

IFRS Today

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Mary H Trussell
Global Insurance Change Lead Partner
KPMG AG
Wirtschaftsprüfungsgesellschaft



Joachim Kölschbach
Partner
KPMG AG
Wirtschaftsprüfungsgesellschaft

EPISODE 9 TRANSCRIPT

The IFRS 17 journey – No time to rest

Speakers

- Mary H Trussell
- Joachim Kölschbach
- James Bowe (Host)

Host

Hi, and welcome to episode 9 of *IFRS Today*.

The new insurance contracts standard is a recurring theme for insurers. There's no time to rest and the worry is that companies that don't put the effort in now will fall behind.

With me now to discuss how companies are progressing with their implementation projects, I have two KPMG colleagues, both with their ears very much to the ground on how the sector is coping in the run-up to adoption.

First, we have **Mary Trussell**. Mary is KPMG's global lead partner for insurance accounting change. She's joined by **Joachim Kölschbach**, KPMG's global IFRS leader for insurance.

Mary – to kick off, what are you hearing from insurers? What stage do they seem to be at now?

Mary

Thanks, James. As you suggest, this is a very busy time for insurers, as the pressure is really ramping up...

With the implementation date for IFRS 17 edging closer and closer, there's a growing realisation that there isn't actually that much time and what needs to be done is highly complex.

That's certainly what we've heard from our survey of 160 insurers on their journey to IFRS 17 and IFRS 9 implementation.

One of the headlines that's coming from that is that those organisations furthest along with their projects are the ones feeling the time challenge the most.

Joachim

That's interesting, Mary. One only needs to scratch the surface a little – the more companies do, the more they realise how hard the task is and how much more work is involved than they first thought...

And I can't say I'm surprised by this. We have been talking for years about how IFRS 17 differs significantly from its predecessor IFRS 4 and how it represents the dawn of a new era for insurance accounting.

Mary

I know you have, Joachim, and the impacts of these changes are definitely borne out by our survey, with more than a third of insurers grading the degree of challenge they expect to face in meeting the planned implementation date as either 'high' or 'exceptionally high'.

Many respondents told us they're still considering their technical concepts – for example, 60% said they haven't addressed the disclosure gaps associated with IFRS 17 yet, and that is fundamental to identifying the data that they are going to need in the future. And 64% don't yet have firm plans for a CSM calculator. Either they don't yet know whether they're going to buy or build a CSM calculator or, if they are planning to buy one, they haven't yet selected their software provider.

So those two decisions are fundamental to being able to dry-run the new basis of reporting. And of course there is a lot of design and test work that needs to be done before that can actually happen.

Joachim

Yes. On the plus side, the TRG has been busy discussing some really fundamental points and there's some great work in progress here. And we and the other accounting firms are gradually discussing the issues with our clients.

So, while much uncertainty remains, it's less than it was six months ago and many insurers are now beginning to form a clearer view of the approaches they will take to some of the granular technical issues.

That said, it would be a really flawed strategy – in my view – for any company, even the smaller ones, to sit back and wait until everything has been resolved...

Mary

... or even to wait for the big players to resolve their outstanding implementation issues, in the hope that that covers off the issues of the smaller players.

Overall, there's a big distinction between the progress by larger insurers (and, by that, I mean those with premium income greater than USD 10 billion per annum) and smaller insurers, with the larger insurers generally further along than smaller companies.

But you know what I find really scary – that's just how many insurers haven't started in earnest!

Joachim

Yes, I agree Mary. While two-thirds of large insurers have already started the design or implementation of their project, still a quarter of all respondents have not yet started or are still following developments only.

And what is even more concerning is that half of smaller insurers haven't started their projects at all or are just only 'following developments'.

Many are going to face real issues if they don't get a move on. There is no magic bullet, no one size fits all. All insurers have different business models, regulatory environments, systems and processes.

So companies need to understand the impacts to their business and take time to work out how they will operationalise the changes.

Mary

I completely agree with you, Joachim, and it's particularly important given that the insurers that are furthest ahead agree an intensive period of test runs, dry runs and parallel runs are going to be needed. With the majority making a planning assumption, they'll want to run both the old and new bases of reporting in parallel for at least a year.

Of course, the task is more significant for the largest insurers as they need to engage their subsidiaries around the world but, even for smaller insurers, the task needs to be properly planned to make sure that enough time is left:

- to get things right;
- to get management acclimatised to the new basis of reporting; and
- to understand how the results are going to respond in the changing business environment.

As well as getting the new systems and processes working, they also need to make sure they are designing and testing new controls.

Joachim

Exactly, Mary! And if you layer on the fact that the vast majority of insurers are planning to defer their IFRS 9 implementation so that it matches IFRS 17, with half of the large insurers managing this as a single programme...

It's crucial that both outputs are connected so that companies can explain the changes in a way that will be understood by the users of financial statements.

Mary

You're absolutely right, Joachim.

So now that we've had a chance to look at where the industry sits on implementation, let's turn our attention to what the IASB is saying about all of this. Are they seeing a similar picture to us?

Joachim

Well, the IASB has undertaken significant outreach on IFRS 17 and is carrying out activities to support implementation.

The Board also met at the end of October and spent some time discussing IFRS 17, specifically some of the concerns and implementation challenges coming from the industry, which may result in an amendment of IFRS 17.

Mary

Indeed, and some of the main concerns discussed were around the complexity of the standard – which is also consistent with what we found from our survey.

The issues that we heard about that were causing implementation challenges include:

- the level of aggregation of insurance contracts;
- accounting for reinsurance contracts held;
- presentation within the statement of financial position; and
- the permissible approaches on transition.

Joachim

Yes, and another very popular topic that was discussed at that same meeting was, of course, the effective date of the standard.

Some stakeholders have made their views clear that there's not enough time to implement IFRS 17 before its effective date, noting that they would like the effective date to be postponed by one or more years.

Again, this is consistent with the responses we saw in our survey relating to the challenge in meeting the planned effective date.

Mary

But on the other hand, some users, and the European supervisory authorities, are pushing for a timely enactment of the new standard. They want to get on and see it implemented.

So, overall, the industry is, in many cases, looking to have the standard amended for some of these implementation challenges and so that raises the question 'What might the IASB do?'

Joachim

Well, it's clear that the IASB has been coming under a lot of pressure from the industry to address these concerns.

During the meeting, the Board provided feedback on the challenges put forward by the industry and talked about which areas they might consider amending in response.

Not surprisingly, the Board will seek to limit any changes that might result in significant loss of useful information or disrupt implementation processes already under way, so the hurdle any changes would have to pass is quite high.

Mary

So there's a balance to be struck here between properly addressing legitimate concerns, and yet more discussion on an already complicated standard that's been discussed for 20 years already.

Joachim

Yes, and none of this will be resolved overnight. The Board is going to have to follow a number of steps to amend the standard.

The Board is meeting in both November and December. So our listeners should keep an eye out for the web articles we will publish on the outcome of their discussions.

In the meantime, the greatest mistake of insurers would be to down tools.

Mary

Joachim, I completely agree with you. It's important for insurers to remember that even if there were to be a potential change in the implementation date of 2021, the reason for any potential deferral would be because there is so much they need to be doing in order to prepare.

So I'd strongly encourage any insurers that haven't yet started, to get started and, if they've started already, I'd encourage them to drive their projects forward and they ought to be able to start generating numbers – even if there are still assumptions and simplifications that need to be made to underpin them.

Joachim

As we said, it is only once you get into the detail, that you will realise just how much there is to do.

The later you start your project, the more likely it is that you'll need to resort to manual workarounds and patches in order to comply with the standard and that would be both unsustainable and inefficient.

Mary

Again, Joachim, I completely agree with you. So, to our listeners, please don't take that risk. My advice is keep moving forward, and, if you get there before everyone else, that's what I call a luxury problem! You can use that time to really understand what drives your numbers.

Host

Thank you, Mary, and Joachim. It sounds like there's a busy time ahead for insurers!

You'll be able to find out more about the findings we've discussed today in our recent publication **In it to win it**. If you're looking for more insight on this and other hot insurance topics, check out our online newsletter at [kpmg.com/IFRS 17](https://kpmg.com/IFRS17) or follow **KPMG IFRS on LinkedIn**.

So, for now, thank you all very much for taking the time to listen to this edition of *IFRS Today*. And look out for our next podcast, which will be released in the coming weeks.