



## Episode 23: Is your IFRS 17 programme surviving or thriving?

**SIMON KAZMIEROWSKI:** Another aspect that I want insurers to take away is basically to have a "learn quickly, fail fast" mindset. IFRS 17 is a journey and many, many approaches that seem nice on a sheet of paper or in an Excel pilot and don't really work in a process that should one day be business as usual.

[MUSIC PLAYING]

**SPEAKER:** You're listening to Rethinking Insurance, a podcast series from Willis Towers Watson where we discuss the issues facing P&C, life, and composite insurers around the globe, as well as exploring the latest tools, techniques, and innovations that will help you to rethink insurance.

**VITTORIO MAGATTI:** Hello and welcome to Rethinking Insurance. I'm your host, Vittorio Magatti. And today, I'm delighted to be joined by my guests, Rosa Salas, Life Director in Iberia, and Simon Kazmierowski, Non-Life Director in Germany. You're both coordinating the IFRS 17 activity in EMEA. Welcome, Rosa and Simon.

**ROSA SALAS:** Thank you, Vittorio. I'm glad to be here.

**SIMON KAZMIEROWSKI:** Hi, Vittorio. Also very happy to be here.

**VITTORIO MAGATTI:** In today's episode, we are going to explore the IFRS 17 survey carried out from our ICT team 2021 at the global level. But first, let's find out a little bit more about our guests. So Rosa, googling you, it looks like you are also an entrepreneur in perfume. Any thoughts or feedback on this?

**ROSA SALAS:** Oh, really? Well, I love perfume. So maybe in another life, I was involved in--

**VITTORIO MAGATTI:** [CHUCKLES]

**ROSA SALAS:** --the fascinating world of the sense of smell, but for sure not in this one. In fact, I always tend to be busy with many different and not-related things in my life. But unfortunately, perfumes is not one of them.

**VITTORIO MAGATTI:** And Simon, did you write a paper on Annual Dynamics of Shortwave Radiation as Consequence of Arable Soils in Poland? A very strange title, but an interesting paper.

**SIMON KAZMIEROWSKI:** Indeed, Vittorio. I can tell that you have dug quite deeply into the Google and search history. Well, I was involved in writing a paper to a different topic. It was

rather related to the scattering of subatomic particles. So I had an earlier life as a physicist. But after a while, I decided to not pursue this career further. And I, for some reason, landed in insurance in the actuarial science.

VITTORIO MAGATTI: Yeah. That's clear, Simon. Thank you. So coming back on the IFRS 17 survey, I think the first question is quite easy and direct. And it looks like, why did you run the survey on IFRS 17?

ROSA SALAS: Yeah, this initiative started last year when our Italian leaders thought about doing a local IFRS 17 survey with the main objective of understanding the progress on IFRS 17 implementations and also main difficulties that clients were facing.

The idea was very well-received, also, by other countries of the European Southwest regions, who decided to extend the survey to their countries as well. So initially, it was going to be a European Southwest survey. But as other countries from Europe found out the initiative, they wanted to join, too. So in the end, it became a global survey with more than 250 companies participating all over the world.

And following the success achieved last year, we decided to repeat the survey this year, too, to assess the progress done during the last 12 months, and also considering that the months count down to January 2023. So we conducted this survey in May. And we are very glad to the great success achieved, even more than last year, with over 300 responses from 50 countries.

SIMON KAZMIEROWSKI: And if I may add, I think we also followed, when conducting the survey, the survey participant's perspective. So we had opportunity to discuss with a couple of clients, some of them very senior. So we have, indeed, CFOs participating who were very pleased to hear that other companies and their peers are actually struggling with the same types of challenges they are dealing with, right? So the survey has also a very material use for our clients, as they can benchmark their progress against their peers and also understand the overall market situation.

VITTORIO MAGATTI: Thanks, Simon. Thanks, Rosa. So more than 300 responses from 50 countries in the second year of this survey. And for sure, I understood that the main reason why we are doing this is because we would like to share a benchmark, or we would like to demonstrate the implementation progress in this particular year and for sure before the IFRS 17 starts. But what were the key takeaways from the survey?

SIMON KAZMIEROWSKI: Maybe I can start answering this question. So I think the main takeaway, of course, is the overall progress in the implementation programs of our clients. So we can see-- or, we could see-- for the first time this year that, actually, more than half of the insurers are halfway through with the implementation. And this was significantly different last year. So a clear progress from 2020 can be seen.

Clearly, the areas where the insurers are most advanced are impact studies and financial-impact assessment. Of course, this is what you would expect, because these are activities that you would usually conduct at the beginning of an implementation. But we also have discovered fields that require continuous attention, such as business planning, forecasting, and disclosures, which companies are still dealing with in their programs.

Due to the fact that we had access to survey results from last year-- and from this, we could actually unveil a very interesting and maybe strange observations, maybe quite intriguing. So what we basically did is we constricted the group that we analyzed to companies that have participated both in the last year as well as in this year. And for these companies, we basically compared the average progress on a scale from 0 to 5 between 2020 and 2021.

And what we basically found was that companies who rated themselves reasonably positively last year were, on average, a bit more pessimistic in their progress this year, although one year has already passed, right? Of course, it is difficult to interpret this situation, or this observation. But a plausible explanation actually could be that you actually need to achieve a reasonable maturity in your implementation program to actually discover the fields where the real issues

are, right? So you could summarize this, the more you know, the less you know.

ROSA SALAS: Two other important takeaways are related to program costs and resources. These two topics have also drawn a lot of attention from the media. Simon, maybe I can comment on resources, and you comment on costs thereafter. So in terms of resources, participating insurers have reported a lack of sufficient qualified people to deliver IFRS 17 as a constant challenge. This has applied throughout the various stages of development of the standard but that's still the case now with respondents citing it as the biggest concern over the next 12 months.

We know from the survey the number of people currently involved in IFRS 17 implementations which is an interesting figure to know. If we split between large multinationals and the rest of companies since it makes sense to think that numbers in one and the other may be different. The average team size for large multinationals is just above 100. Whereas the average for the remaining insurers is 20.

Taking advantage of the responses received to this question, we did an extrapolation exercise in order to come up with an overall global industry estimate of the total number of people needed to deliver IFRS 17. And we reached a number of between 10,000 and 15,000 full time equivalent people. This estimate together with the cost one. And what I said before, that has caught a lot of attention from journalists all over the world. And as you can imagine, those figures represent a huge challenge mainly for small and medium sized companies that are struggling with yes, very few actuaries and accountants in their current teams.

And finally Victoria, I would like to add another take away related to a question that was raised in the story about whether IFRS 17 will be a more or less helpful metric to monitor the business that current GAAP earnings or equity. And in both last on these years surveys, overall there is some doubt about whether IFRS 17 will lead to a more useful metric. We know from the responses that the new financial reporting and standard is currently having deep operational impacts on many aspects of the organization, such as systems and data. And also in terms of business processes, some areas are believed to be fully affected by IFRS 17. Of course, the accounting area but also the actuarial and audit functions or even business planning.

So it's hard to hear from the industry that despite of these significant changes, there are some doubts from the insurers point of view about whether IFRS 17 will lead to a better KPI. And this is particularly true in the more mature markets where there are already good KPIs in place. And with IFRS 17, no improved KPIs benefit is seen compared with the costs. And insurers are actively planning new supplementary reporting to help explain business performance.

SIMON KAZMIEROWSKI: And if I may add on the costs on the basis of the same consistent assumptions that led to the result of the 10,000 to 15,000 people needed, we have estimated an approximate overall global budget for the implementation of \$15 to \$20 billion US dollars. Similarly to the team size on the projects, we can also observe that the costs and the budgets vary significantly. I mean this is quite plausible as the participants were standalone local insurers and small markets where IFRS 17 will eventually become the local gap. So insurers who are not necessarily even listed on the other hand, we of course had global multinational groups participating in the programs.

So to sum this up, on average we can observe that the budget for large multinationals is in the range of just below \$200 million US dollars whereas it is around \$20 million US for the rest of the companies. We believe that this information is quite valuable for companies that are at the beginning of the programs or who are actually unsure of the program efficiency. So as you might know, there are still many regions in the world for example in EPIC where insurers are basically starting into the implementation. So they can use these figures as an orientation.

And of course, we need to be very cautious how these figures can be interpreted. Because many clients that we have surveyed do not only consider IFRS 17 as a purely compliance or as a pure compliance exercise but also as a means of transforming the finance function on a larger scale. So usually, these quite significant figures are a composite of a compliance budget and a finance transformation budget.

VITTORIO MAGATTI: Thanks, Rosa, thanks, Simon. I really think that you will be able to make a very good summary of this kind of related to the takeaways. And for sure the progress that you mentioned are quite interesting in 2021 and that's where the interest of the insurers and reinsurers on the business planning and forecasting activity.

For sure it's quite impressive the information related to the program resourcing, the program both cost. \$15 to \$20 billion is the estimate in terms of US dollar these kind of activities. And this kind of investment is very massive in the market. So very, very interested in this number. As well for the deep operational impact that you have seen in the IFRS 17. So very, very good. Many thanks for this. And another question for you, was there much difference by country or region or by life and property and casualty?

SIMON KAZMIEROWSKI: Maybe that's a question from me, Vittorio. So maybe let's start looking at the regions initially. So I think generally, we can say that the differences are not extremely pronounced for most of the questions that we have asked between the regions and except for progress. As mentioned at the beginning of our discussion, and EPIC or the countries in EPIC are less advanced on average than the countries from the Americas and EMEA and the 2 letter are as regions quite comparable. And I think this is of course, related to the fact that the endorsement programs in EMEA and also in the Americas are basically on time whereas the adoption of the standard in EPIC will be pushed back or is being pushed back to the mid 20s or even to the late 20s.

In terms of further differences, we can observe that the demand for skilled resources is particularly high in the Americas and also that America has been significantly less in external support than the other regions. In terms of cost, there is very little fluctuation to be observed. And of course, the biggest source or the biggest reason for differences is whether a company is a large multinational or whether it is not. The implementation progress is significantly stronger and further and also the progress in understanding really the core of IFRS 17 standard and its implication on the business is significantly further developed. Expansion initially, the program costs are higher as well as the number of resources involved. And currently, large multinationals are using much more external support than other companies. But for less demand on external support in the coming months than other companies and of course vice versa because other companies are a bit further behind.

Also as alluded to by Rosa in the prior question, large multinational except that the new standard will have a greater impact on KPIs, for which we can also find an explanation such as that large multinationals also currently rely a bit more heavily, rely more on the usage of KPIs. Between life and P&C, the differences are not very strong really. So we can observe that life cash flow models are a little bit more advanced than P&C cash flow models, and that life and health companies spend more on external support than P&C companies.

An interesting observation, actually, is that P&C insurers are a bit more skeptical than life and health, a composite insurers on the usefulness of IFRS 17 as a metric, or as a metric, to be more precise, to measure the changes in equity and profits. And quite in line with that is, maybe the observation that P&C insurers expect that supplementary reporting will be increasing in the future to a higher extent than this is the case for life and health insurers.

VITTORIO MAGATTI: Thanks, Simon. So for sure some region less advanced with respect to the others. So if I understood well, the Asia Pac. And there are some differences in the large multinational company, and for sure, not a huge differences between life and P&C if there are some small differences inside. And Rosa, what do you think the biggest challenges facing insurers are in implementing IFRS 17 in time?

ROSA SALAS: Yeah, that's a good question. The biggest challenges have arisen in the parts of the programs that are more advanced so far because of course, it's difficult to foresee big challenges in things that have not started yet. So considering that, the biggest challenges that have been highlighted are first, availability of qualified resources, which is the main one. And this is not a surprise according to what I said in my response to another question at the beginning. We really, very frequently hear challenges in recruitment, and retention of actuarial and accounting profiles from clients, and also the big impact that IFRS 17 is having a business

as usual operations. But fortunately, we can say there's a solution for this, which is process automation. Companies just need to believe in it.

Then IT systems and tools is the second one. And in my opinion, this is because many insurers operate over a very long time frame and use very old legacy systems that require big efforts to upgrade and to be up to date in order to be compliant with the new accounting framework. And third one is related to methodology, major challenges are in things as transition, reinsurance health, risk adjustment, but not only because the topics are difficult by themselves to be implemented, but also some companies specifically highlighted the lack of agreement with the auditors, and the lack of consensus in the industry as the key elements that are causing this challenge. These are the three main points, but in my opinion, new ones that are still unknown by many companies will arise once the implementation is finished. As far as for example, a good understanding of the numbers, or embedding IFRS 17 to the business, or for example, business planning.

VITTORIO MAGATTI: Nice. The lack of resources, the ITN system, the meteorological part on the transition, reinsurance and risk adjustment, and for sure, the understanding of the numbers are probably the major and the biggest challenges that you mentioned. Last question for both. So based on our learning from the survey, what do you think insurers should be doing now?

SIMON KAZMIEROWSKI: Oh, let me have the first shot with that I think the most important point, really, is for insurers to really invest in appropriate IT system and tools. And this is not only related to the large scale evaluation system, but also the tools who actually support the calculations and the overall process being automation tools. This as Rosa has already mentioned in the last question, it's really a time and cost saver, and such investment really trigger significant yields through efficiency gains in the short and mid-term.

Also, and this is also in line with our observations, they keep up the staff morale as they relieve staff from repetitive and manual tasks. And as we have learned, staff concerns are one of the most severe concerns overall in implementation programs. Another aspect that I would encourage to take away is, basically, to have a learn quickly, fail fast mindset. IFRS 17 is a journey and many, many approaches that seem nice on a sheet of paper or in an excellent pilot, and don't really work in a process that should one day business as usual. Right. So companies should not be afraid to try and test new approaches quickly, have done early prototyping and to discover if things really go wrong so other paths can be discovered early.

ROSA SALAS: I would like to add some additional thoughts. As Simon explain at the beginning, in average, the industry is halfway through in the IFRS 17 journey, and in my opinion, reaching the halfway point is an opportunity to check and attest. This is like when you are halfway through painting a wall- not sure if any of you have ever painted a wall before. But anyway, when you paint a wall and you are halfway through, your step back and look to see if you like the way the color looks in the room- So there's no better time to pause, look back, and ask yourself some questions to make sure you save your approach moving forward.

In short, have to arrive to the effective date on time, and have to be compliant, that's not a decision to be made, but there may be things, not strictly needed to be compliant, that will have to be sacrificed if the actual plan differs from expected, basically, to avoid running out late. For example, companies may need to go for simplifications that were not initially planned, or even provide calculations for which they don't fully understand the implications. Some others may want to go for a best in class approach, sacrificing their human resources with heavy workloads, but all of them will, eventually, take it slowly in the future.

So our recommendation is to revisit the programs for two reasons. First one, to incorporate all lessons learned from companies that are more advanced. And second, to include different scenarios and a list of things companies are happy to sacrifice if they end up having not enough time. And that list has to be shared with the IFRS 17 members.

Then another thought, I would say companies should aim to have a proper trial run this year and just use 2022 for later adjustments and for producing comparative figures. We are currently working for several companies, helping on the definition and implementation of that dry run.

And finally, I would say insurers should think on how can the need to do IFRS 17 into a business benefit. To date, very few companies are contemplating this, they just focus on getting the numbers right. But if you start thinking on IFRS 17, not only in a new way of presenting financials, but also in a process transformation program, as Simon was saying, you could obtain broader business process improvements through better data flows, more flexible and interconnected systems, intelligent use of automation, and also better management information. Those insurers that can keep their eye on this kind of prize should benefit the most of this journey.

VITTORIO MAGATTI: Yeah, so just summarizing that. Using one or like you say, four words, learn quickly, fail fast, I think is probably one of the major learning and, for sure, one of the most appropriate next step in this very long and important journey for the company. I would like to thank you, again, Rosa and Simon to be as guest.

ROSA SALAS: Thank you, it was a pleasure.

SIMON KAZMIEROWSKI: Thank you, it was also my pleasure.

VITTORIO MAGATTI: And thanks to everybody for listening this Rethinking Insurance episode.

[MUSIC PLAYING]

NARRATOR: Thank you for joining us for this Willis Towers Watson podcast. For more information, visit the [Insights section of willistowerswatson.com](https://www.willistowerswatson.com/insights).

[MUSIC PLAYING]