5 COMMON PITFALLS OF IFRS 17 COMPLIANCE

Insurance entering the dawn of a new day. On January 1st, 2022, IFRS 17 Insurance Contracts goes into effect, promising to overhaul the insurance industry as we know it.

On the one hand, the standard hopes to ignite an era of fiery competition between insurance companies; the very purpose of the new rule is to promote transparency and comparability between organizations. According to Finance Derivative, over 40% of insurers believe IFRS 17 is critical to the industry's survival. This new public visibility promises to help insurance companies attract investors; investors who otherwise might be distracted by the influx of shiny, new insurtech start-ups, and payment apps. IFRS 17 gives traditional insurers a chance to shine a light on their performance and profitability.

On the other hand, IFRS 17 will upend insurers' financial statements as we know them. New calculations. Granular data disclosures. Tedious reporting requirements. A need for stringent governance and control; complying with this standard will be a beast.

So where should you begin? As the saying goes, the best offense is a good defense. After a thorough analysis of the standard and its far-flung effects, we've identified five common IFRS 17 compliance pitfalls. Avoid them and you'll kick-off your compliance journey with a mindset that will guarantee your success for the long haul.

Pitfall 1

Putting off compliance until later.

There's a reason some are calling IFRS 17 "the biggest shake-up of insurance reporting standards for decades." Slow and steady will not win this race. IFRS 17 is changing everything. And currently, most firms don't have the technology, data management, or calculation dexterity to comply. A delayed effort could result in cut corners that will strain your resources, compromise your data's integrity, and call-to-question your company's reputation.

Don't let the long lead time coax you into a false sense of security. To successfully get every department and process up to speed, IFRS 17 requires a multi-year compliance effort. Companies should start their compliance journey no later than ... today.

Why the rush? Three reasons: the vastness of the standard, the inevitability of hiccups, and that lack of infrastructure currently in place. As BDO's senior partner, Daryl Senick said, "It is unlikely that the transition process will be a straight line; false starts and re-thinking of previously decided issues are inevitable to some extent. What is crucial now is for insurers to evaluate what tools they have available to them and what they will need to reach their goals."

He goes on to suggest that companies should seek cross-department input from finance, treasury, risk management, information technology and actuarial services and communicate a coherent, cohesive plan to key stakeholders so that proper budgets and human resources can be secured early on. "Management should consider acquiring temporary consulting assistance to bridge the gap during the transitional period. This will allow staff to leverage their expertise where they can utilize it best."

His suggestion for an "all-hands-on-deck approach" is the perfect segway to our next point ...

Pitfall 2

Believing it's a finance issue.

PWC said it best:

> *"The new standard should be considered much more than an accounting issue. It will have significant implications for IT systems, strategic management, business processes and employee skill sets."*

Indeed, IFRS 17's impacts aren't limited to finance alone. While risk, underwriting, product development, pricing, strategy, and IT departments will change processes and technology to align with the new letter of the law, finance, and actuarial departments will be hit hardest. Because IFRS 17 relies on actuarial calculations, finance and actuarial teams will have to join forces to build a mutual understanding of one another's worlds.

IFRS 17 is also an issue of technology. Since the accounting standards for insurance contracts have been relatively stable for years, most insurers haven't made any significant improvements to their accounting or contract management systems. Thus, insurers don't have the tech on hand to facilitate the intercompany collaboration or data flow IFRS 17 requires. As BDO writes, "In many cases, IFRS 17 will create an opportunity to rethink the way an insurer uses data and technology systems – in other cases, IFRS 17 may, in fact, force such changes."

Pitfall 3
Inadequate systems and software.

Without any urgency to upgrade, many insurers have coasted through financial management tasks using old standby legacy systems. We believe prepping those legacy systems to meet the new requirements before the compliance due date will be tight — if not impossible. Why?

Legacy systems are rigid. Most are built with a closed architecture, meaning they don't easily plug into other applications. But integration between systems is a necessity for IFRS 17 compliance. External data sources, general ledgers, subledgers, actuarial systems, and reports are all involved in the inflow and outflow of contractual data.

You might be able to adapt legacy systems to cover the very basics of IFRS 17, but only with immersive IT involvement and extensive custom scripting. Instead, we suggest looking for a modernized, comprehensive solution that's flexible enough for even you, even as a financial user, to configure. For a complete list of exactly what you need in an IFRS 17 solution, check out the Ultimate IFRS 17 Software Checklist.

Pitfall 4
Underestimating the big data issue.

IFRS 17 is a big data issue. To produce acceptable IFRS 17 figures, insurers will have to align hundreds, even thousands, of data points under a single software's umbrella. Compliance requires you to rope in organizational data from far and wide. Not just vast volumes of data, but deep, lowlying granular data too. Then, the standard requires you to make sense of it.

For example: under IFRS 17, organizations will create risk portfolios of insurance contracts and divide them according to whether they are onerous or not onerous at initial recognition. Insurers must then weed out contracts issued more than a year apart into a different group. Then, they must divide the portfolio based on the originating year and determine its profitability.

Talk about complex. To sift and sort data at levels like this, your IFRS 16 software requires a data management component that enables you to:

Collect and transform data: You'll have to draw in data from source systems and reorganize it into a usable state. These input elements include: policies data, reinsurance treaties, accounting data, claims data, expected cash flows, discount rates, and risk parameters.
Model data: You'll have to make significant changes to the data to align it with your choice of IFRS 17 methodology.
Prepare and report on the data: You'll have to prepare financial statements that include comparisons, disclosures, and advanced data models.

The big data issue is beyond the ability of traditional CPM providers. Automation, centralization, and advanced analysis tools are the only way forward.

Pitfall 5

Seeing the standard as a bad thing.

Is IFRS 17 compliance … overwhelming? Yes. Process disrupting? Absolutely. Time-consuming? It will be. Costly? In more ways than just cash.

It's easy to see why most insurers aren't in love with IFRS 17 compliance. But like all things, a world of opportunity lies beyond our comfort zone. IFRS 17 is a chance to show investors why you're worth their cash vote. It's a chance to up the ante on the competition. It's a chance to unearth more insights out of your data; to revisit your business model and modernize your financial reporting infrastructure. Under the standard, competition will thrive, leaders will emerge, and the momentum will foster innovation.

As Allan Buitendag, National Insurance Leader for EY said, "For many insurers, IFRS 17 will fundamentally change the way you manage, measure and report business results. Although the changes seem daunting, this new standard gives you the opportunity to revisit your business model and optimize your financial reporting infrastructure."

What does an optimized financial reporting infrastructure look like? A centralized data source that aligns thousands of data points. Automation that speeds up operations and improves data handling. Integration that improves the flow of data from application to application. A digital transformation that completely integrates all processes in a single financial management system.

The right software can turn the IFRS challenge into an opportunity to improve your entire business. CCH Tagetik for IFRS 17 is kick-starting digital transformations around the world. Learn how our award-winning compliance solution will give you the automation, calculations, data flow, and collaboration tools required to comply with the standard quickly and easily.

DOWNLOAD THE CCH TAGETIK FOR IFRS 17 DATASHEET