



# A Transformation in Progress

**Perspectives and  
approaches to IFRS 17**



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## INTRODUCTION

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The International Financial Reporting Standard 17 (IFRS 17) was issued in May 2017 by the International Accounting Standards Board (IASB) and has an effective date of 1st January 2021. The standard represents the most significant change in financial reporting for decades, placing greater demand on legacy accounting and actuarial systems. The regulation is intended to increase transparency and provide greater comparability of profitability across the insurance sector.

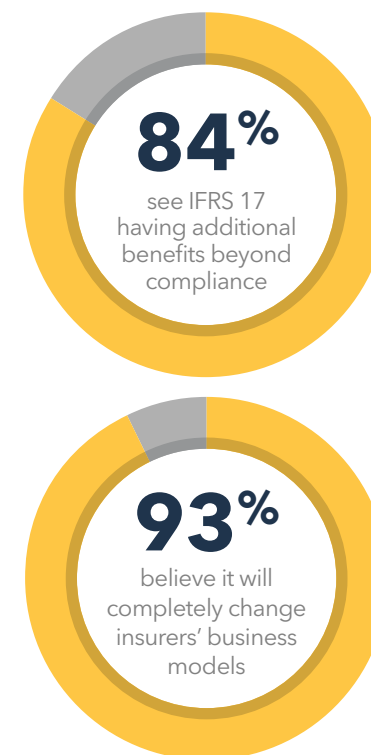
IFRS 17 will fundamentally change the face of profit and loss reporting. It will introduce a new set of Key Performance Indicators (KPIs), and change the way that base dividend or gross payments are calculated. To give an example, gross premiums will no longer be recorded under profit and loss. This is just one of the wide-ranging shifts that insurers must take on board in the way they structure their business to achieve the best possible commercial outcomes.

In early 2018 SAS asked 100 executives working in the insurance industry to share their opinions about the

standard and strategies for compliance. The research shed light on the sector's sentiment towards the regulation, challenges and opportunities that IFRS 17 presents, along with the steps organisations are taking to achieve compliance.

The aims of the study were to better understand the views of the industry and how insurers are preparing to implement the standard. The objective was to share an unbiased view of the peer group's analysis of, and approach to, tackling the challenges during the adjustment period. The information garnered is intended to help inform insurers' decision-making during the early stages of their own projects, helping them arrive at the best-placed strategy for their business.

This report reveals the findings of the survey and provides guidance on how organisations might best achieve compliance. It provides a subjective, data-driven view of IFRS 17 along with valuable market context for insurance professionals who are developing their own strategies for tackling the new standard.



## THE COST OF COMPLIANCE

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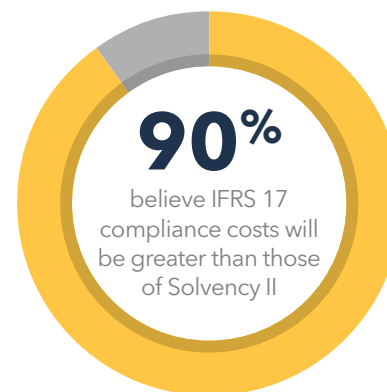


SAS' research indicates that UK insurers do not underestimate the cost of IFRS 17 or the level of change it will likely introduce. Overall, 97 per cent of survey respondents said that they expected the standard to increase the cost and complexity of operating in insurance.

Companies will need to introduce a new system of KPIs and make changes in management information reports to monitor performance under the revised profitability metrics. Forward looking strategic planning will also need to incorporate potential volatility and any ramifications within the insurance industry. To achieve this, firms will need to ensure the main parties involved co-operate and work together in a more integrated way.

The cost of these measures will, of course, differ considerably between organisations of different sizes, specialisms and complexities. However, the cost of compliance also greatly depends on the approach taken by decision-makers, the partners they choose and the solutions they select.

Perhaps more instructive is that 90 per cent believe compliance costs will be greater than those demanded by the Solvency II Directive, aimed at insurers



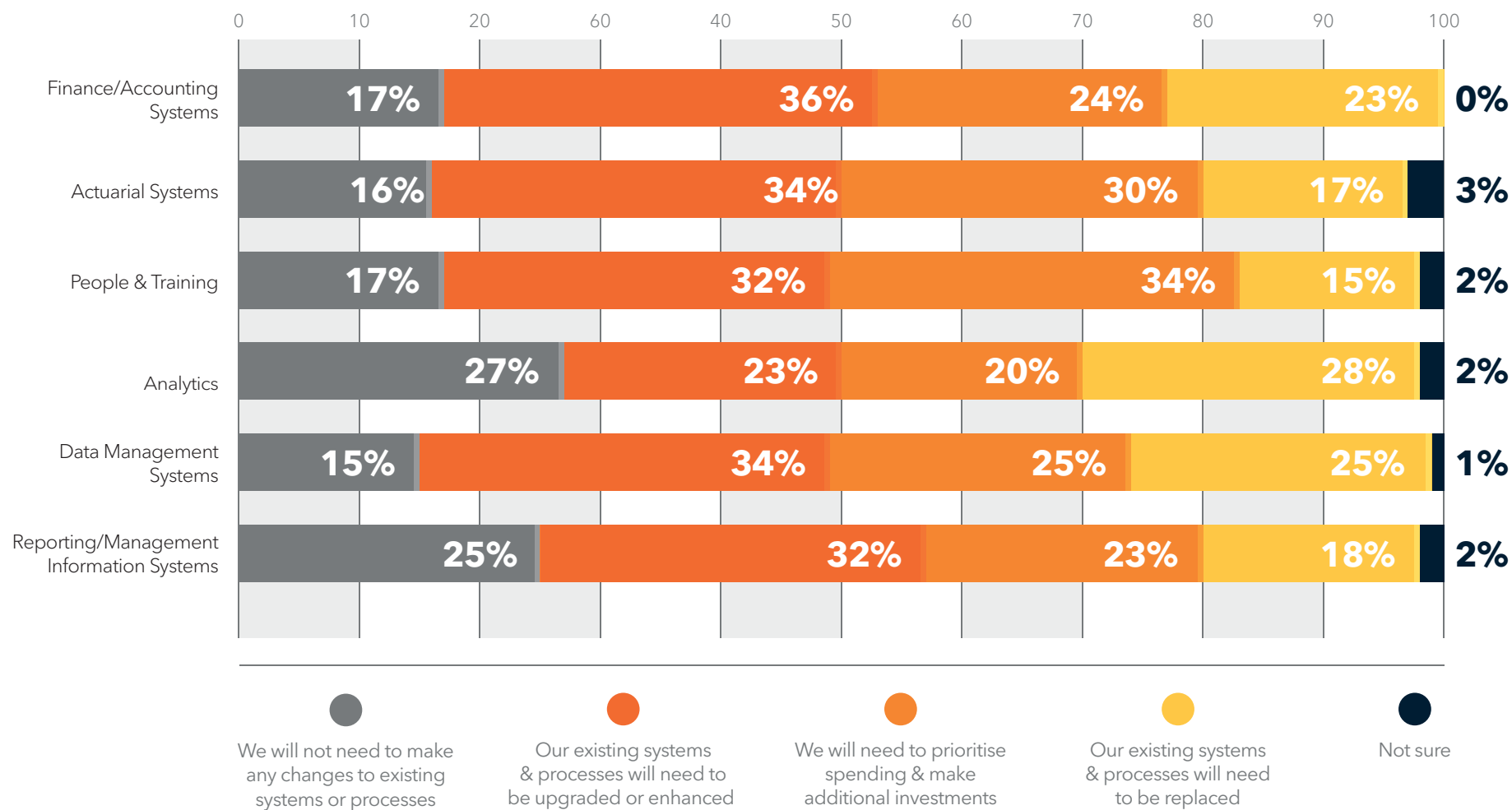
retaining strong financial buffers so they can meet claims from policyholders. The European Commission estimated that it cost EU insurers between £3 and £4 billion to implement Solvency II, which was designed to standardise what had been a piecemeal approach to insurance regulations across the EU. Almost half (48 per cent) predict that IFRS 17 will cost substantially more.

Respondents are preparing for major alterations to their current accounting and actuarial systems, from minor upgrades all the way to wholesale replacements. Data management systems will be the prime target for review, with 84 per cent of respondents planning to either make additional investment (25 per cent), upgrade (34 per cent), or replace them (25 per cent). Finance, accounting and actuarial systems will also see significant innovation, as 83 per cent and 81 per cent respectively prepare for significant investment.

The use of analytics appears to be the most divisive area for insurers. While 27 per cent of participants are confident they will need to make no changes to their analytics systems or processes, 28 per cent plan to replace them entirely. A majority of 71 per cent still expect to make at least some reform.



## How will you need to change systems or processes to comply with IFRS 17



**31%**

A year before the regulation comes into force (2020)

**22%**

This Year (2018)

**46%**

Next Year (2019)

When do you think the interpretation of the IFRS 17 standard will be developed enough for you to be able to successfully implement a fully compliant reporting process?

## WILL INSURERS BE READY?

Although IFRS 17 is expected to evolve further before January 2021, the study has shown insurers have not halted their efforts to achieve compliance. While seven per cent admitted they had not yet begun planning for IFRS 17, 61 per cent had already started preparation for the changes and 19 per cent had classed the regulation a top strategic priority.

While 99 per cent of respondents are confident they will be ready by the implementation date, insurers have largely adopted a wait-and-see approach to compliance. Only 22 per cent believe they will be compliant by the end of 2018. By contrast almost a third (31 per cent) will start their interpretation and compliance efforts in 2020 – just a year before the 2021 deadline. Insurance organisations expect significant legislative changes within the next two years.

Almost half (46 per cent) believe that interpretation of the new accounting standard will not have developed sufficiently for them to implement a compliant reporting process until 2019.

Insurers are taking a tactical and flexible approach to the regulation. Their compliance plans are likely to change as interpretation of the standard evolves, so the solutions they employ should be equally adaptable.

Yet despite a compliance deadline of 2021, insurers need to be on the front foot. Preparation will help them avoid being caught out by surprise developments that increase workload pressure, while flexibility in the solutions they employ ensures firms can change tack as required without significant cost.

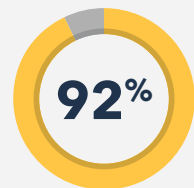
## NOT SIMPLY A COMPLIANCE EXERCISE

Despite the challenges involved in compliance, IFRS 17 has been broadly welcomed by insurers. In total, 87 per cent believe it will either be crucial for the survival of the insurance industry or will at least increase robustness for the future. In line with the original objectives of the standard, almost all (92 per cent) of the respondents agree the regulation will help the sector by improving transparency.

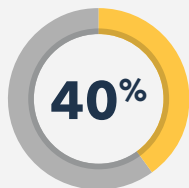
Our research shows that the industry does not view IFRS 17 simply as a regulatory burden that must be adhered to. The findings indicate that 84 per cent believe the changes will deliver additional benefits for their organisation beyond compliance, whereas only 12 per cent view the regulation as purely a compliance exercise.

The perceived benefits are associated with greater operational efficiency, as a resounding 97 per cent are expecting improved processes and automation, as well as the ability to re-use improved capabilities in other parts of the business. The same overwhelming majority (97 per cent) also said the required changes would help them modernise their financial systems.

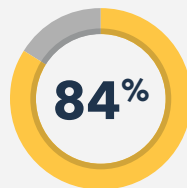
IFRS 17 represents both short-term challenges and long-term opportunities. Compliance projects, beyond their intended aims, offer an opportunity to review existing systems and processes. Project budgets should be focused on improved capability, benefiting the wider business, not merely compliance. The transition to enhanced data flow between finance, accounting and actuarial departments should consolidate resources and systems alike.



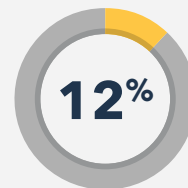
believe IFRS 17 will improve transparency



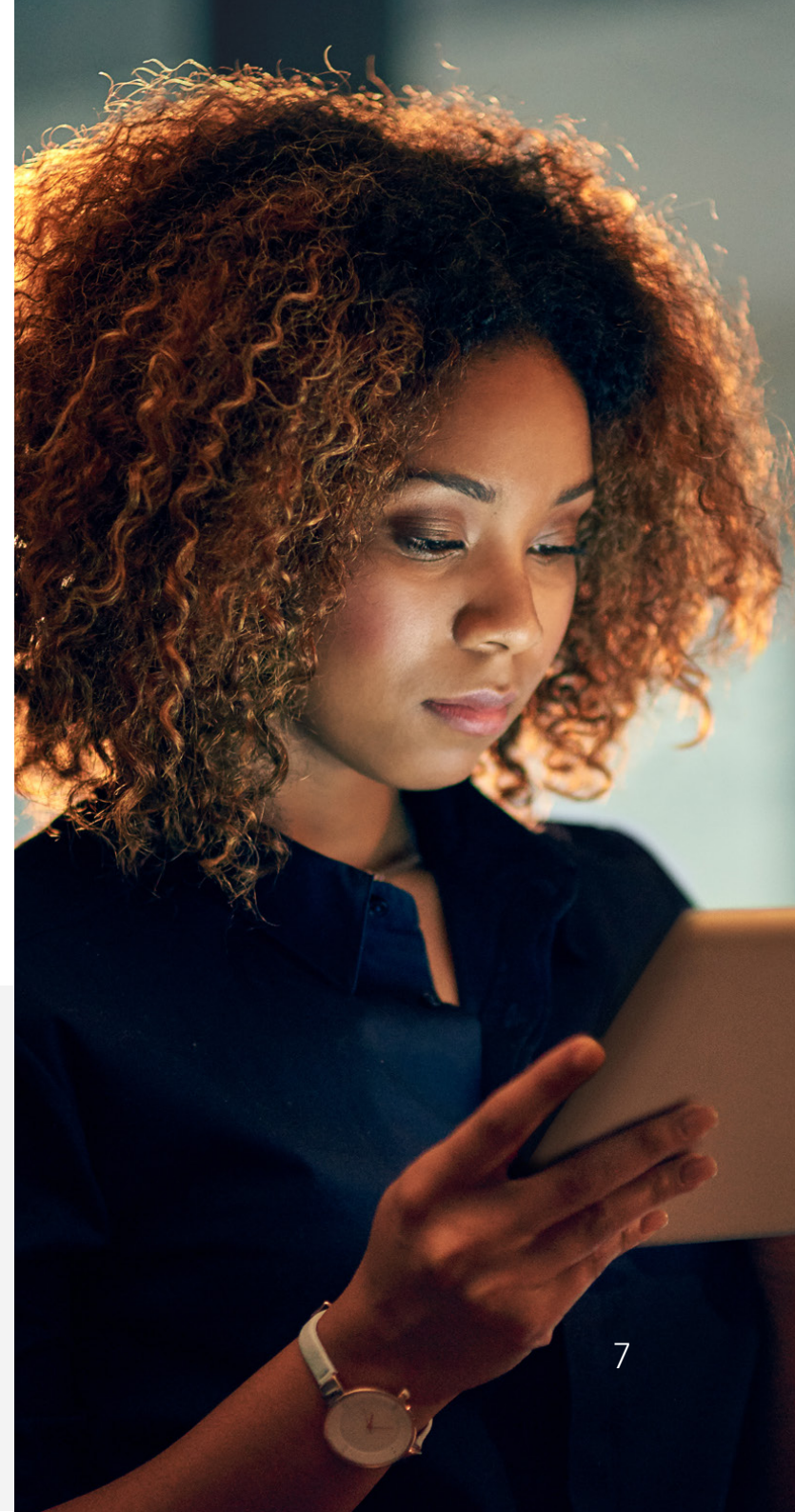
think it is essential to the long-term future of the industry



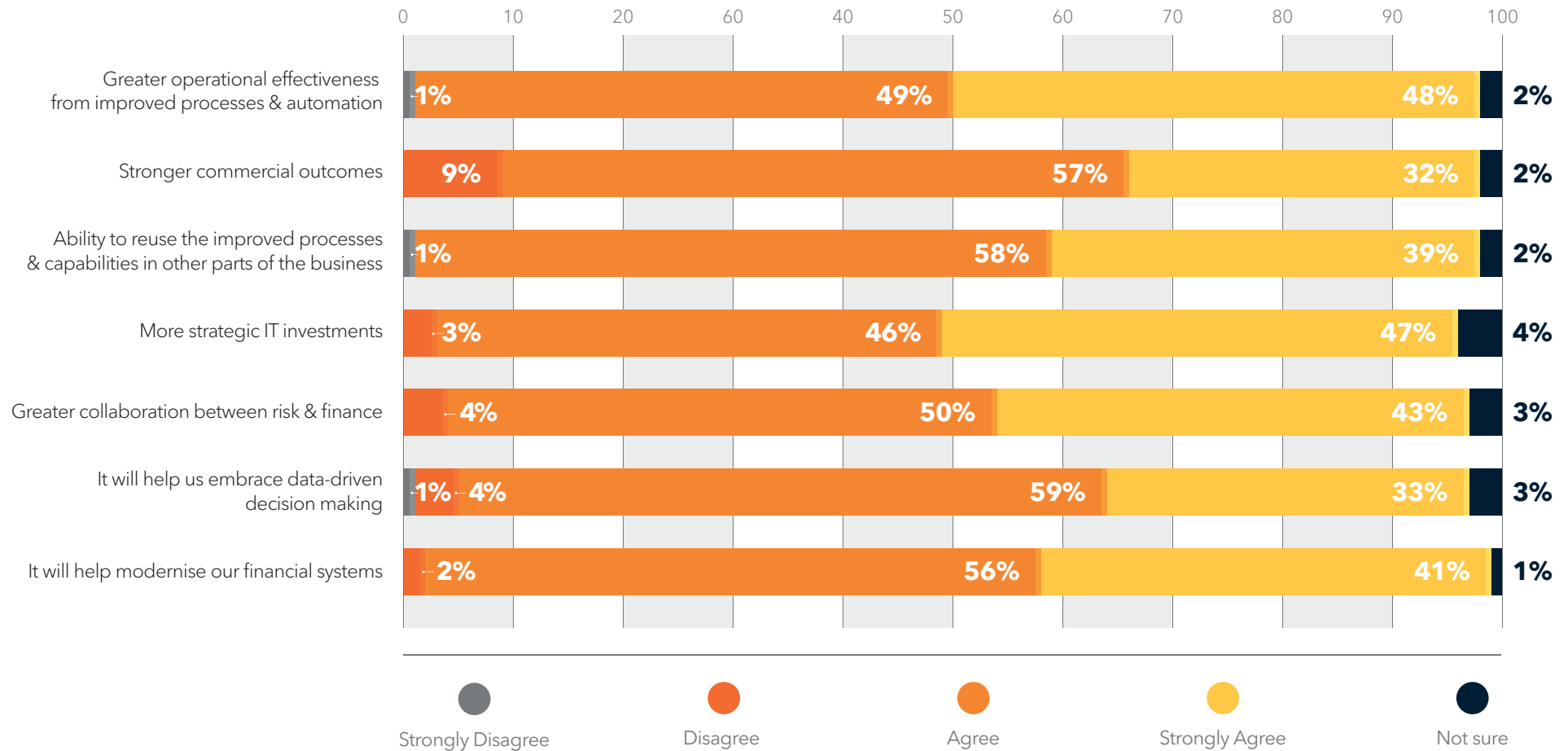
see IFRS 17 having additional benefits beyond compliance



view it solely as a compliance exercise

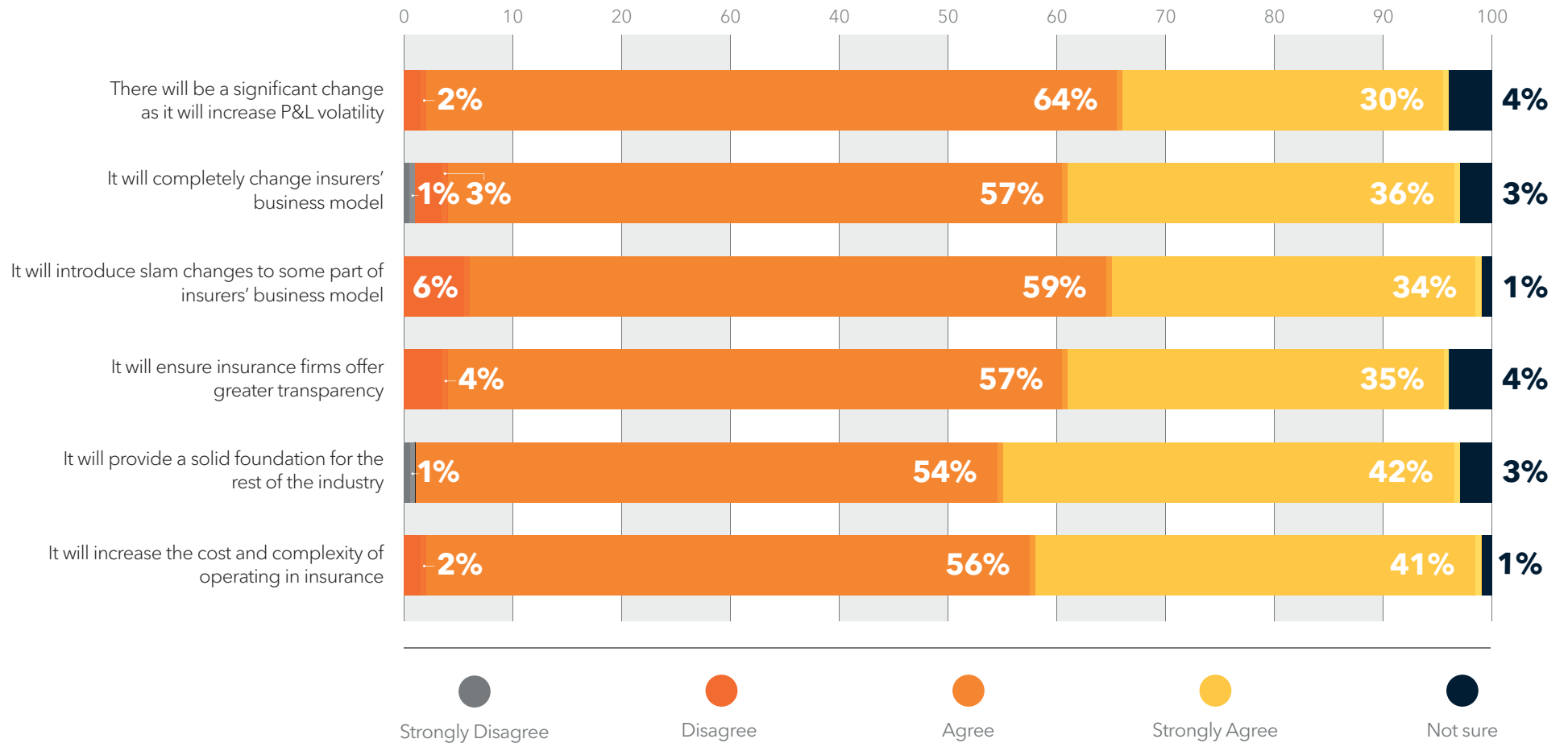


## What impact do you expect IFRS 17 to have on your organisation?





## How do you think IFRS 17 will change the insurance industry?





## TACKLING IMPLEMENTATION: JOINING TOGETHER OR GOING IT ALONE

Taking learnings from Solvency II, department heads will be concerned with keeping IFRS 17 compliance projects within budget and under control. They may prefer to keep compliance efforts in-house to save on additional costs. Despite this, there is clearly a desire for more information and guidance from external sources as cited by over three-quarters (76 per cent) of survey participants.

Where outsourcing is concerned, 63 per cent acknowledge that they will have to either supplement their existing workforce with contractors or interim workers, or provide training. Only 37 per cent of respondents believe their organisation has the skills and resources needed to prepare their systems and procedures for compliance.

IFRS 17 compliance may prove difficult to achieve simply by adapting or extending current systems. As the standard develops, the infrastructure may not be able to keep pace with the uplift in computational intensity and the associated integration.

SAS recommends the creation of a bridging platform between current systems that can cope with the new data and computational requirements, while taking the strain off production systems that are more difficult to change. By adopting this flexible approach, the financial transparency required by auditors can be achieved while minimising the impact on day-to-day business operations.



## A PROACTIVE, FLEXIBLE APPROACH TO BRIDGING THE COMPLIANCE GAP

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For the insurance sector to achieve greater transparency in its financial reporting, firms must be prepared to think tactically in a timely, structured and cost-effective manner. They should work together with internal and external stakeholders to find synergies to ensure delivery and minimise rework and costs.

Accordingly, SAS believes insurers should take a flexible, iterative approach to IFRS 17 compliance projects. Indeed, this approach is supported by the data set, with 60 per cent saying that they intend to adopt a tactical strategy before refining the solution closer to the deadline.

Systems and processes with a strong emphasis on data management and governance will be crucial to the industry. IFRS 17 may see the aggregation of existing data sources into one platform to centralise the data, reduce ongoing operational costs and mitigate business disruption.

A truly integrated process that connects the relevant data and systems between the financial and actuarial departments in a governed and automated way is key to achieving compliance.

## RESEARCH METHODOLOGY

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SAS conducted a UK-based survey of 100 C-level executives and senior managers working in the insurance industry to determine how insurers are approaching the implementation of the IFRS 17 standard. The sample was 67 per cent male and 33 per cent female, of whom 54 per cent were C-level executives, 25 per cent directors and 21 per cent senior managers. All respondents worked within their company's finance department.

Respondents represented a comprehensive range of finance functions, including chief actuaries (8 per cent), financial controllers (20 per cent), heads of accounting (21 per cent) and chief financial officers (51 per cent). An 83 per cent majority worked in large organisations of over 500 employees, while 13 per cent and 4 per cent were from medium-sized organisations of 250 to 499 employees and small companies of between 50 and 249 workers respectively.

In addition to providing information about themselves, participants were asked a series of 11 multiple-choice questions on topics ranging from their regulatory preparedness to what they believed the industry-wide impact of IFRS 17 would be. Their responses were collated and are represented in the graphs found throughout this report.



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