The "I" in IFRS17: Implementation and IT

Introduction

The global implementation of the International Financial Reporting Standard 17 (IFRS17) has emerged as a critical challenge for companies in the financial sector. Whilst some countries have gone live with IFRS17 in 2023, many countries are yet to go fully live. No matter where an insurer is on the journey, insurers worldwide face the intricate task of selecting and implementing the right IT solutions for a seamless transition.

K. A. Pandit's IndAS117/IFRS17 India Roadmap Survey in 2023, amongst Indian insurers, indicated that the most difficult perceived area in implementing IFRS17 was *"Deciding and Implementing the right IT solution".* Around 80% said it will be "Hard or Very Hard".

There may not be a silver bullet, however, the good news is that there is a lot of choice for solutions out there and companies can find what is right for them based on their needs.

"In this article, we will delve deeper into the critical considerations and strategies that can guide companies through the intricate journey of IFRS17 implementation, particularly focusing on the pivotal role of IT solutions in this process."

Understanding Specific Needs – A Prerequisite for Success

Navigating the landscape of available IT solutions demands a clear understanding of the company's specific requirements. The main decision initially will be for the company to ascertain which tasks/functions need further support or need to be developed/automated and thereby then choose the right solution that can help address the identified needs.

There are many data sources, data mapping/dependencies, calculations, reporting and data storage that need to interact between functions of an insurance company.

Policy administration and Claim records

IFRS17 Accounting specific calculations, chart of accounts preparation, disclosure reporting and regulatory reporting
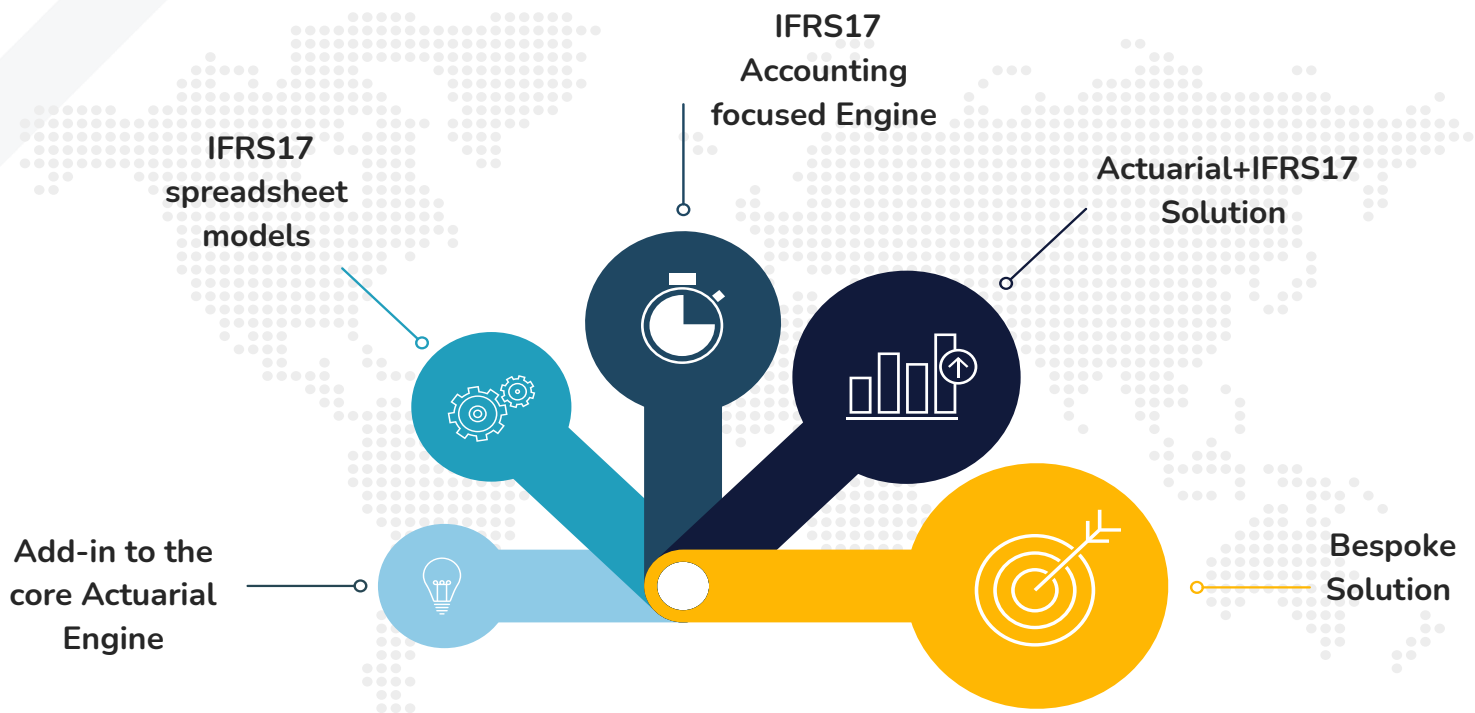
Actuarial cashflows and related calculations

IT Hardware capacity to store actuarial and accounting information for analytics, roll forward calculations and reconciliations

Understanding the nuances of different software solutions becomes pivotal in this phase, as it enables companies to shortlist options that align with their specific needs. Whether it's an actuarial-centric solution or an accounting-focused engine, the key lies in identifying the core functionalities essential to the business and leveraging solutions that can efficiently meet those requirements. This is important so a company can focus efforts in selecting vendors more likely to be able to meet the needs such that there is no unnatural wastage or duplication of efforts which ultimately leads to dissatisfaction.

Available Solution Options

IFRS17
spreadsheet
models

IFRS17
Accounting
focused Engine

Actuarial+IFRS17
Solution

Add-in to the
core Actuarial
Engine

Bespoke
Solution

Add-in to Core Actuarial Engine
Have a layer of IFRS 17 calculations module on the core engine that can generate the relevant disclosures.

IFRS 17 Spreadsheet Models
Relatively simple spreadsheet solutions that can help with short-term immediate compliance requirements.

IFRS17 Accounting focused Engine
This helps have much more detailed access and storage of the business accounting information to help many complex groups and business events taking place regularly.

Actuarial + IFRS17 Solution
This solution helps to also leverage the actuarial software functionality for pricing, capital modelling, ALMs, or other actuarial needs. The IFRS17 add-ons do give the disclosures, static ledger entries and trial balances.

Bespoke Solution
A tailor-made solution chosen by the company through modular or all-encompassing components/plugins.

![logo](K.A. PANDIT)

Considerations during Selection

➤ **The GAP analysis and accounting policy decisions discussions and documentation will give a good insight** to know which type of a solution is most appropriate for the company. Knowing and understanding individual needs will also help to shortlist which vendors to approach and which expert consultants to appoint.

➤ Another area to be conscious of is that different solutions might have priced their offering based on different **"core" functionalities versus optional modules**. An example of this is the measurement models in need. A lite core version of a software may only include PAA. That may be appropriate for many non-life insurers initially. **The GAP analysis and accounting policy decisions discussions and documentation will give a good insight to this.**

➤ However, with either of these approaches, there will still be data mapping, data integrations and data capturing to be resolved from an IT or workflows perspective. E.g., mapping policy admin data for the IFRS17 inputs, or posting IFRS7 sub-ledger entries each period to the main general ledger and accounting system of the company, etc.

➤ The implementation project should also identify how data mapping post implementation for subsequent runs will be performed, as well as how will it be performed during initial implementation. Also, who will perform these tasks during implementation and thereafter. Check who and how the actual configuration is performed and by whom. A local partner alongside the software vendor could be less costly than directly being done by the software vendor.

➤ Another aspect to consider is the extent to which additional features are needed such as Management Information Systems, Key Performance Indices and Analytics.

Balancing Short-term Compliance with Long-term Sustainability

In the rush to meet the deadline for IFRS17 compliance, some companies might be tempted to opt for quick-fix solutions that promise immediate adherence to the standards and are cheaper. However, it is imperative to recognize the limitations of such short-term approaches. Temporary solutions often heavily rely on manual processing and lack the dynamic storage capabilities necessary for future reconciliations and in-depth insights. Some quick solutions may only be sustainable for so long. The level of insight required to respond to regulator and auditor queries is then far more difficult and even reconciliations going forward become increasingly cumbersome. Thereby, striking a delicate balance between short-term compliance and long-term sustainability emerges as a key consideration for companies navigating the intricate terrain of IFRS17 implementation. However, if there are inhouse developed excel and R/python models developed for the core calculations, there are also software platforms available to turn these into enterprise grade efficient workflows.

A pragmatic approach that accounts for the future scalability and adaptability of the chosen IT solution becomes indispensable in ensuring a seamless and effective transition to IFRS17 compliance without compromising long-term operational efficiency.

Decision-making around Operational Structure: Outsourcing vs. In-house Management

A critical decision that significantly impacts the IFRS17 implementation process revolves around ***choosing between outsourcing the production of IFRS17 entries and disclosures or managing the process in-house***. Companies with limited in-house resources may find the managed service approach appealing, provided they have a comprehensive understanding of the software licensing terms and data storage provisions. Striking a balance between the benefits of outsourcing and the advantage of in-house control emerges as a crucial aspect of the decision-making process. Additionally, clarifying the operational implications of the chosen approach and the potential for future scalability remains paramount in ensuring a smooth transition to IFRS17 compliance.

Managed Services without Licensing

A pure outsourced arrangement may mean the insurer only sees and obtains the key outputs in some form of deliverable to post entries and see the disclosures. The managed service provider would own a license to the software itself and service multiple clients using that platform. If cloud data is to be stored for the individual insurer there will be an allowance for that in their fees as well.

Managed Services with Licensing

An alternative approach can also work where the insurer owns the software license itself, along with the detailed calculations and outputs, and the managed service partner is appointed to **"operate"** the software and produce the required deliverables. This approach enables an insurer to easily bring the activity in house in the future if needed.

Understanding Implementation Costs

An in-depth understanding of the various cost components associated with different IT solutions becomes essential for companies embarking on the IFRS17 implementation journey. From recurring software license costs to one-time configuration fees, data hosting expenses, and ongoing training and service charges, a comprehensive grasp of the financial implications is crucial for effective budgeting and strategic planning. By conducting a thorough analysis of the costs involved in implementing and maintaining the chosen IT solution, companies can proactively manage their financial resources and ensure a sustainable and efficient transition to IFRS17 compliance.
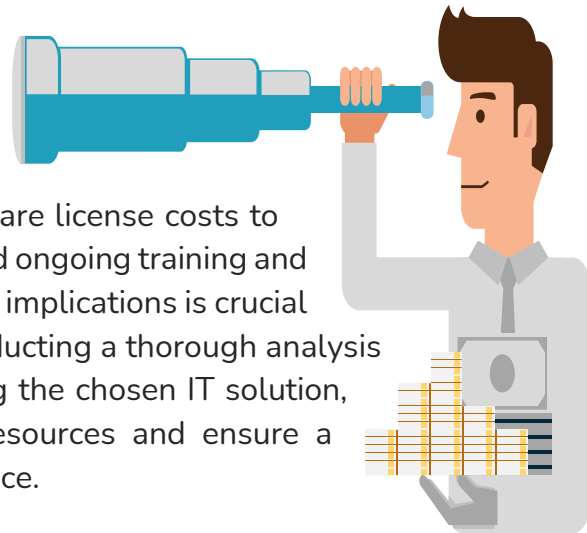
➢ **The Recurring Software License Cost**
- ➢ The period of payment (e.g., annually, half-yearly, quarterly)
- ➢ Is it a fixed fee or a usage-based fee?
- ➢ Are fees based on number of users? If so, is that per user installation or per concurrent cloud-based log in?
- ➢ One also should look at lock-in periods and ensure it aligns with the operating model that the company is thinking of.
- ➢ What ongoing support services are provided within the recurring fees?

➢ **One-time Configuration/Implementation Costs**
- ➢ Is configuration done by the software provider or do they work with an implementation partner? What additional costs would that entail?
- ➢ If buying a new actuarial cashflow engine to match with the IFRS17 one, what would be the cost of migrating all the insurer's products and actuarial models that need to be coded and reconciled onto any new platform?

➢ **Data hosting costs**
- ➢ Whether that will be on cloud or premise? It should be noted this will be a recurring cost.

➢ **Flexibility**
- ➢ What are the options within the software and what do additional modules cost if needed later (e.g. PAA/GMM/VFA) and optional additional functionality for IFRS9, if needed later?

➢ **Connecting the ecosystem**
- ➢ What costs exist for initial data mapping to feed into the IFRS17 solution and building APIs/connectors/uploading of the IFRS17 outputs to the main accounting system?

➢ **Training**
- ➢ What training costs are there?
- ➢ What is included within the implementation fees and the recurring fees?

"The above gives some key considerations when embarking on the IT system decision for IFRS17. However, many other criteria will play a role in a decision to the eventual solution such as user friendliness, data volume requirements, speed, and stability etc."

In Summary

As companies navigate the intricate terrain of IFRS17 implementation, the role of robust and effective IT solutions becomes paramount in ensuring seamless compliance and operational efficiency. By understanding their specific needs, balancing short-term compliance with long-term sustainability, making informed decisions around operational structure, comprehensively understanding implementation costs, and fostering a culture of adaptability and continuous learning, companies can pave the way for a successful transition to IFRS17 compliance. Embracing a holistic and strategic approach to IT implementation, companies can not only meet the immediate challenges of compliance but also position themselves for sustained growth and operational excellence in the dynamic landscape of the financial industry.
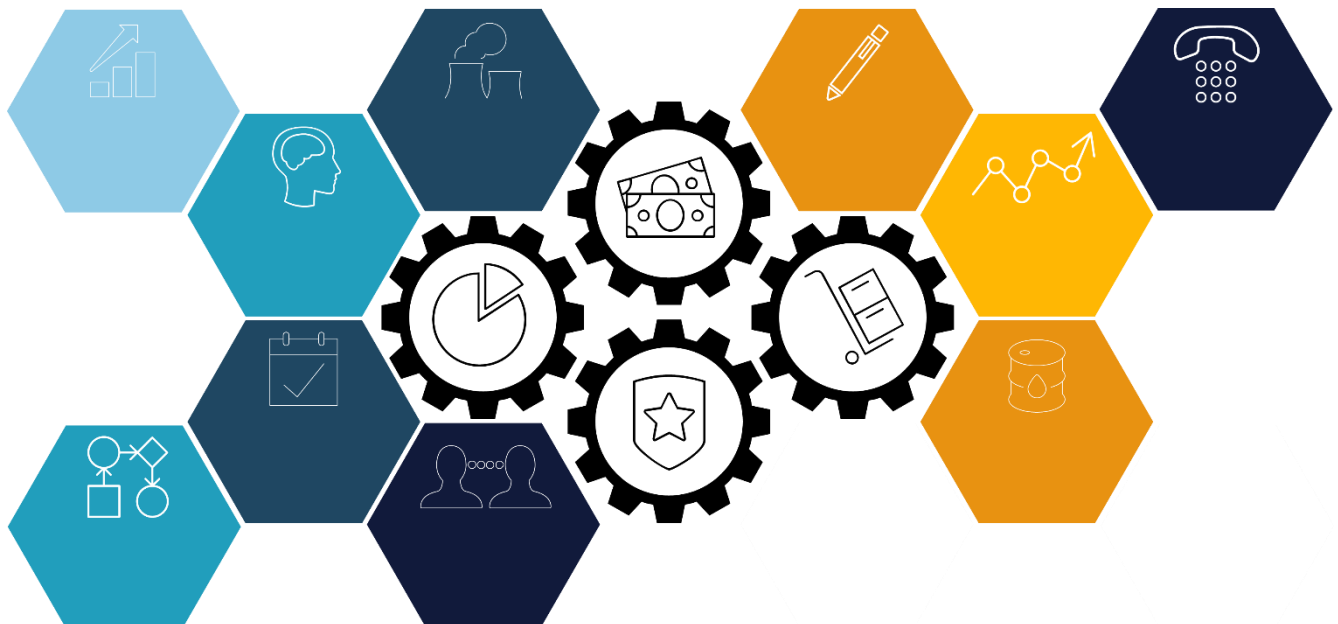
About the Authors

Leaders at K. A. Pandit, India's oldest actuarial consulting firm, who are implementing and configuring IFRS17 solutions for insurance companies in various countries, through various operating models and technology alliances.

We are a member of Abelica Global since 1998. It is one of the world's largest independent professional service organisations providing consulting & actuarial services, giving us global reach and expertise.

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