



Implementing IFRS[®]17 *Insurance Contracts*

Considerations for those charged with governance

February 2020



Time is running out. Audit committees need to be active now, providing strong governance to help ensure a robust implementation.

A quick guide to the GPPC's January 2020 papers

IFRS 17 *Insurance Contracts* is currently expected to have a mandatory effective date of 1 January 2022¹. Implementation will be challenging, as application is complex and there is a range of approaches and outcomes.

A major transformation

For most insurers IFRS 17 represents a major transformation in the way that insurance contracts are accounted for and the extent of change required is significant.

The new requirements pose three particular challenges for insurers:

- increased complexity;
- diverse range of approaches and outcomes; and
- time and effort to implement.

Audit committees of insurers are expected to play an oversight role during the implementation phase and beyond.

Guidance to help audit committees oversee implementation

The Global Public Policy Committee – which comprises representatives from BDO, Deloitte, EY, Grant Thornton, KPMG and PwC – has published two papers² which seek to help those charged with governance to meet their responsibilities.

These papers cover:

- key considerations related to management, including ten key questions that those charged with governance might use to focus their discussions with management;
- key considerations related to the external auditor, including ten more questions for use with the external auditor; and
- key judgements and accounting policy choices faced by insurers related to the adoption of IFRS 17.

This quick guide outlines the background and highlights key themes in the papers.

1. The International Accounting Standards Board (the IASB) published an exposure draft with proposed amendments to IFRS 17 in June 2019, and is currently going through a redeliberation process following the closure of the comment period on 25 September. This redeliberation process covers a variety of topics, including the effective date, and is expected to be concluded by the end of March 2020. A final version of the standard is expected mid-2020.
2. [Implementation of IFRS 17 Insurance Contracts](#) and [Implementation of IFRS 17 Insurance Contracts – Companion document on key judgements and accounting policy choices](#).

The GPPC's January 2020 papers

The guidance will help audit committees identify the elements of high-quality implementation and evaluate management progress.

Implementation will be challenging as application is complex and there is a range of approaches and outcomes.

What are they?

The papers are being published by the GPPC to help those charged with governance of insurance entities, which may be a board of directors and/or an audit committee, to fulfil their oversight responsibilities for the implementation of IFRS 17.

The papers have been structured to help those charged with governance to evaluate management's progress towards implementation and assess their external auditors' readiness to audit in the context of IFRS 17.

Why have they been produced?

IFRS 17 represents a new era of accounting for insurers. The current standard, IFRS 4 *Insurance Contracts*, was an interim standard which permitted insurers to continue much of their existing local insurance accounting practices, meaning there is currently significant variation in practices between different countries. IFRS 17 provides principles-based requirements that aim to improve the comparability of the measurement and presentation of insurance contracts across entities reporting in jurisdictions applying IFRS.

For most preparers, IFRS 17 represents a major transformation in the way that insurance contracts are accounted for. Those charged with governance will want to understand the status of an entity's project to implement IFRS 17, the anticipated impact that IFRS 17 will have on financial reporting (including KPIs), and the key judgements, significant estimates, and assumptions made by management.

Those charged with governance have a key role to play in overseeing the implementation of IFRS 17, and these papers have been produced to help them in fulfilling this responsibility.

What challenges are insurers likely to face?

Increased complexity

Implementing IFRS 17 will require management to make technical decisions and judgements which may have a material impact on financial reporting, so audit committees need to be aware of the key implementation issues. The companion paper focuses on key judgements and accounting policy decisions which need to be made by management.

Diverse range of approaches and outcomes

IFRS 17 provides principles-based requirements and therefore it generally does not prescribe specific detailed methods.

Selecting appropriate techniques and developing estimates will involve a high degree of management judgement, and methods may vary between preparers. It is important that there is strong governance over the way judgement is exercised.

Time and effort to implement

The new requirements will have a range of consequences for the design and use of technology and systems, and the role of actuaries and other specialists. They will introduce considerably more estimates and judgement into the preparation of financial statements and change the shape and content of financial reporting for insurers. Implementation programmes may be large, complex and expensive, so audit committees need to be active now.

The main paper includes key considerations for evaluating management's implementation project and the readiness of the external auditor to audit in the context of IFRS 17.

What guidance does the main paper provide?

The main paper has two sections.

<p>Key considerations related to management</p>	<ul style="list-style-type: none"> – IFRS 17 implementation project management, including project governance and oversight, implementation and transition project plan and key priorities – Internal control environment changes, including controls over data, controls around significant judgements, assumption changes and other inputs, monitoring controls, control considerations relating to temporary transition solutions, and group considerations – Resourcing and training – Involvement with industry groups and consistency with peers – Technology needs and changes, including technology approach, vendor selection and data considerations – Impact on and communication with key stakeholders, including the chief financial officer, internal audit, investors and analysts and supervisory bodies and regulators
<p>Key considerations related to the external auditor</p>	<ul style="list-style-type: none"> – Technical expertise, training and resources – Timing of auditor involvement – Auditor participation with industry groups – Identification of alternative interpretations – Group considerations

These considerations are accompanied by questions for audit committees to ask management and the external auditors in order to focus discussions.

The companion paper discusses key judgements and accounting policy choices faced by insurers related to the adoption of IFRS 17.

What guidance does the companion paper provide?

The companion paper describes accounting issues which audit committees may need to be aware of and may need to challenge. Audit committees should ask management to identify what issues are most important for their entity.

Key judgements and accounting policy choices

- Level of aggregation
- Combination and separation of insurance contracts
- Contract boundaries
- General measurement model, including estimation of future cash flows, discount rates, risk adjustment, and contractual service margin (CSM)
- Premium allocation approach (PAA)
- Variable fee approach (VFA)
- Reinsurance, including measurement differences, contract boundary and coverage periods, and presentation
- Transition, including discussion of the full retrospective approach, modified retrospective approach and fair value approach
- Presentation
- Disclosure

The companion paper also includes information on the major changes to presentation and disclosure requirements, and more detailed questions for management related to key judgements and accounting policy choices.

What is the status of the papers?

The papers are not intended to amend or interpret the requirements of IFRS 17 and the GPPC is not empowered to do so.

The information in the papers is of a general nature, and insurers will need to undertake further analysis to apply the standard in their own circumstances. However, we expect that the six large accountancy networks will each use the paper when assessing the quality of individual insurers' IFRS 17 implementation.

Ten key questions for management

Those charged with governance can focus their discussions with management using these ten key questions.

Key questions for those charged with governance to ask management

Project planning and management

- What plans, project governance, and management arrangements are in place to deliberate on key decisions, to organise the change management process, and to design, build and test necessary valuation models and IT infrastructure in order to deliver high quality implementation?

Managing the transition

- Given the extent and complexity of the changes, and the length of the transition period, what controls and monitoring are management putting in place to ensure a timely and high-quality implementation?
- How will implementation decisions be monitored to ensure they remain appropriate?

Business processes, systems and data

- Has management identified the best sources of information and all necessary changes to existing business systems, processes and controls (including data and storage requirements) to ensure they are appropriate for use under IFRS 17?
- What are the most significant changes?

Financial reporting and controls

- How are financial reporting processes and control being designed, documented and tested, particularly where systems and data sources used for IFRS 17 reporting have not previously been subject to internal controls over financial reporting?

Accounting policies, judgements and estimates

- What are the key accounting policy choices, transition options, interpretations, estimates and judgements that have been made by management?
- Has management assessed these against their peers and the latest interpretations and guidance?

Resources and training

- How has management addressed the resourcing and training needs bearing in mind the collaboration of multi-disciplinary teams across different functions necessary for effective implementation and post-implementation operations?

Business impact

- What is the expected initial and ongoing impact on strategy, business planning, equity and income patterns, pricing, products and distribution channels, taxation, KPIs used to measure management compensation and capital management (including regulatory capital and the ability to make distributions)?

Stakeholder communications

- What KPIs and management information are being used to communicate business and financial performance to internal and external stakeholders, during both the transition phase and after implementation?

Disclosures

- How will IFRS 17's more detailed disclosure requirements be met and how will they compare with others in the market?

Group and local application

- How is the group engaging its local subsidiaries/ branches in its implementation project to ensure they will be ready to meet both group and local statutory reporting (whether the local regulatory reporting is based on IFRS or not)?
 - How is IFRS 17 implementation being managed centrally, or locally with entity governance structures taking local reporting responsibility and reporting into an overall group 'steering committee'?
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Ten key questions for auditors

Those charged with governance can focus their discussions with their external auditors using these ten key questions.

Key questions for those charged with governance to ask external auditors

Project planning and management

- What are the auditor's specific observations or concerns, if any, around management's transition plan and timelines, oversight of the judgements being exercised, and governance over the quality of data being used?

Project risk

- Bearing in mind the complexity, need for judgement and uncertainty involved, what are the auditor's observations on management's identification of the key risks with respect to the entity's implementation of IFRS 17?

Accounting policies, judgements and estimates

- Has the auditor reviewed the key accounting policy choices, transition options, interpretations, estimates and judgements made by the insurer?
- For which key accounting interpretations and judgements are the insurer and the auditor not in agreement, still in the process of assessment, or at greatest risk of developing differences in view?

Resourcing and training

- How has the audit firm ensured that the audit team has the skills, knowledge and resources to respond to the risks of material misstatement arising from the implementation of IFRS 17?
- To what extent will the structure and profile of the audit team change as a result of IFRS 17?

Financial reporting processes, systems and controls

- Based on the work performed, does the auditor have any observations or concerns about the entity's internal control over sources of key data, new or updated systems and models, or key assumptions and estimates?

Managing the transition

- Where the entity has made use of proxies, practical expedients, manual or temporary solutions in implementation, how has the auditor identified and evaluated the risks associated with these measures and challenged and assessed both the appropriateness of their use and controls over their use now and in future periods?

Group considerations

- How is the group auditor evaluating the consistency in the application of IFRS 17 across the group's operations?
- How is the group auditor (group joint auditors) assessing whether component auditors (with their respective network when there are group joint auditors) are taking a consistent audit approach across the group?

Benchmarking

- Does the auditor have any observations on the entity's benchmarking of its accounting judgements, methodologies, assumptions and estimates compared to its peers?

Disclosures

- What are the auditor's views regarding the completeness and clarity of the entity's proposed IFRS 17 disclosures as well as the more immediate disclosures with respect to the impact of IFRS 17 as a forthcoming standard?

Management bias

- What process will be undertaken by the auditor to 'stand back' and consider, in the context of the financial statements as a whole, the presence of bias (intentional or unintentional) in the entity's judgements, estimates, assumptions and disclosures regarding IFRS 17?
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