IFRS 17 delay: Consideration on how insurers can respond

Building a better working world

Introduction

With the IASB announcing a proposed one-year delay to the implementation date of IFRS 17 (and IFRS 9), and also proposing to make some limited changes to its requirements, insurers are asking what this means for their implementation efforts and how best to respond.

We recommend an approach to help the management and/or the IFRS 17 Program Steering Committee make clear decisions on the way forward through a period of uncertainty.

It is important to understand the impact of the delay on the program and the flexibility that the changes to the standard will offer. Then insurers should evaluate the alternatives to be considered at both work stream and program level.

Evaluating the impacts

We recommend a three-step approach to evaluating the impacts of the IFRS 17 delay:

1. Take stock of the current position of your IFRS 17 program
2. Consider the impacts of any possible and proposed changes to the requirements of IFRS 17 and the expected timing of those changes
3. Assess the flexibility that any change to the timetable might offer to the program

Assessing the options

Once the assessment of the impacts has been carried out, insurers should consider the broad options at both a program and work stream level.

There are three potential options, the pros and cons of which we explore below. The options are:

1. Continue the program as is to the current timetable (either to completion or to deliver the main key milestones)
2. Reconfiguration or retiming of parts of the program (on a piece-by-piece basis) to meet the new timetable
3. Slowing activity immediately and planning to restart planned activities at a later date

These options could also include combinations of the above that consider different elements of the program based on the impact of the change and the need to have different outcomes.

We recommend some tools and techniques that can be used to help make the appropriate decisions in a timely and effective way to preserve momentum and manage the risk of cost increases. These tools will also help to communicate to key stakeholders such as management, steering committee, board of directors and external bodies.

Evaluating the impacts

The aim of the assessment stage is to help ensure that there is a factual understanding of all the implications of the delay to the IFRS 17 effective date. Experience shows that the instinctive view of the choices to be made can be misleading. A full assessment can be completed in a few days with each of the substeps being assessed in parallel and joining up at the end.

Step 1: Assess the program status

This would include assessing:

- Progress to date on the policy, design, data, systems, process, testing, operating model and implementation work streams
- The linkages with other programs and how the package of work fits with the strategy, wider change agenda, the perspective of key internal and external stakeholders
- Availability of resources, suppliers and capability to deliver

We recommend the use of a program health check to bring a clear, objective and unambiguous view on the program status that can be discussed and shared with key stakeholders at all levels.

Step 2: Assess the impact of any changes

The aim of this step is to have a clear impact analysis and the information to understand what options can be considered for each of the specific work streams.

The key is to understand if work can proceed to completion or whether any changes affect the design, build or delivery.

Input from specialists in the area of technical policy, design and build can help you make this assessment and identify whether work can continue or will need to be reshaped or planned.

The assessment should consider the balance of "no regrets" activity that can continue vs. the likelihood of rework in areas of the standard where changes are expected to be made.

Feeding in the considerations from Step 1 will help to prioritize activities and determine which should be deferred. For example, a financial or actuarial system upgrade or replacement may be planned within the implementation period. The delay to IFRS 17 may provide the opportunity for the upgrade or replacement to be performed before or concurrently with the IFRS 17 capability build.

Step 3: Consider the potential flexibility in reprioritizing activities

Based on the assessments from Step 1 and Step 2, you can consider each aspect of the program and what flexibility might be useful.

From our experience, key areas to focus on in this step are likely to be the following:

- Solution responses to improve the overall scope and outcome
  - Using delay as an opportunity to take more time and to consider the use of strategic tools and approaches to improve data provisioning for IFRS 17. Data cleansing and mapping tools can assist in resolving data quality and control issues.
  - There might be an opportunity to switch from tactical to more strategic choices for actuarial, finance and IFRS 17-specific systems, reducing risk and complexity and making capital available for other commitments.
- Solution responses to improve quality by spending more time
  - Expand time spent on parallel generation of CSM and RA estimates to improve executive understanding of the impacts and better prepare expected results for testing
  - Expand time spent on transition calculation exploring, approach options for executive understanding
  - Look for opportunities to improve ongoing operational stability by improving the production management around areas where you may have previously considered trade-offs (e.g., data management on smaller books, allocations processing, IFRS 17 impacts on internal reporting)
  - Look for opportunities to refine production close windows

- Spending more time on understanding the financial outcomes and on communications with investors and regulators, to act on the impact to the business (e.g., optimization of reported outcomes) and to assess the sequence of any wider change program.

- Solution responses to improve quality by reducing build and testing risks
  - Process changes often run behind systems build. Finding opportunities to enable process change to be planned first will enable a smoother and lower-cost test, dry run and implementation.
  - For some firms testing, dry runs, parallel runs and production of comparatives are being squeezed to make implementation achievable in the current timeframe. Keeping the development on schedule and allowing more time for testing and especially remediation after test and dry runs will be valuable.
  - Lessons learned from IFRS 9 and Solvency II projects highlight that testing and remediation of dry runs is often neglected, resulting in improvements to processes being made post-implementation.
  - A robust testing methodology can help you to optimize this phase.
- Planning responses to improve delivery predictability
  - Reduce the overlap between solution component development (e.g., data aggregation, actuarial model changes, CSM engine implementation) and end-to-end testing to improve efficiency of end-to-end over a more complete base solution.
  - Raise the entry criteria for a deferred parallel run to generate comparables of higher quality. Place emphasis on leveraging the production capability for all aspects of parallel run.
  - Reducing the level of parallel activities in the plan, reducing risk and resource demand.
- People responses to reduce burnout
  - Shift current program team members to areas of new responsibility within the program to give them something fresh to work on while still retaining their skill set on the program
  - Infuse new resources into the program given new time available to ramp people up

The assessment of the current status of the program, the areas of impact from the change and the opportunities that may arise can feed into the second part of the process, which is to decide the best option for the program and the individual choice for each work stream.

Assessing the options

There are three broad choices to respond to any delay to a regulatory requirement: continue, retime or stop.

Recent experience from Solvency 2 and IFRS 9 shows that, while sometimes instinctive, significantly slowing or stopping activity to resume once revised dates and requirements have been fully agreed merely delays (and adds to) the "rush" of activity to complete and does not lead to cost savings. The approach often leads to additional costs and risks, from loss of continuity and from work stopping and starting again.

Our recommendation in light of this experience is to actively consider the three choices with respect to the outcome of the assessment steps above. In doing this, we recommend breaking the program down into its constituent parts and looking at the decision at a work stream and component level as well as the overall program.

Considerations around these options include the following:

Continuing as is

If the program (and work streams) are fully mobilized and proceeding well, there is limited impact from any changes and there is little benefit from deferring or retiming activity or benefits. Under these circumstances, continuing to the current plan will maintain momentum and reduce the impacts of changing plans and resourcing and de-risk loss of key resources, sponsorship and priority. It is also worth considering whether this will mean compromises on decisions and quality, particularly in the data, systems and testing spaces.

For example, you would consider continuing if there is limited impact from the changes, the program is on schedule and there is significant benefit for dependencies or the freeing of resources once complete if the work is finished on schedule. Continuing as is may save cost and provide benefits in terms of greater time to understand results before publishing.

Retiming and re-phasing

If there are elements of the program that need additional time or there are significant impacts from the likely changes or there are material benefits to retiming, e.g., reduction in duplication of activity, de-scoped requirements can be added back in, phasing benefits or improved testing and deployment. The downsides to consider are the impact on the wider change agenda, the possibility of key stakeholders changing and the challenge of maintaining focus as things get retimed.

For example, retiming the data systems work streams might allow more build-and-test time, but leaving processes mapping to continue to its current plan could then help to build a better integrated plan.

Stop or pause

If the current program (work stream) has limited mobilization, the changes from the standard are highly material or the benefits from retiming are very high, e.g., it would give time to make other changes first that would reduce cost or risk.

For example, you would consider stopping if the program was struggling to mobilize with the right resources, in contention with other things or highly dependent on other work that needed to be finished before IFRS 17 could be efficiently delivered.

In conclusion

The IASB recently announced a proposed one-year delay to the effective date of IFRS 17. In addition, they intend to make some limited amendments to the requirements of the standard.

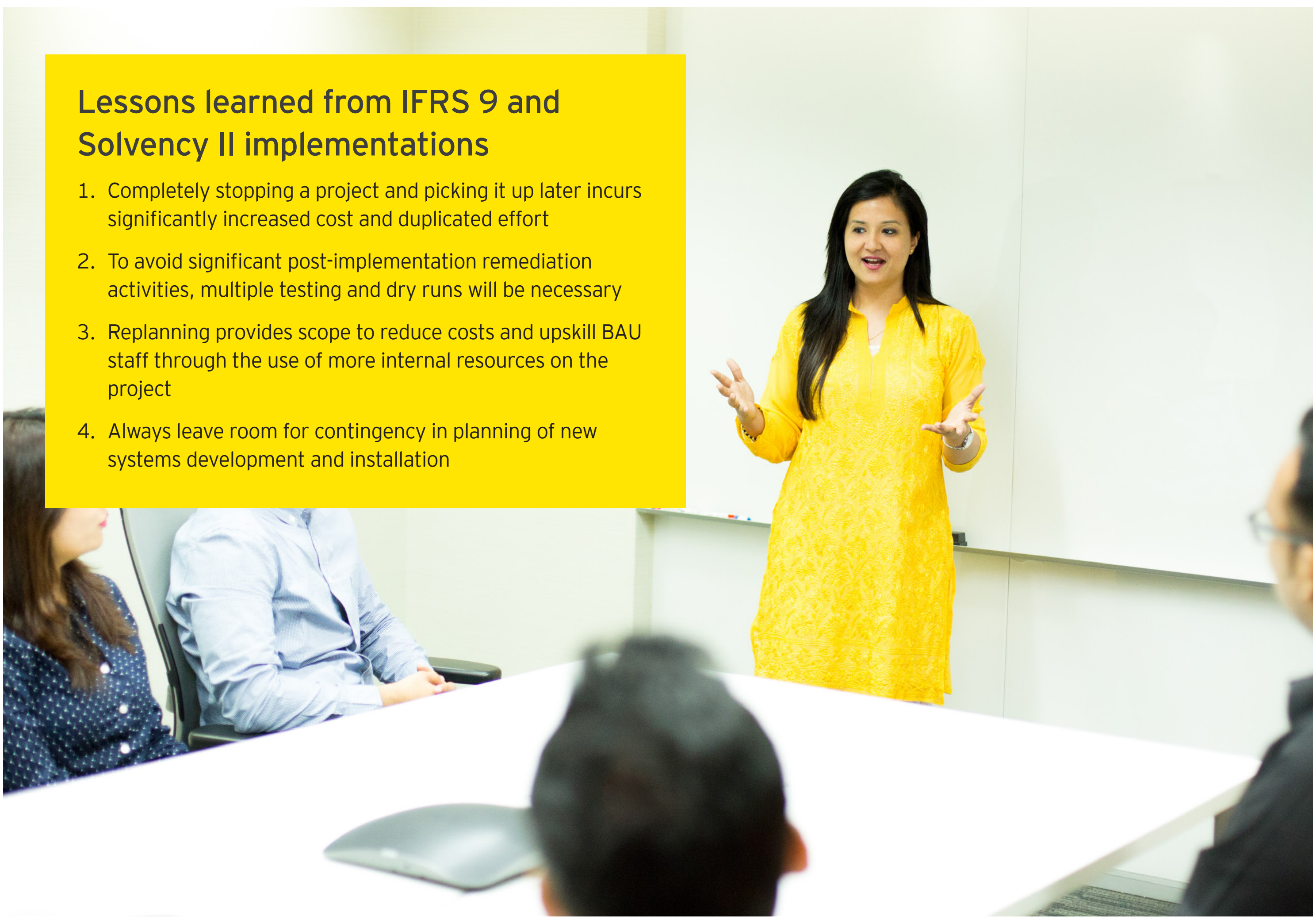
Some firms have already made a choice to continue, and others are starting to assess their choices or to retime activity – Insurers can follow a structured process to the delay as so:

- Understand the current progress of implementation, including blockers and risks to progress
- Evaluate the impact of other in-flight projects
- Make a more effective assessment of the benefits and drawbacks of the various options available to allow better and more efficient decisions
- Portfolio and project management tools can be used to support this structured assessment process and to present the summary options to the steering and board committees

Why EY

We help insurers achieve compliance with the new IFRS 17 standards efficiently, strategically and in alignment with existing finance transformation programs and broader business goals. For insurers seeking a bolder approach, we go beyond compliance to automate reporting environments and integrate finance, risk and actuarial functions to produce lasting value for the business. Our broad and deep understanding of IFRS implications and impacts brings insurers:

- Focused approach in developing technology-driven targeted operating models that integrate finance and actuarial groups
- Extensive working knowledge of solution options and vendor landscape, with proven approach to evaluation and selection of tools and technology
- Alliance and/or collaborations with leading technology and industry players, including SAP, SAS, Aptitude, Guidewire and others
- Track record of success in building IFRS 17 outcomes and integrating finance and actuarial operations for global insurers
- Outcome accelerators (including impact analyzers and modeling tools) and templates (documentation and training materials) that speed time to value and reduce implementation risk



Lessons learned from IFRS 9 and Solvency II implementations

1. Completely stopping a project and picking it up later incurs significantly increased cost and duplicated effort
2. To avoid significant post-implementation remediation activities, multiple testing and dry runs will be necessary
3. Replanning provides scope to reduce costs and upskill BAU staff through the use of more internal resources on the project
4. Always leave room for contingency in planning of new systems development and installation

EY Area IFRS contacts:

Global			
	Martin Bradley	+41 58 286 3297	mbradley@uk.ey.com
	Kevin Griffith	+44 20 7951 0905	kgriffith@uk.ey.com
	Martina Neary	+ 44 20 7951 0710	mneary@uk.ey.com
	Conor Geraghty	+44 20 7951 1683	cgeraghty@uk.ey.com
	Hans van der Veen	+31 88 40 70800	hans.van.der.veen@nl.ey.com
Europe, Middle East, India and Africa			
	Philip Vermeulen	+41 58 286 3297	phil.vermeulen@ch.ey.com
	Thomas Kagermeier	+49 89 14331 25162	thomas.kagermeier@de.ey.com
Belgium	Katrien De Cauwer	+32 2 774 91 91	katrien.de.cauwer@be.ey.com
Belgium	Peter Telders	+32 470 45 28 87	peter.telders@be.ey.com
Czech Republic	Karel Svoboda	+420225335648	karel.svoboda@cz.ey.com
France	Frederic Pierchon	+33 1 46 93 42 16	frederic.pierchon@fr.ey.com
France	Patrick Menard	+33 6 62 92 30 99	patrick.menard@fr.ey.com
Germany	Markus Horstkötter	+49 221 2779 25 587	markus.horstkoetter@de.ey.com
Germany	Robert Bahnsen	+49 711 9881 10354	robert.bahnsen@de.ey.com
Greece and Turkey	Konstantinos Nikolopoulos	+30 2102886065	konstantinos.nikolopoulos@gr.ey.com
India	Rohan Sachdev	+91 226 192 0470	rohan.sachdev@in.ey.com
Italy	Matteo Brusatori	+39 02722 12348	matteo.brusatori@it.ey.com
Israel	Emanuel Berzack	+972 3 568 0903	emanuel.berzack@il.ey.com
Ireland	James Maher	+353 1 2212 117	james.maher@ie.ey.com
Ireland	Ciara McKenna	+353 1 2212 683	ciara.mckenna@ie.ey.com
Netherlands	Jasper Kolsters	+31 88 40 71218	jasper.kolsters@nl.ey.com
Portugal	Ana Salcedas	+351 21 791 2122	ana.salcedas@pt.ey.com
Poland	Marcin Sadek	+48225578779	marcin.sadek@pl.ey.com
Poland	Radoslaw Bogucki	+48225578780	radoslaw.bogucki@pl.ey.com
South Africa	Jaco Louw	+27 21 443 0659	jaco.louw@za.ey.com
Spain	Ana Belen Hernandez-Martinez	+34 915 727298	anabelen.hernandezmartinez@es.ey.com
Switzerland	Roger Spichiger	+41 58 286 3794	roger.spichiger@ch.ey.com
Switzerland	Philip Vermeulen	+41 58 286 3297	phil.vermeulen@ch.ey.com
UAE	Sanjay Jain	+971 4312 9291	sanjay.jain@ae.ey.com
UK	Brian Edey	+44 20 7951 1692	bedey@uk.ey.com
UK	Nick Walker	+44 20 7951 0335	nwalker1@uk.ey.com
UK	Shannon Ramnarine	+44 20 7951 3222	sramnarine@uk.ey.com
UK	Alex Lee	+44 20 7951 1047	alee6@uk.ey.com

Americas			
Argentina	Alejandro de Navarette	+54 11 4515 2655	alejandro.de-navarrete@ar.ey.com
Brazil	Eduardo Wellichen	+55 11 2573 3293	eduardo.wellichen@br.ey.com
Brazil	Nuno Vieira	+55 11 2573 3098	nuno.vieira@br.ey.com
Canada	Janice Deganis	+1 5195713329	janice.c.deganis@ca.ey.com
Mexico	Tarsicio Guevara Paulin	+52 555 2838687	tarsicio.guevara@mx.ey.com
Mexico	Evan Bogardus	+1 212 773 1428	evan.bogardus@ey.com
USA	Kay Zhytko	+1 617 375 2432	kay.zhytko@ey.com
USA	Tara Hansen	+1 212 773 2329	tara.hansen@ey.com
USA	Robert Frasca	+1 617 585 0799	rob.frasca@ey.com
USA	Rajni Ramani	+1 201 551 5039	rajni.k.ramani@ey.com
USA	Peter Corbett	+1 404 290 7517	peter.corbett@ey.com
Asia-Pacific			
	Jonathan Zhao	+852 6124 8127	jonathan.zhao@hk.ey.com
	Martyn van Wensveen	+60 3 749 58632	martyn.van.wensveen@my.ey.com
Australia	Kieren Cummings	+61 2 9248 4215	kieren.cummings@au.ey.com
Australia	Brendan Counsell	+61 2 9276 9040	brendan.counsell@au.ey.com
China (mainland)	Andy Ng	+86 10 5815 2870	andy.ng@cn.ey.com
China (mainland)	Bonny Fu	+86 135 0128 6019	bonny.fu@cn.ey.com
Hong Kong	Doru Pantea	+852 2629 3168	doru.pantea@hk.ey.com
Hong Kong	Tze Ping Chng	+852 2849 9200	tze-ping.chng@hk.ey.com
Hong Kong	Steve Cheung	+852 2846 9049	steve.cheung@hk.ey.com
Taiwan	Angelo Wang	+886 9056 78990	angelo.wang@cn.ey.com
Korea	Keum Cheol Shin	+82 2 3787 6372	keum-cheol.shin@kr.ey.com
Korea	Suk Hun Kang	+82 2 3787 6600	suk-hun.kang@kr.ey.com
Malaysia	Martyn van Wensveen	+60 3 749 58632	martyn.van.wensveen@my.ey.com
Malaysia	Jeremy Lin	+60 3 238 89036	jeremy-j.lim@my.ey.com
Philippines	Charisse Rossielin Y Cruz	+63 2 8910307	charisse.rossielin.y.cruz@ph.ey.com
Japan			
	Hiroshi Yamano	+81 33 503 1100	hiroshi.yamano@jp.ey.com
	Norio Hashiba	+81 33 503 1100	norio.hashiba@jp.ey.com
	Toshihiko Kawasaki	+81 80 5984 4399	toshihiko.kawasaki@jp.ey.com

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

EYG no. 012358-18Gbl
1811-2950330
ED None

ey.com