

**MAKING BUSINESS
COMPLIANCE WORK
FOR **IFRS 17** AND **IFRS 9****

NAVIGATING COMPLIANCE

ARE YOU READY?

A large, stylized blue arrow graphic pointing downwards and to the right, with a gradient from light blue to dark blue.

THE WAITING IS ALMOST OVER...

The effective date for IFRS 17 Insurance contracts has now been set to 1st January 2021. The Standard is expected to be issued in the first half of 2017, allowing 3.5 years for implementation. Early adoption is permitted provided that Insurers also apply IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts.

IFRS 17 sets out the principles that apply to the recognition, valuation and reporting of all (re)insurance contracts. It introduces a consistent international standard for insurance contract accounting, a single definition of an insurance contract and a uniform valuation model for all contracts. IFRS 9 includes a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a reformed approach to hedge accounting. For the first time, it is envisaged that asset and liability management for Insurers will be more explicitly aligned.

The benefits for the industry are clear, but getting there will be challenging. This paper outlines the key challenges that will result from the transition to IFRS 17 and IFRS 9, our vision of how the anticipated changes are likely to impact Data and Technology, as well as Accenture's approach to a joint IFRS 17 and IFRS 9 implementation journey.



MANAGING ASSETS & LIABILITIES

Most insurers will already be scrutinising the accounting and valuation implications of IFRS 17 and IFRS 9, which impact both assets and liabilities. In-depth analysis will be required as Insurers now need to determine which of the three valuation methods are applicable to their business.

On the liability side (IFRS 17), implementation may require fundamental changes in valuation and presentation of earnings, according to the maturity of Solvency II solutions. Insurers now need to determine which of the three valuation methods to apply to each Line of Business.

1. The Building Block Approach (BBA - Figure 1):

This is the default valuation method for discounted cash flow of insurance contracts.

2. The Premium Allocation Approach (PAA):

Optional, simplified approach for short duration contracts.

3. Variable Fee Approach (VFA):

Insurance contracts that provide coverage for similar risks and are managed together as a single pool (for example, onerous vs non-onerous contracts).

On the asset side (IFRS 9), financial assets are measured at Amortised Cost (AC), Fair Value Through Profit and Loss (FVTPL) and Fair Value Through Other Comprehensive Income (FVOCI). The newly introduced FVOCI category will be particularly relevant to Insurers in deciding how to classify their assets in light of managing accounting mismatches. Classification is based on an asset's business model and the nature of contractual cash flows. The new impairment methodology will require the development of new models for the calculation of Expected Credit Losses (ECL) and it will impact an Insurer's capital and liquidity requirements.

Figure 1: The Building Block Approach

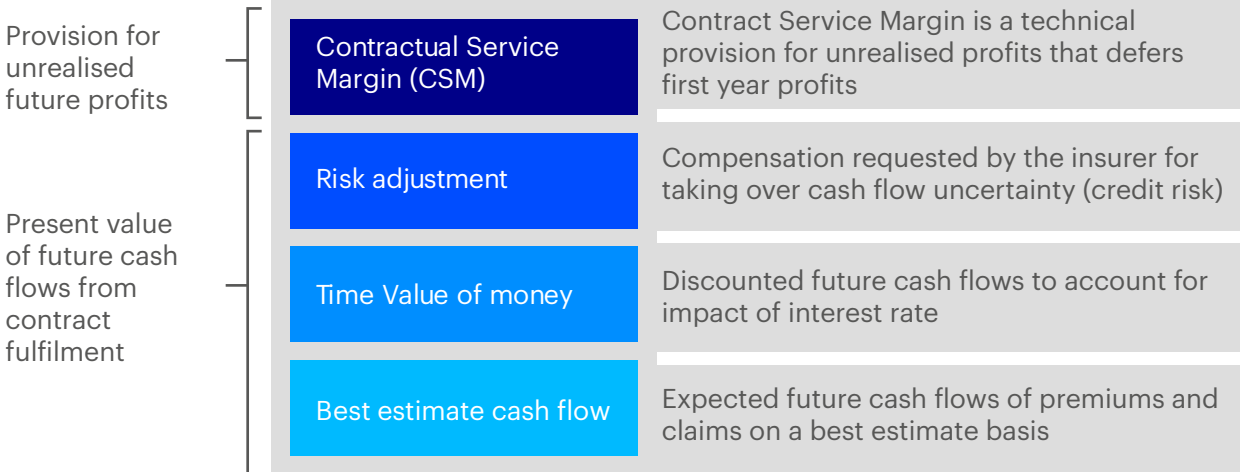


Figure 2: Valuation Scope

Modelling Approach	Insurance Contract
BBA	Long-term and whole life insurance Protection business Annuity business Reinsurance written Some general insurance (special long term) Long term Specialties
VFA	Unit linked contracts Variable annuities contracts UK-with profit contract
PAA	Short-term insurance general insurance Short-term life & health

RECOGNISING THE CHALLENGES

A successful implementation of IFRS 17 and IFRS 9 will require increased integration between the Finance and Actuary functions, which has a significant impact on processes, organisation, technology and data. In our experience from Solvency II, IFRS 9 and Regulatory Reporting implementations to date, resolving complex underlying data and technology issues is the most significant implementation challenge.

Over the past two decades, Insurers have gathered huge volumes of data through a plethora of systems and end-user computing tools. Whilst a lot of time and money has been invested in enterprise applications, we have observed that organisations still rely on point solutions for their information needs. In order to meet the forward-looking requirements of IFRS 17 and IFRS 9, insurers will need seamless access to granular, high-quality data on both portfolio and contract level. Technical integration between Actuarial and Accounting will be essential. So will fit-for-purpose tools and processes, robust data governance and 360-degree awareness of the operating model and database implications (for example, one Big Data warehouse vs dedicated data warehouses).

As the IASB deliberates the final changes to IFRS 17 in relation to expert adjustments, there are six key aspects of data and technology that insurers will need to focus on now:

1. Data availability at the required **quality** and **granularity** to perform the base calculations and disclosures
2. Data integration between **historical, current and forward-looking** data
3. **Data governance** processes to maintain quality, lineage and auditability
4. **Fit-for-purpose tools and processes** to meet core requirements

5. Transition to an **application architecture** that leverages existing finance and actuarial systems
6. Exploit new **technologies** such as Robotic Process Automation (RPA) and Big Data analytics where they are cost beneficial as part of the application, enterprise and process architecture

In addressing the data challenges presented by IFRS 17 and IFRS 9, Insurance companies should not lose sight of the wider regulatory landscape such as Solvency II and IFRS 15. There is an opportunity to achieve cost savings and a competitive advantage, if data and technology are approached in a holistic manner. The potential to capture large volumes of high quality and timely data will enable an enhanced reporting and decision-making process, driven by improved analytics.

THE OPPORTUNITY FOR **VALUE CREATION**

There is potential to turn compliance with IFRS 17 and IFRS 9 into opportunities for enterprise value creation and capital optimisation.

We have identified three implementation approaches, which range from tactical compliance-driven solutions to fully integrated strategic solutions that drive wider benefits throughout the business.

- **A Tactical solution** that will deliver the bare minimum compliance with limited investment and operational change. In cases where there are existing assets (for example, a robust data layer) this is easier to achieve, but it still needs significant requirements and data analysis.
- **A Value-focused solution** that seeks to address some of the high priority issues that are the root cause of likely lack of compliance and deliver some associated operational benefits. For example, building a consolidated view for the Actuary function with a target data platform to meet full compliance and traceability.

- **A Fully integrated solution** that seizes the opportunity to carry out a strategic review of operations to maximise the benefits from changes required for compliance. This can include a consolidated view of Actuary and Accounting with IT and data layers providing full lineage back to the source and seamless disclosure and reconciliation capabilities. This provides a framework to address future requirements.

In identifying these approaches (Figure 3), we have drawn on Accenture's track record in IFRS 9 compliance, our in-depth experience in the insurance industry and our understanding of how to deliver the data, operational, and reporting elements of this journey in a structured way.

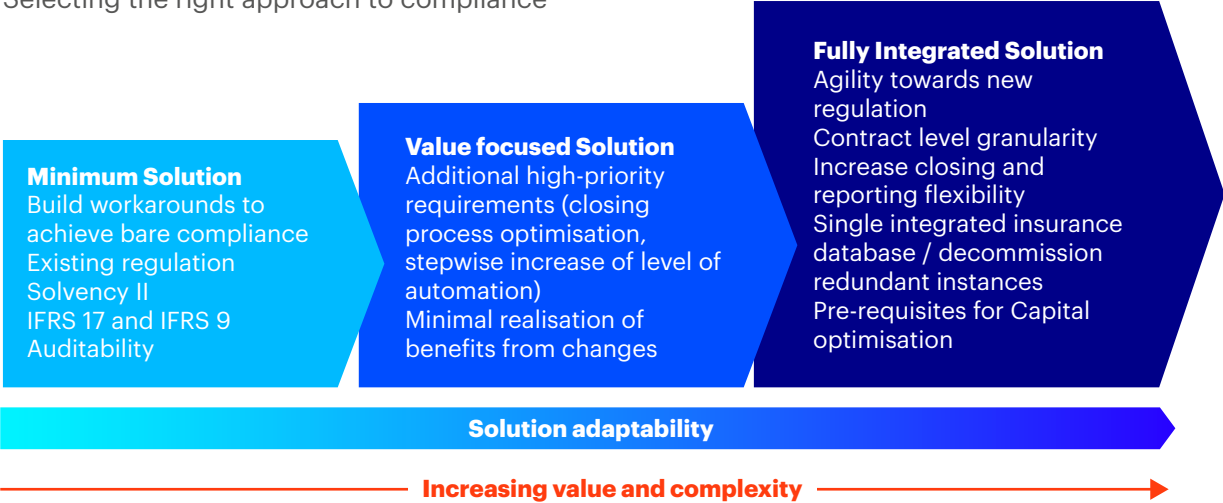
There is no right or wrong approach. Firms should select one that is geared to their current state of readiness, their existing technology landscape and what they plan to get out of the compliance journey.

From our experience, we expect to see Insurers aligning their approach to IFRS 17 and IFRS 9 with wider corporate IT transformation initiatives. The implementation of these Accounting Standards can be the foundation for the development of Enterprise Data Warehouse solutions and simplification of modelling processes through scaling, modernisation and standardisation of Insurers' infrastructure (for example BI, Big Data and Modelling enhancement projects).

Irrespective of the approach, long term compliance with the complex requirements of IFRS 17 and IFRS 9 is expected to require significant capital investment to process and store the vast quantities of data. In light of this, organisations are also beginning to look to Cloud solutions to help keep costs under control whilst also offering the resilience and expandability needed to ensure the long-term supportability required for strategic solutions.

Figure 3: IFRS 17 and 9 Implementation Approach

Selecting the right approach to compliance



WHAT NEXT?

Designing and implementing a solution for IFRS 17 and IFRS 9 compliance requires a structured approach, which involves a clear interpretation of the Standard, robust project management and an in-depth assessment of the impact on business processes, data and technology.

Whichever implementation journey Insurers choose, there are three key actions they need to take as they mobilise their programmes:

1. Readiness diagnostic

Insurers can leverage diagnostic tools to assess their readiness and gain a high-level indication of the extent of change required for Compliance at Group, Legal Entity and Line of Business level. The results of this impact assessment will show the size of the gap between existing processes, systems, data and infrastructure in order to achieve Compliance. This will input to the definition of an implementation roadmap and budget required.

2. Requirements analysis

This next stage is a deeper-dive analysis into what is needed to achieve compliance.

Developing a comprehensive set of business requirements to which functional and technical requirements are linked and maintaining clear traceability to demonstrate

compliance is essential. In addition to this, sourcing of data will need to commence in order to confirm availability, whether this is fit-for-purpose and to identify potential new data capture requirements. At this stage, likely pain-points are identified, along with potential for leveraging Solvency II and other existing investments.

3. Develop target architecture and select software solution

Depending on the solution for functional requirements identified above, a reference architecture can be developed for the programme. Checks are run to ensure modules are suitable at group and subsidiary level, and software is selected using quantitative and qualitative parameters. The requirements can be met with a standard software solution carefully adapted to the specific needs of the business or with independent applications integrated into and tailored for the existing architecture.

GETTING **STARTED**

Insurers need to take action now. As the Solvency II experience has indicated, considerations extend beyond technical and operational factors. It will be important to clearly define from the outset what they want to achieve from the programme ahead and lock in skilled support early as the war for in-demand talent will increase.

Accenture is uniquely positioned to help insurers at every stage, from readiness diagnostic to selection and implementation of software solutions. We bring experience of IFRS 9 implementations in banking, deep knowledge of the insurance industry and unparalleled understanding of how data flows through the organisation. We have developed diagnostic tools, reference architectures and software-selection accelerators tailor-made for IFRS. We are vendor-agnostic and we are ready to work with you leveraging our alliances in selecting the right solution for you from an actuarial and financial perspective.

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