

IFRS Today

Our series on the most topical issues in IFRS® Standards and financial reporting

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PODCAST TRANSCRIPT

IFRS 17 – The new effective date

Speakers

- Mary Trussell
- Bob Owel

Bob

Hello and welcome to a new episode of *IFRS Today*. In this episode we will talk about the new insurance contracts standard, IFRS 17, which is designed to increase transparency in accounting for insurance contracts, and to reduce the current diversity in practice.

The new standard was issued back in May 2017 but after receiving feedback from stakeholders the IASB decided to make significant changes to the standard.

The redeliberations were finalised and the effective date for IFRS 17 is moved to the 1st of January 2023. Now we have more certainty about the standard, this is a good time to talk about the actions you can take.

My name is Bob Owel: I am a director in our International Standards Group, and I will be your host for today. On the phone we have our global insurance accounting change lead Mary Trussell.

So Mary welcome to the podcast and let's get started. We're in a challenging time of course with the COVID-19 outbreak. I hope our listeners and their friends and families are keeping safe and healthy.

Clearly this is also keeping insurers busy, so in the light of that environment and the change in the effective date of IFRS 17 to 2023, what are your initial thoughts?

Mary

So that change in effective date is positive news for insurers obviously, because it gives them more time as there's so much more for them to do. And what do I mean by that? Well of course they've got a lot that's occupying them in the short term, but it also gives them time to firm up their working assumptions, and to bring systems design and development to life.

The redeliberations were finalised and the effective date for IFRS 17 is moved to the 1st of January 2023.

So this standard requires a significant amount of additional data that needs to be sourced to implement it, and so a thorough analysis of the data requirements is really key, particularly reflecting these changes.

Of course they're going to need some flexibility as the actual revised standard is only going to come out in Q2 and so the final wording could lead to some potential changes in their working assumptions.

What I think this lets insurers do is they've got a new effective date which is clear and they can revisit their time line for their implementation programme.

Bob

Thanks Mary. I agree that it's quite helpful that we now have clarity on the effective date.

I've been doing some thinking about what insurers could and maybe should be doing now. It would be great to get your thoughts on some of these topics. So the first one I was thinking of is the roadmap to 2023. What are your thoughts on that?

Mary

The uncertainty at the back end has largely been removed and so that means that the roadmap can be firmed up and insurers can focus on what I call both their right-to-left thinking, working back from 2023 to the current date, and also their left-to-right thinking, thinking about all the other issues that they're having to deal with at the moment.

Bob

There's a clear need to test and do dry and parallel runs because we're implementing new systems here. What is your thinking on that?

Mary

Those changes to the currently published version of IFRS 17 are going to be pervasive and it's critical to test those new or revised systems solutions and also assess the output, through whether we call it dry runs or parallel runs, and indeed many of our clients and our teams that are supporting them have been really innovative in continuing with that testing programme while they've been working, basically working from home.

Bob

If you look at IFRS 17 there are so many new requirements that are coming in, there's a lot of data that is needed. What about data gathering and the development of new data?

Mary

Yeah you're absolutely right. So this standard requires a significant amount of additional data that needs to be sourced to implement it, and so a thorough analysis of the data requirements is really key, particularly reflecting these changes.

Those changes to the currently published version of IFRS 17 are going to be pervasive and it's critical to test those new or revised systems solutions and also assess the output, through whether we call it dry runs or parallel runs.

Bob

So we shouldn't forget about things like processes and controls, to make sure that everything runs smoothly within an insurer and that we are able to meet the requirements of IFRS 17. Any thoughts on that?

Mary

At the moment most insurers are still in development mode. They're still trying out new systems. And what we've actually got to do is firstly as we said test them, make them operational, then actually work out how we are going to implement them. And that means that new processes and controls need to be developed, and they need to be in place and tested by the transition date so that in that way insurers can make sure that the numbers they are producing are produced in a controlled environment – and of course also that they are auditable.

Bob

Thank you. I think there are many more issues but the last one I can think of is the communication within the organisation, and making sure that internal and external stakeholders are trained appropriately. Any comments on that?

Mary

So two comments from me, one of which is that communication within the project team is always really important, and it is particularly now when we've got people who are working remotely, but secondly there's big picture communications – that's being able to interpret the results of IFRS 17 both for the business users and also for any external stakeholders. And there I always think the best way to think about it is to say IFRS 17 is like learning a foreign language. And so explaining the numbers will require proper training and communication and practice.

Bob

I absolutely agree – that's really important and it definitely feels like learning a new language. I know that some insurers have done quite some work already, and Mary you are talking to clients on a very regular basis. What is the key takeaway from those conversations?

Mary

So my key takeaway is that the more insurers have done to focus on IFRS 17, the more concerned they are about meeting that 2023 timeline. Now that sounds a bit counter-intuitive because obviously they have been investing in actually building up the capability, but the insurers that I talk to that have done a really detailed plan and have looked in detail at those topics we've just been discussing are the ones that have the best understanding of what needs to be done. And even with the delay to 2023 the roadmap is looking challenging.

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Bob

The Board has made some significant changes to IFRS 17. We won't go into the detailed changes now but I know some insurers have been delaying work on topics that were not clear in the current version of the standard. What are these areas and what can insurers do now?

Mary

So the areas that come front of mind to me are reinsurance, because that is an area where the standard has changed a lot, but two others are annual cohorts and mutualisation, where many insurers were hoping for change, and also business combinations accounting where we have to come in line with everybody else.

And the one other thing I think I'd stress is keep focused on transition, because that's almost like a whole project in its own right. So those are four areas I suggest they'd need to focus.

Bob

Thanks Mary – that definitely sounds like a lot of work to do for our clients and listeners. I think it's fair to address also some pushback that I've been hearing from conversations with my own clients, and the first one is one that I can relate to from my own experience. Before I joined KPMG I worked in the industry and we started a project already in early 2017 actually, and other teams may have even started before that. I can imagine especially if I think back to my time on the project that there's some fatigue. What are your thoughts on this, and any words of encouragement for those teams?

Mary

So I've definitely got a lot of sympathy if people feel like that and as you say some insurers will have started the project actually before IFRS 17 was released in 2017. And to continue from let's say 2016 or 2017 and continue until 2023, well that's a lot of your life to give to an accounting and actuarial implementation, however significant it is.

Nevertheless I really strongly believe that this is a great opportunity for insurers and for the people who work for them – and it goes way beyond just accounting. One of the things that I've seen insurers doing is actually to move people onto the project and move them off the project, and to cycle them into the business, and out of the business onto the project. That keeps a fresh perspective and that means typically that you can help to make sure that the challenges fit within people's career progressions.

What that does is that places an additional focus on clear communications and also on the importance of actually training a really deep bench of people. And that goes from people on the accounting side, the actuarial side, to the technical side, the systems side, and making sure they actually all really understand the impact that this new standard will bring. Things like thinking about the impact on investors, for example.

And the one other thing I think I'd stress is keep focused on transition, because that's almost like a whole project in its own right.

Bob

Thanks Mary. There are a lot of opportunities also when I hear you talk about the details of what the impact of this project is. I just want to look at the insurance accounting, and this has been diverging over the past almost 25 years and now the Board needs to bring this all back together in globally consistent requirements, and so that's quite a difficult position for the Board to be in and I have got sympathy for them. I also understand that the industry wants a standard that works for them.

So I've heard from some insurers that they're still not satisfied with the changes, and maybe some critics even believe that the Board is opening the door again to more changes to the standard by giving this extra year to 2023. What would you say to them?

Mary

Well clearly not everybody is pleased with the outcome that the Board has reached. But I firmly believe that we now have to get on with the standard as it is and to get it implemented. In lots of discussions in the past, I think there's been some concern at the back of people's minds as to whether IFRS 17 would ever see the light of day. In this round of discussions I think it was very clear from all parties that IFRS 17 is coming, it was a question of when, and we now know that date with certainty.

As well as just deliberating on the date of course, the Board has gone through a really extensive process of considering amendments, as you said, and so I think it's a total of 25 issues that they assessed, and changes have been made where they consider appropriate. Of course some people are going to say that the Board was unwilling to change in certain areas, but I think it's also fair to say that the IASB has got to weigh up the views of competing communities. It's not just the preparers that they are listening to, they also have to listen to the users of financial statements. And they have to think about that when they are weighing the costs and benefits of the changes they've made.

As I was listening to the debate, I also remember the concerns from a number of Board members that the effective date of IFRS 17, and also when insurers implement IFRS 9, has been moving very significantly over the past years. In fact I remember a specific comment from Sue Lloyd, who is the vice chair of the IASB, made, when she noted that she'd lost a few years of her life getting IFRS 9 implemented by 2013. For the banks this was delayed to 2018, but for insurers this is now 10 years later than the original plan, and I think the time for discussion and debate is now over. We've all got to move on with implementation.

I can see that some stakeholders may disagree with this outcome, but insurers shouldn't be counting on further changes to the standard, as the Board has gone through a really thorough process to evaluate the concerns that it hears from all of its stakeholders, whether they are preparers or whether they are users.

Bob

So there's some uncertainty there but I'm definitely looking forward to that future conversation as we see what the outcome of those discussions will be. So finally, as we get to the end of our podcast, Mary, do you have any key messages for our listeners as they go back to work on their implementations?

Detailed planning for IFRS 17 remains critical. My advice would be use the additional year to perform appropriate testing and use it to make sure you have enough time for parallel running to ensure that you're fully prepared by the implementation date in 2023.

Mary

So even though it might be tempting to drop your pens, and for sure many insurers firstly deserve a break and secondly have some really important issues that they are having to focus on at the moment, I would say keep up momentum. I appreciate the challenges that the executive committees of insurers are facing, especially in the current environment with the ongoing pandemic. Priorities may be shifting regularly. Detailed planning for IFRS 17 remains critical. My advice would be use the additional year to perform appropriate testing and use it to make sure you have enough time for parallel running to ensure that you're fully prepared by the implementation date in 2023. Data gathering and systems testing are part of every business today: use this project to review your processes and controls and add value to what you do where you can.

Bob

Thanks Mary for providing your insights on these recent IFRS 17 developments. It's crystal clear to me there's a lot of work to do for insurers, but the good news is that there's more certainty about the requirements, and insurers will be able to move forward with confidence to be able to implement the standard by 2023.

Thanks to our listeners. I hope you enjoyed this podcast. If you liked what you've heard, please subscribe to KPMG's *IFRS Today*. You can find us on iTunes, Spotify or any other podcast app. But for now, thank you all very much for taking the time to listen to this edition of *IFRS Today*. And look out for the next episode.

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