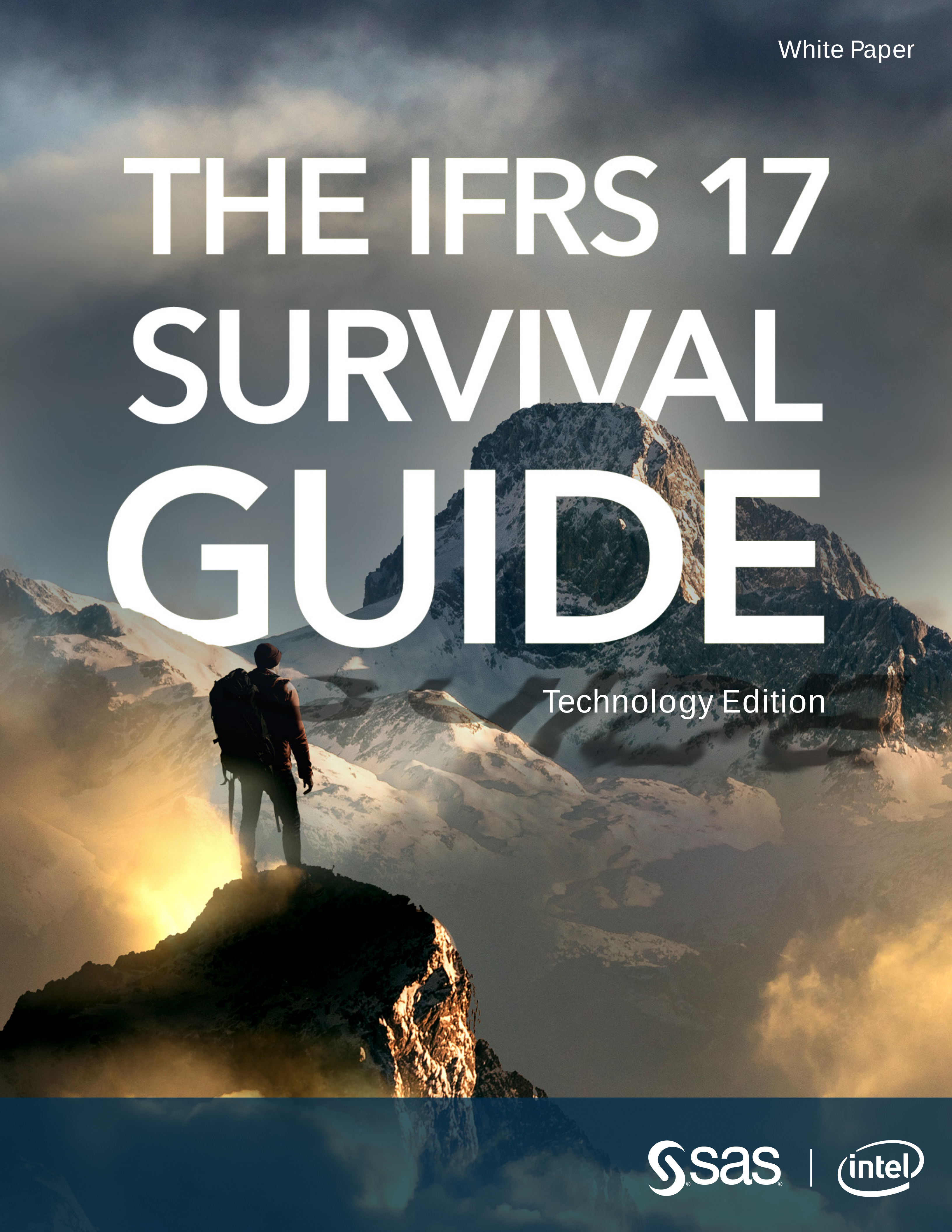
White Paper

THE IFRS 17 SURVIVAL GUIDE

Technology Edition



Introduction

If you're reading this, you don't need us to tell you why IFRS 17 is such a big deal. You already know. You've probably already developed the strategic framework of your approach to IFRS 17 and are now looking to fill in the pieces – focusing especially on the technology front. That's where we're focused, too, for obvious reasons. In helping some of the world's largest insurers get ready for IFRS 17 compliance, we've made a few observations that we think warrant extra attention from you and your team, because they directly affect the decisions you're making about technology today. Plus, they can help you keep volatility in check as you move toward the 2022 compliance deadline. In short, this booklet was made to help your whole IFRS 17 team get on board – fast. So, let's dive in.

If someone says, "we've already done the hard work, now we just need to implement," ask them these three questions.

Your organization has already undertaken a significant amount of work in order to prepare for IFRS 17. Is it enough? Some in your organization may believe that the hard work is already done. If so, consider asking them these three critical questions:

1. Has your external auditor confirmed that all your methodological choices are acceptable?
2. Have you made a final determination on how to group insurance (and/or reinsurance) contracts?
3. Have you already automated a battery of appropriate use cases?

If you're wondering whether you're behind schedule, you're probably behind schedule.

(But it's still not too late.)

2022 – the no-it's-not-going-to-be-extended deadline for IFRS 17 compliance – seems like a long way away, especially given all the other big priorities competing for your attention today. Is it even possible to be behind schedule already when the 2022 deadline seems to be so far away? Just as with any major organizational undertaking, the answer is 'yes – absolutely'. In fact, if you have to ask, you're probably behind schedule. (Sorry!)

Think about it. Facing a 2022 deadline, you'll need to spend all of 2021 in testing mode, making sure everything you put in place in 2020 is working as planned – and running a full year's worth of simulations in order to ensure true readiness for Day 1 compliance on January 1, 2022. Insurers will need to determine how the methodologies they've applied to the valuation of different groups of contracts will affect their financial statements. Insurers will want a full year in which to run these simulations, examining the impact from all types of contracts – both those that start at the beginning of the year and those that start during the year, with both short- and long-term durations of all kinds.

Along the way, it's important to recognize that there are a range of viable IFRS 17 strategies, depending on organizational objectives. At minimum, insurers should target pure compliance in order to meet IFRS 17 requirements, with a minimal impact on existing systems, processes and people. The next step up is operational improvement – addressing existing issues regarding systems, data, processes, and people. Transformation lies at the far end of the spectrum, using IFRS 17 as the catalyst for implementing large-scale organization changes to data, people, processes and systems. Whichever approach you choose, plan on its evolving over time, well after 2022.

Regardless of your strategy, by now you should have already assessed, selected and chosen the technology assets you'll need to bring your organization into compliance with IFRS 17. You should be putting your implementation plan into motion and mapping out all the new processes required to make that technology work – not to mention the people who are going to implement and operate everything. If you're not there yet, there's still some time. But you'll need to move with real urgency.

IFRS 17 is largely a connecting-the-dots-in-your-data-and-processes challenge.

When all is said and done, what is IFRS 17 compliance really all about? Your organization needs to have a clear sense of what its financial statements will look like, based on the methodology you select. The principles-based approach for recognizing, measuring, presenting and disclosing insurance contracts advanced by IFRS 17 oers considerable flexibility, but it also requires intensive analysis. Because without proper testing, insurers may not have a clear view of their financial position – depending on their interpretation of the principles, their financial statements could just as easily show them facing financial diculties or being very profitable.

For some, achieving this level of insight is mainly a technology issue. For others, it's about processes: They realize their organizations have been approaching financial regulatory compliance in one way for decades, and now everything is going to have to change. You get the idea. IFRS 17 is such a sprawling new regulatory environment that it aects a tremendous swath of any insurer's business. It also aects their relationships – between dierent parts of their organizations, and with external partners and providers. That's because with IFRS 17, for the first time, accountants, actuaries, and IT stakeholders are required to truly engage with one another, which will require overcoming a more traditional, less collaborative silo-based approach to processes and data.

Ultimately, though, real compliance in an IFRS 17 world is mainly about connecting the dots across large volumes of data that are unprecedented in the industry, since for the first time the regulations require insurers to regularly calculate the value of insurance contracts for the full duration of each contract. Everything else – people, processes, technology – exists in order to ensure that your organization can connect those dots. Based on our experience in the industry, there's a good chance that you already have much (but not all) of the people/process/technology infrastructure you'll eventually need to become compliant.

But if you're like many, you may be facing one glaring shortcoming: Making sense of such massive volumes of disparate data, especially given the wide variety of calculation methodologies that can be adopted for each group of contacts. This is a multistep challenge that starts with collecting actual baseline data directly from policy administration and accounting systems, combining it with actuarial cashflows, ensuring overall data quality and then running all the calculations in a manner dictated by the methodologies selected by your organization. From there, insurers have to essentially loop the results back into the operational financial lifecycle. Your system should be able to post the data back to the accounting systems, where it will serve as the foundation for a host of financial decisions. In short, it's a considerably complex challenge. That's where a proven solution covering everything from data management

and calculations to analytics, postings and reporting, with the ability to interact smoothly with existing accounting and actuarial systems, can be the single most effective investment you make in the run-up to IFRS 17 compliance.

Such a solution will need to include central data storage capabilities to cover all necessary central calculations, detailed audit trails and postings. It will have to address four key requirements, bearing in mind that this infrastructure will be used for at least the next 10-15 years:

- Full coverage of regulatory and business requirements, including all the calculation methodologies (BBA/GMM, PAA and VFA approach)
- Predefined models or content for finance and risk
- Flexibility and scalability
- Seamless integration with the existing architecture

Reliability is also a critical criterion for your decision making. Will the solution provider be around for the long haul? Do they have a long, consistent track record? These are important questions because your organization is likely to be relying on these solutions for up to 10-15 years. You need a partner who will be committed to your organization for at least that long and has the track record to prove it.

IFRS 17 inertia: The risks

Insurers who are not moving quickly enough to execute their IFRS 17 strategy face a number of critical risks, including:

- Evolving IFRS 17 standards that can impact project scope
- Out-of-the-box functionality may not meet full range of insurer-specific requirements
- Insufficient data quality in source systems
- Insufficient time for testing due to extended design
- Limited resources in competition with other organizational initiatives

Beware the country-specific mandates!

Imagine that you're cruising along to full IFRS 17 compliance. Congratulations! You're almost there.

And then regulators in one country decide that they won't allow grouped calculations of the lifetime value of insurance contracts – they want you to renew calculations for every individual customer, every month. That could set back your entire compliance effort, and because IFRS 17 is subject to changes at the country level, you need to plan for it.

The calculations example used here really happened, courtesy of Korean regulators. And there are countless other country-level surprises that are almost certainly on the way between now and 2022. In that context, you're going to need a compliance strategy (not to mention technology and processes) that is flexible enough to bend in many different directions at once, as country-level mandates emerge.

It also means your strategy should be snapping into place quickly enough to allow a full year of testing in advance of 2022.

Your existing technology investments are valuable. **(So, keep them.)**

Given all the talk of the massive scale and impact of IFRS 17, you might expect us to recommend a correspondingly significant technology overhaul. But you know what? This is really about data, processes, and systems integration. For example, your existing general ledger system will most probably function just as well in an IFRS 17 environment, assuming you have extended it with a subledger to hold the massive volume of details on which your disclosures will be based. The same is likely true for many other technology assets you already have in place, both large and small, such as the actuarial tools used for cashflow generation.

It's far more important to make sure you have reliable tools for extracting the data from these existing systems across your organization, ensuring their quality, and putting it all together to enable a whole new set of analyses and calculations. That will require a platform-based approach – one that integrates with existing actuarial tools and aligns tightly with the accounting software your organization is already using. It should be scalable and adaptable to a wide range of content, in large volumes. Ultimately, insurers need to be able to integrate, synthesize, and analyze the information flowing from these systems in order to ensure IFRS 17 compliance well into the future.

2021 is testing season. And you'll need it all.

Yes, we've already said this elsewhere. And yes, it bears repeating: If you want to meet the 2022 deadline for IFRS 17 compliance (you definitely do, because there is no Plan B for noncompliance, and the consequences are severe), you need to rope off 2021 on your calendar for testing. By January 1, 2021, you shouldn't be in the market for any new IFRS 17-related technology, nor should you be out looking for the talent you need to become compliant. You should already have all those resources in place, and the processes for setting them all into action should be clearly mapped out. Then, you test. Why a full year? Doesn't that reflect excessive caution? You won't really need a year, right? Wrong.

You'll need to test a full business year, looking at contracts with different durations that start at different times of the year. Your organization will also need that time to identify and remedy shortcomings in your strategy, identify unforeseen challenges, and make sure the entire organization is comfortable operating in this new environment, based on new financials as they become available. As mentioned earlier, insurers need to determine how the various methodologies chosen for the valuation of insurance contract groups will impact financial statements. That takes time.

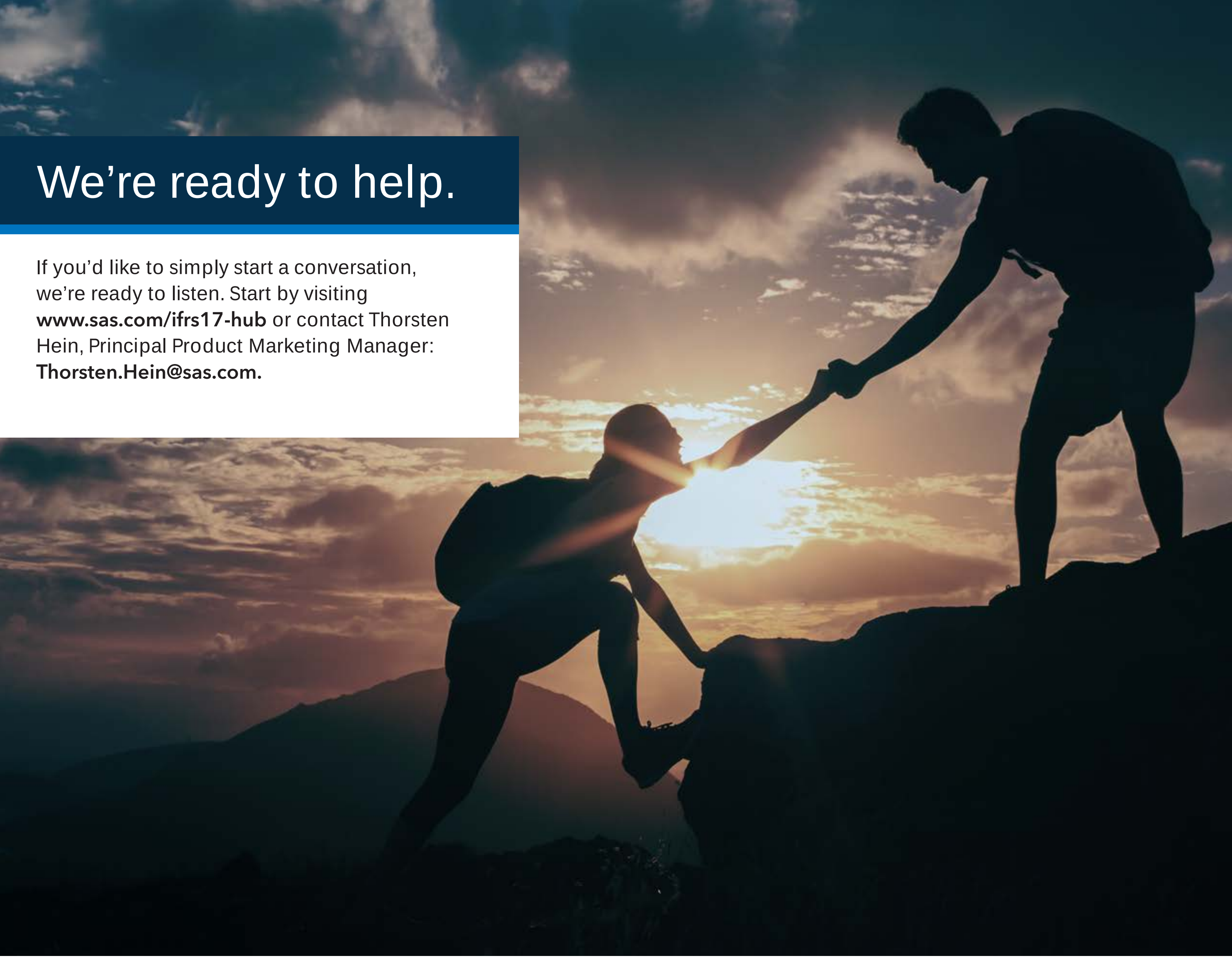
Finally, a full year also gives you some much-needed cushion in case you encounter bigger-than-expected obstacles in the run-up to compliance. Every serious IFRS 17 compliance effort we've seen to date plans for a full year of testing in 2021.

Ready to put your IFRS 17 compliance strategy on the fast track?
Let's Talk.

Are we making too big a deal of IFRS 17? The evidence suggests we aren't. For example, consider that today, Gross Written Premiums (GWP) are the key metric for estimating the size of an insurer. And it will completely disappear with the advent of IFRS 17, leaving insurers to measure their value and size in entirely different ways. This is only one of the most prominent examples of the profound ways in which IFRS 17 is expected to reshape the insurance industry – not just between now and 2022, but for decades. Meanwhile, the standards themselves may evolve. Insurers must maintain flexibility and the ability to scale up or down as necessary.

Leaders at insurers simply can't afford to underestimate the importance of compliance – and to plan accordingly. If your organization doesn't have a clear sense of what its financial statements will look like according to the methodologies already selected for various groups of contracts, for example, you have work to do.

This is where SAS is uniquely prepared to help. We make the behind-the-scenes technology powering some of the most successful and important analytics, regulatory reporting and accounting initiatives in the world, for governments, global businesses (including many world leaders in banking and insurance), and many more. And we have developed a highly adaptable, scalable platform specifically for the challenges of IFRS 17 compliance, building on our decades of work in the insurance industry, allowing insurers to synthesize enormous volumes of disparate data in an open platform that works with a full range of commercial and in-house technologies already in place at leading insurers around the world. For insurers looking for ready-to-use, world-class capabilities that can deliver a clear view of their income statements and balance sheets through the lens of IFRS 17, there is no better place to start.



We're ready to help.

If you'd like to simply start a conversation, we're ready to listen. Start by visiting **www.sas.com/ifrs17-hub** or contact Thorsten Hein, Principal Product Marketing Manager: **Thorsten.Hein@sas.com.**

Stronger with SAS and Intel.

Staying a step ahead of IFRS 17 requires advanced analytics capabilities that can handle massive volumes of data at lightning speed, which requires extraordinary computing power. That's where the combination of SAS software and Intel hardware makes all the difference for insurers. Together, we help customers across industries take on data-intensive challenges successfully every day. Insurers who are putting our solutions to work in support of their IFRS 17 strategies are benefiting from tested, advanced capabilities proven to work in the most demanding data environments. The result? Near-instant access to the insights your leaders need to maker smarter decisions.