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# THE EARLY BIRD IMPLEMENTS IFRS 17 THEIR WAY

The KPMG South African Insurance Survey has consistently included articles on IFRS 17: Insurance Contracts. This year is no different. While previous issues have posited on the implications and application of this transformational standard on the industry, in this year's issue we speak with experience after having access to the final standard. Being based in Hong Kong to work on IFRS 17 transition projects until the end of the year, it has been sobering to experience the sheer magnitude of effort and resources that are required by global insurance groups to bring this standard to life. It's important to note, those insurers who have already commenced this IFRS17 journey (the "early birds") have more opportunities and time to lobby for their interpretation of the standard. They are better positioned to implement the standard their own way.

KPMG benchmarked the state of readiness of the global industry in December 2017, and then again in July 2018. In a recent study, KPMG collected feedback from more than 160 respondents in over 30 countries. This benchmarking included the largest 10 insurers in the world that use IFRS as their framework for financial reporting. Besides providing a benchmarking

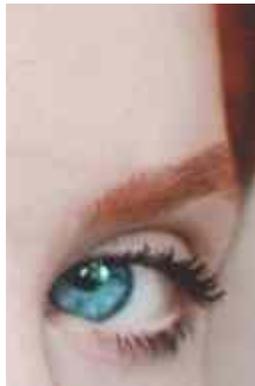
on the state of readiness, the publication also delivers a valuable starting point for those insurers who plan to commence their implementation journey in 2018.

### Key Themes

The links to the detailed benchmarking analysis (and other KPMG thought leadership) have been provided at the end of this piece, but to provide context we reflect on some of the key themes from the analysis.

- *Smaller insurers need to get started.*

While more than 65% of insurers classified in the "large insurer" cohort were in the design and implementation phases, 30% of small insurers had not begun this journey. Most had not performed an impact assessment. This is particularly concerning as experience on more recent transition projects – such as IFRS 9: Financial Instruments or Solvency Assessment & Management – have shown that the "watch and wait" approach compromises the entity's ability to explore and investigate options and often leads to sub-standard outcomes. Further, this compromises the ability to source available and credible talent in the market to support the transition.



— *Dry and parallel runs are crucial.*

The majority of respondents agreed that it is paramount to have extensive periods of dry runs and parallel runs. With under 30 months to go until the standard will be effected in South Africa (for 31 December year-ends), insurers will need to assess whether they can deliver on fit for purpose interim and year-end reporting. It is crucial that readiness and dry runs are factored into the overall project planning.

— *Resolution of technical issues.*

The International Accounting Standards Board (IASB) has set up a Transition Resource Group (TRG) who have met three times already to discuss some of the more complex questions coming out of the application of the standard. Various CFO forums and industry groups are in place to solicit feedback on particular areas of difficulty, in order to feed these into the TRG. If organisations are not far down the path of thinking about the complexities specific to their organisation, their window for lobbying for support of their preferred view closes with each passing month. The topics that continue to present challenges to the sector include:

- The identification of portfolios and groups;
- The approach to setting discount rates;
- The judgements and approach to determine the risk adjustment;
- Transition approaches (full retrospective, modified retrospective or fair value);
- Qualification to use Variable Fee Approach or Premium Allocation Approach; and
- Gaps in disclosure and reporting.

### Lessons From the Front Line

KPMG is leading the charge by working with a number of global insurance groups to implement this standard. In a meeting for one such multi-national insurance group, we noted that the collective team comprised of more than 40 individuals each focused on different disciplines. Most of those individuals were full time employees (of our client) and their sole focus was on IFRS17. They were comprised of actuaries, accountants and IT specialists. Understandably, not all implementation projects at all insurers will require such large investments in staffing. It was clear that, even with a large team in place, the volume of work required was too much to contain. We were all likely to all be fully productive and engaged for a while to come.

### Resources and Cost

The benchmarking study highlighted 90% of the respondents experienced difficulties in securing sufficiently skilled people. Further concerns were expressed by 50% of the respondents that they are concerned about securing the necessary budgets.

For those who have commenced the recruitment process, simple searches on talent platforms demonstrate that there are few individuals with these skill sets in the South African market. With most insurance groups having some form of international presence, competing for the same scarce skills in a global job market is even more challenging. Those players who have arrived earlier to the party do not need to jostle for scarce skills and more importantly will not be completely reliant on a stretched consulting or outsourced model closer to the effective date.

### Structuring the Project Team

Drawing on conversations that we have had with large international insurance groups, most of the activity has been coordinated from central teams at a group level. Over the past year, projects have been fairly dynamic – often changing course or areas of emphasis as various technical subject matters are being addressed. With fairly rudimentary impact assessments and application guidance having been developed over the last 12 months – with a deep appreciation for the various grey-areas that are still being debated in the market – a number of projects are entering into the second phase. Business units are being brought into the fold to make more granular and detailed assessments of impacts. Often this phase is staggered, with focus on soliciting feedback from the most material business units with a structured timetable to obtain feedback from all business units by the end of 2018. This will allow sufficient time to ensure that any system design and implementation requirements can be met.

An important and challenging part of the process for implementers has been the mechanisms used in gathering feedback from all stakeholders. From shareholders, boards and analysts to regulators and external auditors, strong coordination is required to address concerns raised and challenges received on application guidance and methodology. Coordination is also needed to build processes and systems that, not only meet the requirements of the standard, but are also well positioned to powerfully represent the position and performance of a company.

The most common team structure that we have seen to date is shown below, with the focus shifting in coming months from application guidance to focus on data, systems and processes:



### Decision Making to Progress Matters

A consistent theme in the implementation journey has been the appropriate timing and the right level of engagement with key decision makers in executive committees, risk management teams and the Board. With the array of sensitive decisions and options that are available, careful consideration needs to be given when it comes to these stakeholders getting sufficient information to make meaningful decisions that will move the objectives of the organisation forward. We have found that regular and deliberately planned engagement has had the outcome of driving decision making forward and has kept projects in line with the implementation timetable. This will go a long way when addressing the concerns of over one third of the benchmarking survey respondents, who foresee a high (or extremely high) degree of challenge in meeting the planned implementation date.

## In Summary

The key takeaways are -

- Just get started and revisit your roadmap to implementation and cross check against it regularly;
- Build a buffer for time to design, configure and test systems, processes and controls;
- Use simulations and assumptions to help address the impact on business;
- Allow time for testing, dry runs and parallel runs; and
- Open up the dialogue with business and stakeholders.

"Understanding policyholder journeys during the claims process and removing all the pain points is key to acquiring new policyholders and retaining them."

S'khumbuzo Mlangeni, CFO, Standard Insurance

## Publications and Resources

The following thought leadership is available to help you on this journey.

Picture	Synopsis	Link
	<b>In it to Win It: Benchmarking 2.0</b> We surveyed more than 160 insurance executives around the world to benchmark their readiness for IFRS 17 and IFRS 9 and examine how they are navigating change on the frontline (2018).	<a href="https://home.kpmg.com/xx/en/home/insights/2017/12/ifrs-17-and-9-implementation-benchmarking-highlights.html">https://home.kpmg.com/xx/en/home/insights/2017/12/ifrs-17-and-9-implementation-benchmarking-highlights.html</a>
	<b>Illustrative disclosures for insurers</b> Your essential guide to preparing financial statements under IFRS 17 and IFRS 9. Based on an example insurer that is not a first-time adopter of IFRS (2018).	<a href="https://home.kpmg.com/content/dam/kpmg/xx/pdf/2017/07/ifrs17-first-impressions-2017.pdf">https://home.kpmg.com/content/dam/kpmg/xx/pdf/2017/07/ifrs17-first-impressions-2017.pdf</a>
	<b>Insurance contracts: First impressions</b> This First Impressions provides an overview of the new standard and how it may affect insurers' financial statements. It includes examples and our insights to help you assess the potential impacts and to prepare for 2021 (2018).	<a href="https://home.kpmg.com/xx/en/home/insights/2017/05/insurance-contracts-new-standard-first-impressions-ifrs17-ifrs4-180517.html">https://home.kpmg.com/xx/en/home/insights/2017/05/insurance-contracts-new-standard-first-impressions-ifrs17-ifrs4-180517.html</a>
	<b>Navigating the new world: Preparing for insurance accounting change</b> Overview of the key impacts of forthcoming insurance accounting changes, lessons learned and a practical methodology to help insurers plan for the changes efficiently and securely (2018).	<a href="https://home.kpmg.com/xx/en/home/industries/insurance/navigating-new-world-preparing-insurance-accounting-change-fs.html">https://home.kpmg.com/xx/en/home/industries/insurance/navigating-new-world-preparing-insurance-accounting-change-fs.html</a>
	<b>Insurance - Transition to IFRS 17</b> This web page includes summaries of the discussions in the Transition Resource Group and observations of the topics discussed, e.g., Identifying the insurance contract, Measuring the CSM and Accounting for reinsurance contracts held (2018).	<a href="https://home.kpmg.com/xx/en/home/insights/2018/01/ifrs17-transition-trg-newsletter.html">https://home.kpmg.com/xx/en/home/insights/2018/01/ifrs17-transition-trg-newsletter.html</a>
	<b>Introducing IFRS 17</b> Insight and detailed analysis on the impact of IFRS 17 Insurance Contracts (2018)	<a href="https://home.kpmg.com/xx/en/home/insights/2017/05/insurance-contracts-new-standard-first-impressions-ifrs17-ifrs4-180517.html">https://home.kpmg.com/xx/en/home/insights/2017/05/insurance-contracts-new-standard-first-impressions-ifrs17-ifrs4-180517.html</a>