

Whitepaper

IFRS 17 Implementation: Current Status and Challenges viz-a-viz the Way Forward

Overview

Starting from 1st January 2023, IFRS 17 the new accounting standard for insurance business, has become effective in many countries across the globe. It has brought about a change in the financial reporting of insurance companies. Not only does it bring in consistent treatment of accounting contracts world-wide but also the transparency and comparability to insurance contracts enabling the stakeholders to gain deep insights into the insurance companies operations and financial performance. A right strategy for implementation supported with a well-defined governance structure is the need of the hour for the smooth transition to IFRS 17.

Progress in IFRS 17 Implementation

The initially planned implementation deadline was deferred by two years to 1st January 2023 because of the systemic negative repercussion of COVID-19 on businesses. Insurers across globe have aptly utilized this extension in getting ready themselves for the adoption of IFRS 17 and have made good progress in preparing to implement changes that will ensure compliance with the standard. Some of the developing countries have further extended the implementation deadline to 1st January 2024 so that insurers get enough time to adapt to the changes and conduct a hassle free implementation.

Barring a few jurisdictions, insurers have successfully conducted preliminary gap analysis and explored the impact assessments to take into account the changes that would help to develop a roadmap for the implementation. Regulators are expecting insurance companies to submit their financials with the transition and relevant succeeding reporting results.

Preliminary GAAP
Analysis

Upgrading to
IFRS 17 compliant
IT systems

Performing dry
runs and analysing
the results

Communicating
the results to
stakeholders

The focus of all insurers currently is to submit their first financial statements in accordance with IFRS 17 to the regulators in a timely fashion. For this purpose, insurers are highly dependent on IFRS 17 consultants, actuaries and accountants for a collaborative effort for smooth implementation of the standard. Insurers have been successful in re-structuring teams in a way that members with appropriate skill set contribute collectively to the implementation process.

Large insurance companies have successfully completed dry runs and are analysing results that can be shared with their internal as well as external shareholders. Side by side, few insurers have also started to engage with internal/external auditors for initial evaluation of the results to ensure compliance with the standard.

In case of small and medium insurance companies, they are still struggling to have systems and data in place to start with dry runs. Hence it is very important such insurers embark on systems that are easy to adapt and implement on a timely manner.

Challenges in Implementation of IFRS 17

While seen as a progressive step towards aligning accounting practices and improving transparency, the introduction of IFRS 17 poses several challenges for insurance companies across the globe.

The most challenging area observed by majority of insurers has been data and systems. Sourcing the data inputs from various systems and integrating with the new IFRS 17 solution have proven to be daunting and time consuming task. For many insurers, brand new architecture components are required to be fulfilled in order to have a robust system in place for IFRS 17 reporting. Not only is this, but also the handling of large amount of data is posing a great challenge in the implementation process.

As IFRS 17 is a principal-based standard, this has left room for professional judgement which is sensitive to results and hence extensive documentation is required. Complex calculations have forced insurers to increase the level of audit controls as well. At a fundamental level, the transition to IFRS 17 requires insurers to alter their reporting practices and redefine KPIs which have been viewed as another implementation challenge across globe.

With many stakeholders being involved in the process, all the teams have to be equally involved and contribute to make the implementation a success. Adequate business readiness, stakeholder engagement, communications and training are required for effective implementation of IFRS 17. Keeping in mind the complexity of the standard, it is very important for insurance companies to build capability in order to make the implementation a success.



Last but not least, many insurers face the challenge of implementing IFRS 17 in a cost effective manner. Even though it has been observed that the data system upgrades, resource management and reporting tools have taken a toll over the expenses of the insurance companies, insurers have gained understanding and clarity that once IFRS 17 is implemented, it will ease the reporting process in the years to come. Hence IFRS 17 reporting is a capital investment that will reap successful results for insurers down the line.

Way Forward

In order to make sure the implementation is a value add to the business, it is very important for insurers to convert these challenges into opportunities. At this juncture, the insurers will have to take key decisions immediately so that the strict timelines stated by regulators can be met without any further delay.

To overcome the difficulties of data and systems, the insurers are taking proactive measures to understand systems, perform dry runs and communicate results to internal as well as external stakeholders. Insurers that are running behind schedule because of outdated IT systems, need to step up. Solutions should be shortlisted based on the requirements of the insurers. Some of the key criteria's that insurers are looking for in an IFRS 17 solution include:

- Complete compliance with IFRS 17
- Ease in understanding and upload of inputs
- Simple maintenance of reporting cycles i.e. monthly, quarterly or annually with ease of running calculations in parallel
- Easily adaptable by all teams e.g. user-friendly for actuaries, accountants, etc.
- Handling all measurement model calculations systematically
- Embedded CSM calculations showing opening to closing movement
- Efficient support in the implementation process of IT systems
- Automatically generated financial statements, reconciliations and journal entry points with complete audit trail

Insurers prefer having one solution to cater to all of the above needs in a hassle free manner. Deciding on an IT system that will streamline and help in hassle free transition is critical in the success of the implementation.

Resource building is one of the essential steps in order to meet the tight deadlines and handle the increased volume of work and data. It is important to have continuous discussions with auditors and actuaries to understand the expected output and work towards achieving the same. Such discussions will help in swiftly making methodology based decisions and understand its impacts on the financials.

Despite the challenges that lie in the path of going live with IFRS 17, insurers view this implementation as an opportunity to embrace enhanced risk management framework while bringing more transparency to their stakeholders. Hence a holistic view by stakeholders on the implementation of IFRS 17 will help the insurance companies to evolve in the coming years and reap the benefits in the long run.

About SAM Corporate



SAM Corporate is a leading FinTech firm, specializing in delivering high-quality solutions for Complex Consolidations, Driver-based Budgeting, Long-Range Planning, Rolling Forecast, IFRS16, IFRS17, ALM, Treasury, Liquidity Risk, Regulatory Reporting, Financial MIS, and Financial Accelerators, AML/KYC, Anti-bribery and Fraud Prevention, ESG advisory & solutions, and Project Management. As global experts, SAM Corporate offers fully optimized solutions that are top-ranked by Gartner and Chartis.

To offer exceptional service, SAM Corporate combines three winning factors – Solutions, Advisory, and Consultancy – all offered under a single umbrella organization and a dedicated team. SAM Group has offices in UAE, India, UK, Spain and sister companies and partners worldwide, and works closely with partners, redistributors, and technology specialists to ensure smooth operations in various countries around the world.

Having a long presence in the region, SAM Corporate is strategically well positioned to support its clients on implementation of IFRS 17 starting right from IT system evaluation to selection, smooth implementation and professional support for the implementation.

Contact us



Global Office:

1607-1608, Al Shafar Tower 1

Barsha Heights, Dubai, UAE



Phone: +971 (0)4 4225663



Email: marketingdept@samcorporate.com



www.samcorporate.com

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