

Meeting & Exceeding IFRS17

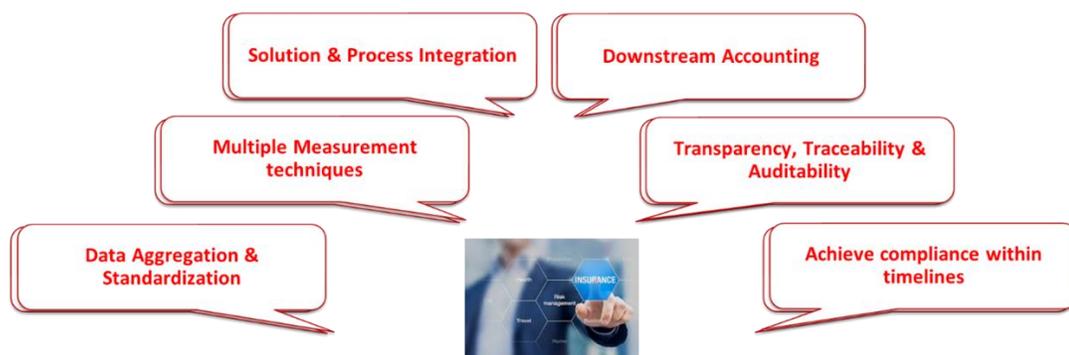
Oracle Whitepaper

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IFRS 17 Insurance Contracts ('IFRS 17' or the 'standard') released in May 2017, is undoubtedly a leap forward and a historic change to insurance revenue recognition requirements. The standard requires complete overhaul of published financial statements, aiming to make both income statement and balance sheet more comparable within the industry, and achieve the much-needed transparency and clarity for all stakeholders.

Implementation of the standard will require significant efforts having profound impact on various aspects of an insurance enterprise and its operating model. But, if viewed strategically, presents a unique opportunity for Insurers to align and transform disparate business processes, and gain greater operational efficiency and insight.

How insurance organizations ramp up their systems, processes and data on their way to this journey, will have a lasting impact not only in the short term, but also on how they meet the challenges of business modernization and enterprise analytics in today's digital economy, in the longer run.



Expectations from the Industry

BUILDING THE APPLICATION 'BRIDGE'

The comprehensive requirements for measurement of insurance liabilities and unearned profits and complying with the new statutory reporting and disclosures, will require insurers to apply major changes to processes & policies and strengthening the intersections of the accounting function with the actuarial and risk functions.

IFRS 17 implementation requires not only working on enhancing existing capabilities, but also the realization of a completely new element; a "bridge", to enable a consistent and reliable connect between Actuarial and Finance functions.

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On one side, the industry must address the changes required to their actuarial processes:

- Enhancing the current actuarial models to estimate cash flows and evaluate the adjustments related to non-financial risk;
- Adding a higher level of granularity which relates to the concept of portfolio aggregation and cohorts;
- While taking into consideration that the output will be used for economic valuations and not just balance sheet reporting.

On the other, the Financial Performance & Accounting function must:

- Produce enhanced balance sheet and implement new chart of accounts and accounting rules,
- Recognize revenue on accrual basis as insurance services are rendered instead of gross written premium on cash basis;
- While maintaining appropriate reconciliations and profitability projections between reporting periods.

A completely new calculation engine must be introduced with the objective to bridge the actuarial outputs through to finance, while transforming and calculating the metrics required to produce the IFRS 17 accounting, statements and disclosures.



The application bridge, after mining into the data produced by the actuarial models must address the complex new capabilities required by IFRS 17:

- Classifying contracts based on estimates of profitability and creating “cohorts” of contracts issued no more than a year apart to incorporate changes in macroeconomic trends and experience that may affect profitability trends;
- Calculating the fulfillment cash flow and the Contractual Service Margin (CSM), evaluating the portion of margin to be released to revenue at each reporting period;
- Adjusting the CSM based on the new contracts added to each group, interest accretion or evaluating the changes of the fair value of the underlying items, considering the financial and experience changes during the reporting period;
- Providing movement analysis and reconciliation reporting required to explain how the Liabilities, CSM, Risk Adjustment, Revenue and the Loss Component have changed in a reporting period;
- Defining accounting events and associated balances from the calculations so these can then be used to produce appropriate journal entries and providing sub-ledger capabilities for an efficient and reliable flow of data to financial systems.

IMPLEMENTING AN ENTERPRISE 'DATA FOUNDATION

Not only does IFRS 17 requires more granular and wider spectrum of data from multiple sources to perform the complex calculations, but as financial statements get standardized and subject to investor and regulator scrutiny, Insurers must also ensure governance, lineage and transparency across the entire data transformation and supply chain, from actuarial to accounting to reporting.

For reliable production of IFRS 17 reports and disclosures, organizations must review their data platform with the objective to provide enhanced capability to aggregate, store and manage data and results in a single environment. This data foundation ideally should not only serve the needs for IFRS 17 computations, but also be readily scalable to other analytical uses cases across an insurance enterprise.

An ideal platform will serve as a single standardized source of analytical truth and can host a wide variety of granular, historic and current data pertaining to - Policies, Claims, Actuarial, Transactions, Re-insurance, Own Funds, Assets/Liabilities, Products, Market Data, Cash Flows et al. while assuring transparency and lineage across the transformation flow. This will provide definitional consistency and alleviate issues around reconciliations that organizations with multiple sources systems and operational data marts face, and that are significant inhibitors to achieving integrated risk and performance capabilities.

Further, this will allow faster ramp-up to future analytical, regulatory and reporting requirements, as data and results can be re-used across various functions without having to build physical integrations unlike between point solutions.

Finally, checks and balances must be an integral part of the platform, providing adequate control over data quality and its traceability from source to reporting, auditability into the calculations being performed and governance to prove that these are done at the highest level of standards.

DON'T WAIT AT THE WINGS

International Accounting Standards Board (IASB) decision to delay the implementation of the standard by a year allows the industry to more thoughtfully plan their strategic journey towards compliance. But, building the application bridge and enhancing the data platform still requires significant effort and implementation time.

Organizations have now the unique opportunity to leverage the transformation pushed by IFRS 17 to build a modern Insurance enterprise. A bifocal approach must be adopted in implementing a solution that allows compliance to IFRS 17, and at the same time establishes the base for a wider insurance modernization initiative.

The key tenet of IFRS 17 is greater alignment between Actuarial Risk, Finance and Compliance. The integration is not only at the level of processes, but, also at the data foundation level. A strategic approach to IFRS 17 should not be adding a short-term solution to meet immediate needs, rather it should be to addresses the long-term challenges by building closer integration through a common analytical applications, data and reporting platform.

The adoption of an integrated enterprise architecture will provide a higher return on investment by providing a platform for future expansion and the ability to extend the solution to cover other Finance and Risk analytical requirements, like IFRS 9 and Solvency II.

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