When opportunity comes calling

Using the deferral of IFRS 17 wisely

KPMG viewpoint highlighting five key commercial and five key operational opportunities for insurers from the delay to IFRS 17

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The original timeline for IFRS 17, with an effective date of 1 January 2021, presented a significant implementation challenge for many insurers and, as KPMG International's global benchmarking study In It To Win It showed, many were facing a struggle against the clock.

The additional year brings not only more time—but an opportunity to better understand results and optimize performance on an IFRS 17 basis. The extra time also brings the prospect of delivering greater value from finance, by developing a roadmap to a better financial reporting capability and, as a minimum, containing future costs.

But the change also brings challenges. Some insurers would have liked a longer deferral and the additional year is to enable entities to adapt to further changes to the standard, albeit aimed at reducing its complexity. So it's crucial that insurers don't take their foot off the gas, thinking that they will pick up the pace later: that multiplies risks and cost.

Instead, the opportunity now presents itself to be more ambitious in those areas where you can derive greater value from change and to better understand results in the new world.

Where can you drive more value?

On the commercial side, there are a number of areas you can focus on to help maximize the opportunity presented by the deferral of IFRS 17.

1. Present your Business Plan on an IFRS 17 basis, carry out what-if scenarios to really understand the implications to your results.

2. Analyze transition options and methodology choices, and reprice short-term onerous contracts, to show the business in the best light. Develop a better appreciation of how you then tell your story to the market: how will your IFRS 17 results appear compared to your IFRS 4 results and how you've been communicating these externally?

3. Understand how will you revise KPIs and performance metrics to reflect IFRS 17? Will CSM generation tell your growth story or will you continue to use existing metrics like EV and VNB?

4. Develop an improved understanding of the drivers of your future results and potential sources of volatility, reflecting the mix of your products and which of IFRS 17 models and approaches they fit within. Understand how future product changes and product mix could impact your results.

5. Use the time to make more deeply researched policy choices to identify the best outcomes for your business to depict your growth strategy and reflect your markets, products and distribution strategy.

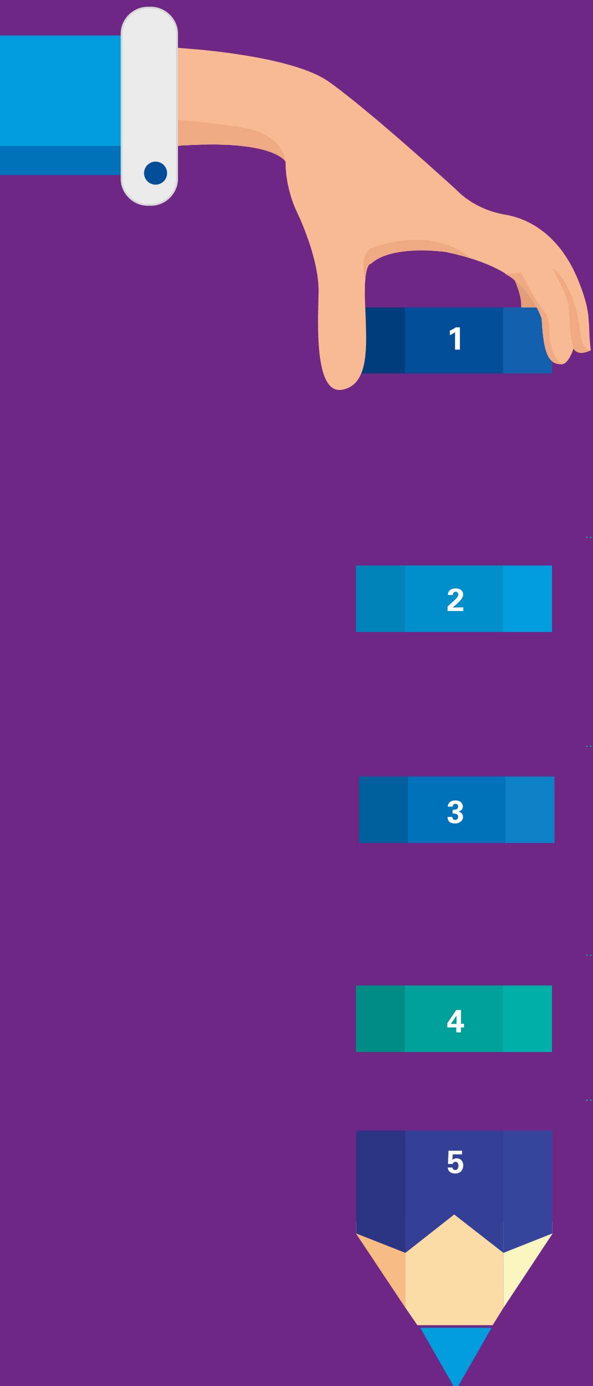
KPMG professionals' recently interviewed a number of analysts and synthesized their views on IFRS 17 in our survey Can You See Clearly Now? Many are already hungry for greater dialog with insurers on their plans for the upcoming changes.

On the operational side, in simple terms the end-game must be "Better, Cheaper, Faster".

- Better, by offering more business-useful insights.
- Cheaper, because that's an imperative for every organization.
- Faster, to get relevant information to management quickly to steer the business.

There are a number of things you could be doing to maximize the opportunity presented by the deferral of IFRS 17.

While the additional year may not give you the time to fundamentally transform your end to end processes why not use the time to really understand your current state, enhance wherever possible and develop a roadmap to overhaul the remainder, rather than just adjusting processes in a tactical way for IFRS 17? Spending the time to understand your data architecture, i.e. your data flows and interfaces throughout your end to end processes, can help you understand what can be done to simplify, standardize and automate.



1. Use the extra time to better align your data between your actuarial models and accounting systems. Variances between actual results (from the accountants) and expected results (from the actuarial models) can have a direct impact on reported results. Enhance and transform your analysis of change process as IFRS 17 moves this process from a control to a fundamental part of the income statement. This requires a step change in the capability required.

2. A number of companies have still not even chosen the provider for their CSM solution. The deferral allows companies to get their CSM engine working to a satisfactory level and integrated into their architecture, i.e. getting data from actuarial cash flow models through to posting results to accounting systems and general ledger to support dry runs.

3. Spend time assessing how to enhance the chart of accounts to provide the necessary analysis, control and reporting outputs across reporting metrics, including tax. Typically deficiencies in the chart of account manifest in end user spreadsheets, and so understanding the design is an opportunity to simplify, standardize and automate analysis, control and reporting outputs.

4. Understand the critical path through your end to end reporting close process, and how much you can take off-cycle to give you some time to properly understand the results especially in the early years.

5. Understand how your Business Planning, Forecasting and MI processes will change in an IFRS 17 world, taking into account the key components of the new income statement and how they will react in different scenarios; the CSM release, the Risk Adjustment release and the investment result. IFRS 17 is based on expected values of these components, so for the in-force book this will come down to understanding and anticipating variances against these expected values.

Integration of accountants and actuaries

IFRS 17 is driving is greater integration of accountants and actuaries into the Finance function and greater integration of actuarial reserving and pricing into GI companies.

In the Life market in the UK, the Finance function has combined actuaries and accountants, but in the US, Canada, Asia and elsewhere, actuaries typically sit in a separate function (or sub-function within Finance) reporting to the Chief Actuary. With IFRS 17 and the greater use of projections of future cash flows, explaining results will require closer collaboration between accountants and actuaries than they've ever worked before.

That collaboration is needed before IFRS 17 goes live in order to design and build these changes —and while that's underway why not use that closeness of working to get accountants and actuaries working better together on current reporting —IFRS 4, EV, capital?

The same is true in GI, where it is critical to form an ever closer feedback control cycle, including business planning, pricing, claims management, reserving and capital to ensure emerging information is quickly identified and acted upon. Both actuaries and accountants need to shift their focus to providing insight rather than crunching data, and investment in automation to support the new basis of reporting is a key catalyst of that shift.

The new world is much more integrated and less siloed. Change has already begun. Professional qualifications don't limit or define people as they used to. Finance teams are now starting to include data scientists and data visualization specialists and actuaries as well as accountants. Modern Finance teams, in insurance as elsewhere, need to blend skills in multi-disciplinary teams.

The demands of IFRS 17 will further drive this trend: take advantage of it to make your Finance team fit for the future. Use the change now to grow your talent of the future.

An opportunity not to be passed up

Success requires preparation, determination and opportunity —and the deferral of IFRS 17 grows the size of that opportunity. CFOs and their teams can use the changes that IFRS 17 requires to enhance their finance capability.

While there may not be the time to transform the function if you haven't headed down that path already, at least seize the opportunity to understand your current state, map out the journey to become the finance function of the future and use IFRS 17 to get as far along that road as possible.

The extension of the implementation timeline provides the window of opportunity to do much more than many had accepted might be the case.

Seize the opportunity, because who knows when it will come again?

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