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Establishing a programme to deliver IFRS 17

Matthew Ford explores the key steps involved in successfully delivering a programme for IFRS 17, recognised as the biggest challenge the global insurance industry has faced in a generation.

IFRS 17 will be effective from 1 January 2021, bringing unprecedented challenges to insurers. Early investment and a structured planning approach will be key to a smooth implementation programme. Insurers that start earlier rather than later will be in a better position to take advantage of IFRS 17 market opportunities and be best placed to shape their business journey and financial performance going forward.

Preparing for fundamental change

A typical programme will be made up of five phases. The first stage involves the impact analysis and setup for the programme, and is an important opportunity to understand your IFRS 17 objectives and requirements, perform a gap analysis and examine various options for the future to ensure any changes made to an insurer's financial processes and underlying systems benefit the company in the long term. Typically, insurers might want to allow approximately three months to complete this phase.

Phase two covers the detailed design and scoping work. One of the top priorities at the start of an IFRS 17 implementation is to produce an integrated operational design, as this will steer all the change efforts. This is the stage where you will write the detailed and actuarial accounting technical papers. You will also need to establish a well-defined data architecture in respect of finance reporting, a systems architecture that is flexible, scalable and reusable to support fast and robust modelling, and automated overall processes. This phase might typically take approximately six months for many insurers.

Phase three is the implementation phase and perhaps the most challenging, taking 6 to 12 months to complete. The implementation of IFRS 17 involves the actual sourcing of all the necessary data, and building the new reporting processes and systems. As a result, these changes will have profound impacts on all aspects of an organisation, from front to back office, and are likely to require the most significant investment.

In phase four, insurers will be conducting pre-production test runs on all of their processes and, for the first time, will produce real-life financial results. By 2020, firms should be in a position to complete the final phase where they transition from development programme to business as usual.

Figure 1. **End to end IFRS programme**

Q2 2018	H2 2018	2019	H2 2019/Q1 2020	2020
Phase I Programme set up and impact analysis →	**Phase II** Detailed scoping, technical and design decisions →	**Phase III** Implementation →	**Phase IV** Pre-production, financial refinement and disclosure →	**Phase V** Production and transition to BAU

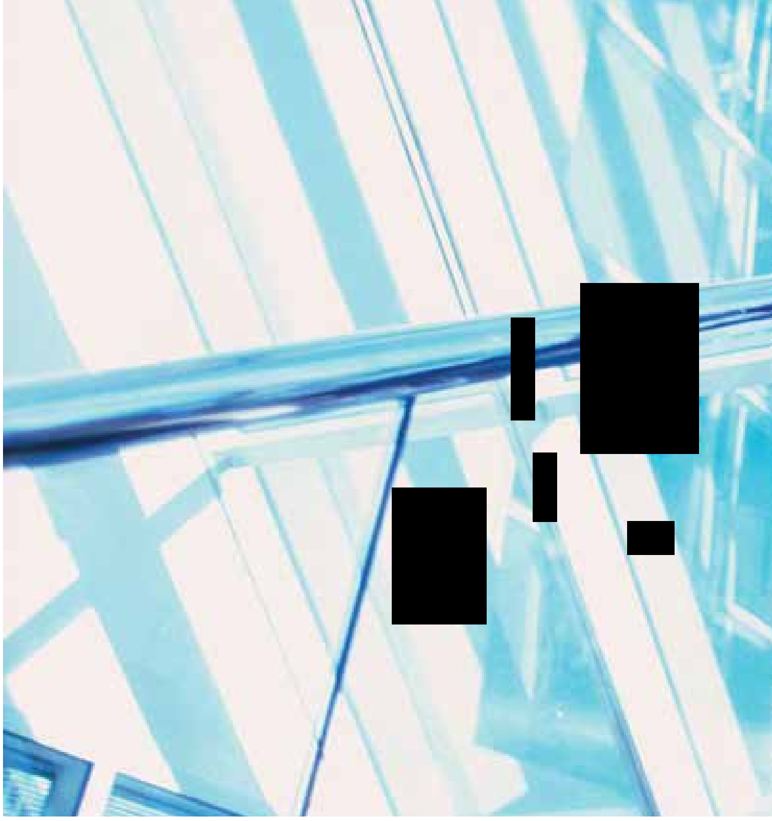
Coordinating simultaneous work streams

Each of the five phases will involve a number of work streams operating in parallel that need to effectively interact throughout your programme's development and implementation. In the technical work stream, you will be looking at all the accounting and actuarial options allowed by the standard, while their impact will be assessed in the financial work stream. The most intensive work, meanwhile, will take place in the data, systems and processes work streams.

The impact on the internal stakeholders who will be responsible for delivering the change and operating in the new environment should not be overlooked. Staff need to be engaged in the change and trained up at all levels, supported by a structured Target Operating Model-approach to the implementation programme. Understanding and acting on the business implications of IFRS 17 implementation will ultimately differentiate those insurers that make a real success of the transition from those that do not.

Figure 2. **Work streams**

Work streams	**Technical** – technical analysis of IFRS 17 and related standards, as well as audit
	Financial – financial impact and sensitivity, investor messaging, disclosures
	Systems – financial, actuarial, aggregation and reporting
	Data – availability, provision, storage, integration
	Processes – operating model, working day timetable
	People – engagement, training and knowledge transfer, TOM
	Business strategy – product, ALM, pricing, acquisition and disposal



Impact analysis: A closer look

The initial stage of conducting the impact analysis, an important foundation for the entire programme, can be broken down further into five sub-phases. The first sub-phase involves the setting up of the programme itself, the necessary governance and protocols, as well as establishing objectives. When defining your objectives, you will need to ask yourself how important IFRS 17 is for your internal and external stakeholders; what sort of solution you want; and whether the standard is so critical that it needs to be central to the way you manage your business or if a bare minimum compliance approach is sufficient.

Figure 3: **Phase 1: Impact Analysis drill down**

Programme set up and objectives

- Establish programme and governance
- Overall objectives
- Manage risks and issues
- Understand dependencies

Technical analysis

- Analyse, scope out and evaluate IFRS 17 and related standard requirements including:
  - Unit of account
  - Transition
  - Contract boundaries and unbundling
  - Discount rates
  - Risk adjustment
  - Disclosure requirements
- Draft technical papers

Financial impact

- High level quantitative analysis on balance sheet and P&L
- By product
- Inforce and new business
- Sensitivity testing
- Comparison to other metrics
- Impact on investor messaging

Operational impact

- High level assessment and implementational costs for:
  - Data – availabilty, storage, intergration
  - Systems – actuarial and finance
  - Processes
  - People

Evaluation and decision point

- Overal evaluation of technical, financial and operational impacts
- Decision of forward approach
- High level forward plan and costing

Iterative feedback loop

The next three sub-phases are closely connected, focusing on the technical, financial and operational elements. When looking at your technical options, you will analyse and evaluate IFRS 17 and related standard requirements, including most importantly the unit of account, transition, risk adjustment, discount rate and contract classification. You will need to assess the financial impacts for each of these, which you will do using a range of top-down and bottom-up estimated models. In the operational sub-phase, you should then consider what the systems, data and process implications are for the choices you have made, helping you to make the necessary plans and understand the associated costs.

The fifth sub-phase of the impact analysis concerns your decision and evaluation point. By now you will have collected the relevant data to make a well-informed decision as to what your delivery approach will look like, following which detailed planning for implementation can begin. Internal and external stakeholder buy-in to the programme will be critical at this point, supported by a clear communication of the plan, the challenges and operational impacts, how long it will take and a realistic assessment of what is required to ensure it is successfully implemented.

Conclusion

Given the new data sources to be analysed, the more rigorous and granular reporting and the complex financial modelling, there is simply no shortcut to meeting IFRS 17 compliance. However, as well as building the operational processes and systems required, the most successful insurers will be considering the financial and business model impacts.

For these reasons, IFRS 17 will almost certainly be a complex and costly exercise, requiring extensive investment in new systems and processes, causing major disruption to insurers' businesses. However, while IFRS 17 represents one of the biggest technical challenges to affect the insurance industry, it also brings benefits such as greater comparability and transparency. The transition marks a genuine opportunity for insurers to work smarter, but first they will need to actively embrace and deliver the change.

Further information

To learn more, please contact your Willis Towers Watson consultant, visit **willistowerswatson.com/ifrs17** or email **ifrs17@willistowerswatson.com**

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Willis Towers Watson
51 Lime St
London
EC3M 7DQ

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