# GLOBAL IFRS 17 READINESS ASSESSMENT

**NOVEMBER 2017**

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At the time the new IFRS 17 standard was ratified in May 2017, our insurance customers and prospects were faced with making the steep trek that had been talked about for over 20 years. The standard is the biggest change to insurance accounting ever, and many firms forecast that it will cost tens of millions of dollars to address.

So how far have insurers come on their initial IFRS 17 ascent?

Market participants, both insurers and their suppliers, are taking action. Many insurance companies have launched extensive impact assessments, boards have been briefed, advisors have been engaged and software & systems vendors have announced new software and systems.

Findings

- 39% of firms that have started their analysis expect to kick-off implementation projects in Q2 2018
- IFRS 17 is challenging insurers of all types and sizes. It’s not just a life insurance issue, and it is having a significant impact on smaller, regional, and non-life insurers.
- The industry has learned that IFRS 17 requires much more than delivering Contractual Service Margin calculations – insurers that have advanced their analyses are focused on delivering an end-to-end IFRS 17 financial reporting process.
- Functionally, CFO’s are taking the lead on IFRS 17 but working closely with Chief Actuarial Officers with the goal of harmonizing data, processing and control across finance and actuarial environments.
- With many insurance companies expected to start implementation in mid-2018, a major skills gap is expected.
AM I AHEAD OR BEHIND?

The survey highlights that many insurance companies have started their IFRS 17 projects, and our experience shows the market has covered much ground since May. Many insurance companies are deep into impact analyses, a few have completed proof-of-concepts and several have even confirmed the systems approach they intend to take.

Questions We Asked

We asked insurers what stage their IFRS 17 projects were at and their best estimation of when they expected to start implementing a solution. Further indicators of readiness came from questions about the organisation of their IFRS 17 team.
HOW COUNTRIES ARE PROGRESSING

PRE-IMPACT ANALYSIS

IMPACT ANALYSIS

SOLUTION DESIGN

IMPLEMENTATION

HOW LIFE AND NON-LIFE INSURERS ARE PROGRESSING

PRE-IMPACT ANALYSIS

IMPACT ANALYSIS

SOLUTION DESIGN

IMPLEMENTATION

WHEN INSURERS EXPECT TO MAKE A VENDOR DECISION

78% of companies we’ve spoken to about IFRS 17 projects have completed an impact analysis or are in the process.

£15.3bn the average GWP of companies at implementation stage.

£6bn the average GWP of companies at pre-impact analysis stage.

39% of insurers with live projects expect to make a vendor decision in Q2 2018.
“IFRS 17 is un-tried and un-tested – we don’t know how useful it will be to explain the business. 2021 will be a live field test.”
– Director of External Reporting, Major UK Life Insurer

“Most firms have carried out some form of IFRS preparation, with around a third “just following at a distance” while around one-in-six have an implementation project underway.”
– Milliman, IFRS 17 Preparedness

“Many insurers are on a transformation journey with data lakes, lots of analytics and moving to the cloud, but they have issues over data visibility and transparency. The typical challenges around multiple GLs, bespoke systems, disparate data come up and they are now starting to look at solving these sorts of issues in an IFRS 17 project.”
– Big 4 Advisor

“Deloitte expects that implementing these new IFRS 17 requirements will entail major changes to insurance companies’ actuarial and finance reporting processes, systems and data. Implementation costs for many insurers are likely to be as large as those incurred for Solvency II.”
– IFRS 17 accounting lead, Deloitte UK

In general, the more insurance products that are offered, and the more jurisdictions that an insurer operates in, the more costly and time-consuming implementation will be – but so too is the potential to benefit from the changes. For the confident, change is opportunity.”
– Global Insurance Accounting Change Leader, KPMG

“The great hope is that IFRS 17 will bring consistency to insurance reporting. But actually there are quite a lot of choices within the standard, such as around discount rate and which variation of the model you use.”
– Group Technical Accounting Director, British Multinational Insurer

“Don’t underestimate the amount of time it takes to find the required data to fulfil the extensive IFRS17 primary financials and disclosure requirements.”
– EY, Implementing IFRS 17: Experiences from the field
THE CHALLENGES AHEAD

Respondents to the Global Readiness Assessment highlighted the challenges their organizations anticipated.

- Contract aggregation and getting detailed information from across the systems environment
- Disparate actuarial systems environment and the management of off-line or 'black box' actuarial processes - only 16% of firms reported having a homogenous actuarial environment
- Bringing together disparate finance systems spread out across divisions and regions – 85.5% of projects are being organised at group level, with 14.5% of organisations running projects by business division or region
- “Discounting cashflows especially for claims, and processes for applying risk adjustments”
- Choosing where to home CSM calculations, in actuarial or finance environments
- Creating shared processes between finance and actuarial teams
- Incorporating IFRS 9 and Solvency II upgrade requirements
- Incorporating local statutory reporting requirements – notable for South African and Australian respondents
- Implementing systems to support multiple business lines and divisions; apply multiple measurement models, including those that will be needed in the future
- Finishing in time - implementation estimates range from 12 to 30 months. No respondents reported starting implementation beyond 31 December 2018.
- Achieving appropriate financial controls while leveraging existing actuarial and Solvency II systems that feel like a black box
- Supporting IFRS 17 disclosure requirements – 88% of respondents are looking for better processes to provide acceptable disclosures for cash flows
- Resource constraints especially for systems development
- “Figuring out how my life became defined by the evil acronym IFRS 17”!
In the 6 months since the International Accounting Standards Board ratified IFRS 17, the international insurance industry has made great strides. According to a recent Milliman survey in August 2017, 69% of insurance companies had someone responsible for following the standard, and it is apparent from our many discussions with prospects and customers that insurance companies are focussed on mapping out their routes to adopt the standard.

Google searches for “IFRS 17” have increased 800% since January 2017.

In this first Global IFRS 17 Readiness Assessment, we found almost three quarters of all insurers have formal ‘impact analysis’ programmes underway. However, only 22.3% have reached ‘Solution Design.’
IFRS 17 affects all insurance types and sizes

Another advancement since May is the realization that IFRS 17 will have significant impact on insurers of all sizes and types. A recent survey from big four advisor EY estimated a $25 million IFRS 17 project budget for life insurers with less than $10bn Gross Written Premium (GWP). Larger composite insurers with >$25B GWP expect to spend upwards of $150 million to achieve compliance. The same EY survey predicts that many feel IFRS 17 projects will cost more than the Solvency II programmes that added significant weight to European insurers' operating budgets in recent years.

Mapping out IFRS 17 challenges

In our survey, we confirmed that large insurers are slightly ahead of their journeys. The average GWP for insurance companies that have started implementing solutions is £15.3B GWP. The average GWP for insurers that haven't started funded impact assessments is £6B.*

The key learning, however, is that IFRS 17 is challenging insurers of all types and sizes. In May, many assumed that the life insurance sector would take the brunt of the work, but our survey shows a significant impact on non-life and composite insurance companies. Smaller, regional and specialty insurance companies are also gearing to address IFRS 17.

We see clear differences in requirements for insurers of different sizes, which we expect to analyse in the next quarterly Readiness Assessment.

*To put these numbers in context, the 2016 gross premium for one of the world's largest insurers, Allianz's Property & Casualty business, is approximately £46B.
Who is leading the IFRS 17 journey?

Senior finance (Financial Controllers and CFOs) are leading the projects in 43% of the companies with IFRS 17 projects. Many of the other project leaders including Finance Systems and Finance Transformation roles also report in to CFO as a final decision maker. Actuaries are leading the project in only 1% of companies, however in many cases actuaries held significant influence on the solution decision.

With so many different functions involved from finance, to IT, actuarial and project management, successful project leaders will need to be able to bring together each of these parties at various stages of their IFRS 17 projects. It makes sense then that 85.5% of projects are being organised at the group level, as there is clearly an advantage to having visibility over the entire company for such a complex project.

The Project Leaders

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<th>Role</th>
<th>Percentage</th>
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<tr>
<td>Controller</td>
<td>24%</td>
</tr>
<tr>
<td>CFO</td>
<td>19%</td>
</tr>
<tr>
<td>Finance Systems</td>
<td>15%</td>
</tr>
<tr>
<td>Finance Transformation</td>
<td>12%</td>
</tr>
<tr>
<td>Accounting</td>
<td>10%</td>
</tr>
<tr>
<td>IT</td>
<td>6%</td>
</tr>
<tr>
<td>Project Manager</td>
<td>4%</td>
</tr>
<tr>
<td>Regulatory Reporting</td>
<td>4%</td>
</tr>
<tr>
<td>Financial Operations</td>
<td>3%</td>
</tr>
<tr>
<td>Actuary</td>
<td>1%</td>
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Will IFRS 17 teams reach the summit in time?

Many insurance companies are at risk of not completing IFRS 17 systems in time to deliver comparative balance sheets in 2020. 39% of the surveyed insurance companies that have started their analyses expect to commence the implementation phases of their IFRS 17 projects in the second quarter 2018. These same firms expect the total project lengths to take between 12 and 30 months, meaning some will have to rely on unreliable and unrepeatable brute force approaches to comply with the standard.

Join us for the next IFRS 17 readiness assessment

We launched this Global IFRS 17 Readiness Assessment to equip finance, actuarial and IT teams on their IFRS 17 journeys. Our goals in running this quarterly survey are to:

- Illuminate market activity and best practices
- Uncover systems considerations and challenges
- Forecast IT architectural changes

Insights in this first quarterly Readiness Assessment are derived from a few sources not limited to those that completed the survey but also our interactions with over 100 global insurers, deep discussions with Big 4 advisory firms and our learnings from several completed IFRS 17 proof-of-concepts.

We continue to collect insights from IFRS 17 project leaders at global insurance companies, and we intend to continually publish the perspectives gained. Please join us in the conversation.
About Aptitude Software

Aptitude Software is a global financial software specialist. Aptitude’s technology equips CFOs of the world’s largest organisations, with competitive advantages by streamlining and automating financial accounting processes and enabling faster, actionable insights. This year Aptitude Software’s enterprise customers use its proprietary software to help account for $1 trillion in combined revenue and over 500 million end customers.

About Aptitude Software’s IFRS 17 Solution

The Aptitude IFRS 17 Solution enables insurance CFOs to comply efficiently with a platform to manage the end-to-end IFRS 17 financial accounting process.

We reduce the cost and risk of IFRS 17 change programmes with a specialist product approach that leverages Aptitude Software’s proven operational accounting platform (as used in many global insurance systems environments) and fits into existing actuarial and financial reporting environments.

The Aptitude IFRS 17 Solution enables insurers to adopt accounting best practices, while exploiting all IFRS 17 approaches including the Building Block Approach (BBA), Premium Allocation Approach (PAA) and the Variable Fee Approach (VFA), in line with what has been documented by regulators and in support of the requirements of leading international insurance companies.

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