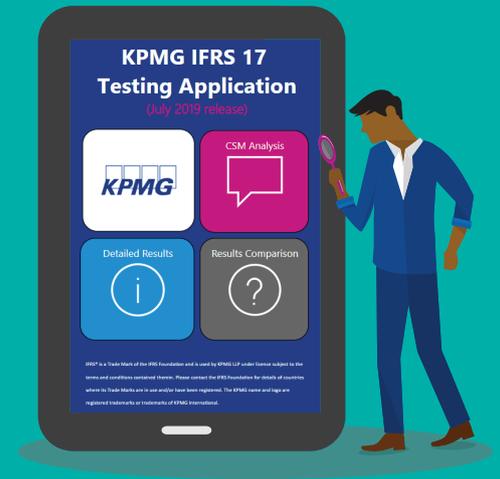




KPMG IFRS 17 testing application

KPMG International

home.kpmg/ifrstestingapp



The implementation of IFRS[®] 17 is a complex project for any insurer. One of the key project activities is the design and implementation of a contractual service margin (CSM) tool. This is an entirely new concept and there is no established precedent for CSM in financial reporting.

KPMG has found through discussions with clients and contacts, that as of yet, there is no dominant solution for the CSM tool. Some insurers have decided to buy a tool from an external provider, while others have decided to build their own. And a few organizations have still not made a decision.

But whatever solution is chosen, the CSM tool will need to be tested to ensure it is working as expected and providing accurate and reliable information that complies with the principles of the standard. This will be needed as part of the project implementation controls and to satisfy the external auditors.

KPMG has built a testing application that can help.

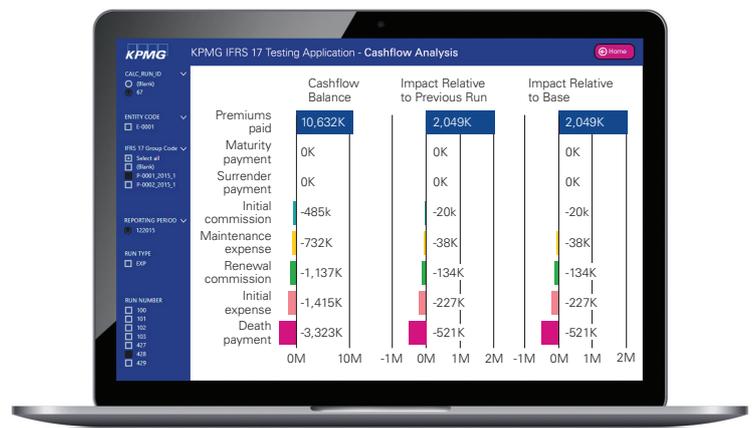
What does KPMG's testing application do?

KPMG's tool is an independent solution that is designed to generate CSM results from data provided, which can then be compared to the outputs from an insurer's tool to validate the results.

Because there are some areas of interpretation around the CSM calculation, discrepancies can be analyzed and discussed to establish whether differences are the result of calculation errors or of differences of interpretation. This can help clarify an insurer's approach as well as provide an appropriate level of control over the implementation of the new tool.

Cashflow analysis

Provides a comparison of cashflow movements between runs. The first chart shows the total cashflow movements for the current run. The second chart shows the difference in cashflow movements between the current run and the previous run while the third chart shows the difference in cashflow movements between the current run and the base (or initial) run.



KPMG’s testing application is backed by a broad-range set of specifications and documentation, with multiple demo functions. By helping map and test the end-to-end process, it can also act as an implementation accelerator for firms building their own CSM engines by leveraging KPMG’s specification and data model, as well as enabling clients to focus on controls and tailoring to their firm’s specifications.

For those insurers that have not yet decided on their final CSM solution, the tool can be used as a proof of concept to accelerate the selection decision. The tool provides ‘real’ results using an insurer’s own data to better inform their functionality requirements for design and toolset selection.

How does the application work?

The tool does not require any software to be installed on an insurer’s system. It is hosted on a secured cloud environment, where a client can send KPMG their data files and results through a secure link. Our team will process the data through the tool, generate granular reconciliation reports, analyze, and present the findings back.

The tool has many features:

- interactive reporting front-end that can be deployed on a choice of visualization tools
- ability to drill down into granular results and interim calculation steps
- variety of report output formats that can be tailored upon request
- reconciliation dashboard comparing and highlighting differences between an insurer’s calculation and KPMG’s.

We offer the above as a “turnkey” service so that clients can use our tool only when it is required. This approach mirrors that of iterative and agile development methodologies in the industry and reduces the costs of maintaining expensive testing overhead throughout implementation.

KPMG’s tool can work on an enterprise-wide scale and is capable of handling full production data volumes. In our pilot solution, the tool has delivered proven results, processing millions of records per run and up to multiple thousands of contract groups in near-real time.

CSM analysis

The end user has the ability to analyze the CSM in one of two ways. In the top graph the user can see a breakdown of the insurance liabilities that constitute the CSM at SoP (Start of Period) and in the bottom graph the user can see how the movement of the underlying cashflows contribute to the calculation of the CSM at EoP (End of Period).

Detailed analysis

The user is able to drill down to individual cashflow movements that drive a change in CSM.



Benefits at a glance

Our testing application is a first in the market. We believe it can offer insurers many benefits:

- validation and independent testing of results
- identification of areas needing further work
- deeper understanding of areas of optionality and interpretation
- understanding of the impact of changes to the calculation approach/methodology
- can be used for regression testing
- acceleration of project progress and decision making
- flexible tool that can be turned on and off when needed
- backed by KPMG's deep insurance accounting expertise.

Detailed results

A full list of all transactional results produced by the KPMG IFRS 17 testing application is provided in the detailed results screen. These results can be exported to Microsoft Excel for further investigation.

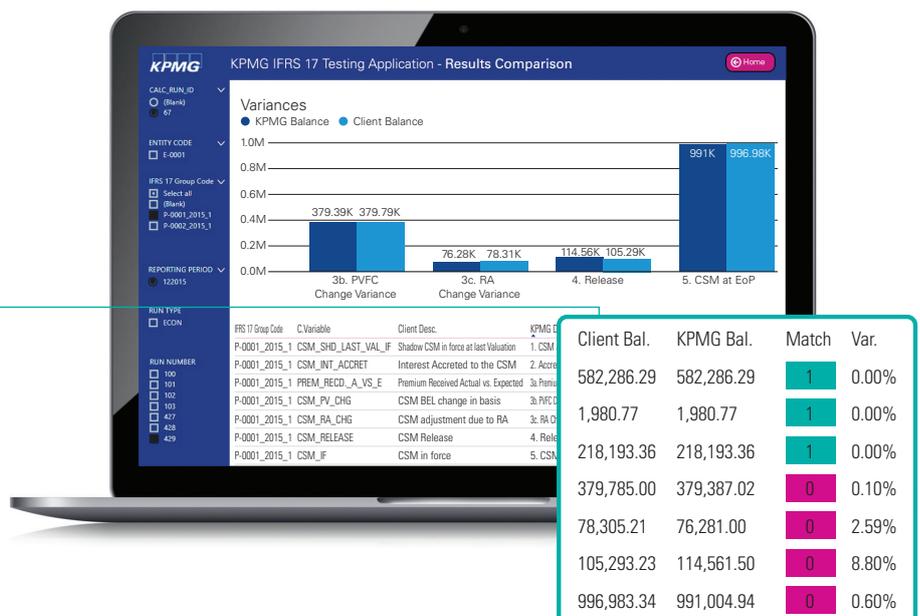
E.Code	IFRS 17 Group Code	R.P.	NBF	Run No.	Metric Code	Metric Description	Balance
E-0001	P-0001_2015_1	122015	1	428	ACCRETED_INTEREST	Accreted Interest	1,980.77
E-0001	P-0001_2015_1	122015	1	428	CA_DEATH_OUTGO_ACT_BASE	Actual: Death payment	0.00
E-0001	P-0001_2015_1	122015	1	428	CA_DEATH_OUTGO_ACT_PREV	Actual: Death payment	0.00
E-0001	P-0001_2015_1	122015	1	428	CA_DEATH_OUTGO_BASE	Expected: Death payment	-51,434.07
E-0001	P-0001_2015_1	122015	1	428	CA_DEATH_OUTGO_PREV	Expected: Death payment	-51,434.07
E-0001	P-0001_2015_1	122015	1	428	CA_DEATH_OUTGO_PVFC_A_BASE	PVFC (Rate A): Death payment	-3,33,156.26
E-0001	P-0001_2015_1	122015	1	428	CA_DEATH_OUTGO_PVFC_A_PREV	PVFC (Rate A): Death payment	-1,88,216.07
E-0001	P-0001_2015_1	122015	1	428	CA_DEATH_OUTGO_PVFC_A_PREV	PVFC (Rate A): Death payment	-3,33,156.26
E-0001	P-0001_2015_1	122015	1	428	CA_DEATH_OUTGO_PVFC_A_PREV	PVFC (Rate A): Death payment	-1,88,216.07
E-0001	P-0001_2015_1	122015	1	428	CA_INIT_COMMM_ACT_BASE	Actual: Initial commission	0.00
E-0001	P-0001_2015_1	122015	1	428	CA_INIT_COMMM_ACT_PREV	Actual: Initial commission	0.00
E-0001	P-0001_2015_1	122015	1	428	CA_INIT_COMMM_BASE	Expected: Initial commission	-9,902.85
E-0001	P-0001_2015_1	122015	1	428	CA_INIT_COMMM_PREV	Expected: Initial commission	-9,902.85
E-0001	P-0001_2015_1	122015	1	428	CA_INIT_COMMM_PVFC_A_BASE	PVFC (Rate A): Initial commission	-9,856.89
E-0001	P-0001_2015_1	122015	1	428	CA_INIT_COMMM_PVFC_A_PREV	PVFC (Rate A): Initial commission	-9,823.47
E-0001	P-0001_2015_1	122015	1	428	CA_INIT_COMMM_PVFC_A_PREV	PVFC (Rate A): Initial commission	-9,856.89
E-0001	P-0001_2015_1	122015	1	428	CA_INIT_COMMM_PVFC_A_PREV	PVFC (Rate A): Initial commission	-9,823.47
E-0001	P-0001_2015_1	122015	1	428	CA_INIT_EXP_ACT_BASE	Actual: Initial expense	0.00
E-0001	P-0001_2015_1	122015	1	428	CA_INIT_EXP_ACT_PREV	Actual: Initial expense	0.00
E-0001	P-0001_2015_1	122015	1	428	CA_INIT_EXP_BASE	Expected: Initial expense	-19,309.94

Results comparison

The results comparison is a reconciliation between actual results (produced by the IFRS testing application) and expected results (provided by the client) at the same Level of Aggregation (LoA).

Easy to read visual charts

Differences in variable values based on a pre-determined tolerance level, e.g. 0.01 are highlighted. All matches, within tolerance, are highlighted in green. All mismatches, outside tolerance, are highlighted in red.



Global reach

KPMG's testing application is a global tool available for use anywhere in the world. It is the result of significant investment by KPMG to develop a bespoke application capable of processing and computing large amounts of complex insurer data. Contact insurance@kpmg.com to request a demo.

About KPMG

At KPMG, we have a top down and business-focused approach to IFRS 17 implementation to help you accelerate progress towards your goals confidently and securely.

This approach is tailored to help answer the questions that are important to clients, while building on our market leading knowledge of KPMG professionals who:

Have a hypothesis-driven approach, starting top down rather than bottom up with a gap analysis. This allows design decisions to be taken earlier, reducing demands on scarce resources.

Bring deep market insights from advising leading insurers on IFRS 17 and IFRS 9 and bring the experience from this work to help accelerate thinking in complex aspects of new requirements.

Understand that one size does not fit all, enabling clear communication of the issues that matter to you.

Leverage proprietary tools and accelerators for your impact assessment, tailoring our approach to meet your needs and aspirations, whether quick wins, cost savings, efficient financial and regulatory reporting as well as improved teamwork and other benefits.

Experienced teams bring you insights every step of the way, actively promoting knowledge transfer to your people from the outset, so that you have a sound base of expertise to deliver new ways of working.

To learn more about how KPMG member firms can help unlock value from your IFRS 17 program, please do not hesitate to contact us.

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Publication name: KPMG IFRS 17 testing application | Publication number: 137400-G | Publication date: April 2021