program.
- A program handover document will prove to be an essential instrument for a smooth transition. The handover document should define the changes in the closing cycle and corresponding controls that will need to be executed by the BaU during the Parallel Run and after the go-live. Likewise, the document should describe what governance ownership and procedures the closing cycle should include, which the program will need to deliver.



Obtaining auditor endorsement

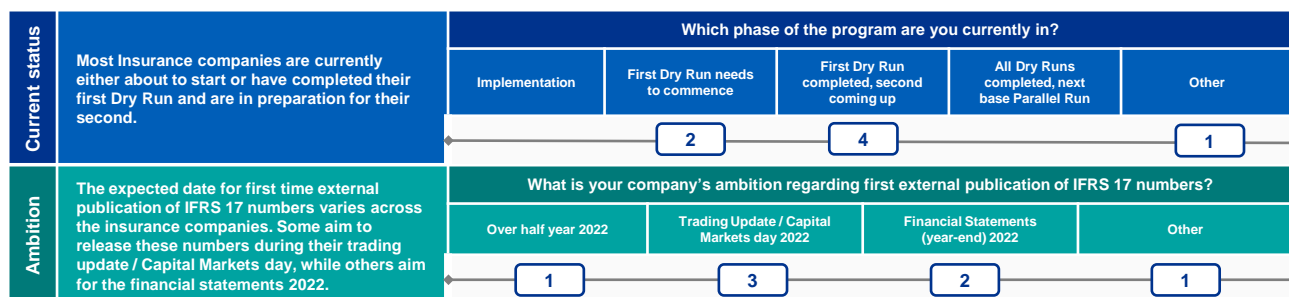
- One of the questions insurance companies face is the engagement with the external auditor regarding the outcomes of the Dry Run, the implications of the policy choices and design and working of the modified closing cycle. There seems to be consensus between the various insurance companies that there will be a need for (tentative) assurance on the outcomes of the numbers once the insurance company has familiarized itself sufficiently with those numbers and is confident that the implementation is sufficiently complete. Most companies have engaged with auditors on reviewing accounting policies and are discussing next steps. Internal needs and external publication deadlines (Q3 and Q4 2022) will drive timely auditor's involvement to obtain a first sign-off on the impact on equity and income.



Current status and looking ahead

KPMG poll current status and future plans

During the round table, a few poll questions were asked with the following outcomes:



- Additionally, most of the surveyed insurance companies expect no impact on the date that their IFRS figures will be available according to their Working Day Timetable (WDT). One company is still developing their IFRS 17 WDT, which could potentially also lead to a slower closing cycle. One company is reporting a speed-up of the process, because they also have been able to centralize some of their accounting and reporting activities.
- For the Parallel Run, the various insurance companies agree on their approach; most prefer a sequential approach where they run with IFRS 4 first, and subsequently IFRS 17. Only one insurance company is planning on executing the Parallel Run at the same time as running the IFRS 4 closing.

Looking ahead

In the figure below, we show an indicative checklist for business readiness for IFRS 17 & 9. It outlines the three different phases of the next three years: the Dry Run phase we are currently in; the Parallel Run next year; and further refinement of the implementation beyond 2022.

The overview shows additional areas that potentially require attention to retain the IFRS 17 & 9 program's added value, while enabling a smooth handover of the program towards the BaU. We recommend that insurance companies start considering and, if applicable, start planning for the related topics contained in the business readiness checklist.

Checklist for Business Readiness IFRS 17 & 9			
Attention Area	DRY RUN 2021	PARALLEL RUN 2022	BEYOND 2022
Program wrap-up and hand-over	✓ Assist with training, execution and analysis of implementation numbers	✓ Discharge and evaluation	✓ None (program discontinued)
Data and Systems	✓ Provide a compliant IT solution	✓ Enable parallel run with IFRS 4 and 17	✓ Identify Additional IT efficiencies as tactical solutions are dissolved
Processes	✓ Improve operational effectiveness	✓ Coordinate IFRS 4 and 17 process workstreams	✓ Invest in continuous improvement on the close cycle
Governance and Control	✓ Setup Risk & control framework and Audit Readiness	✓ Sign-off transition balances	✓ Further rationalize and harmonize the control framework and the organizational responsibilities
Accounting and Reporting	✓ Prepare and validate financial numbers	✓ Prepare and validate transition balances and align with financial planning	✓ Establish and integrate IFRS 17 and 9 budgeting and forecasting methodology
People	✓ Prepare resource plan for coming 3 years	✓ Training on accounting manual & control framework	✓ Re-allocate IFRS 17 and 9 resources
Analysis	✓ Update KPI framework	✓ Engage business on new KPI's	✓ Refine KPI's and steering mechanisms
Investor Relations	✓ Define the Equity story	✓ Prepare investor update	✓ Continue explanation of IFRS 17 and 9 numbers

Left with questions or simply captivated and interested into learning more? Feel free to contact:



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