



IFRS 17
Point of View
May 2018

Introduction

Over the past 10 years, the Insurance market has faced a number of changes in regulation and standards. Many adopted the approach of 'minimum compliance' resulting, sometimes, in inefficiencies and unexploited opportunities.

The new IFRS 17 accounting standard presents an immediate opportunity for Insurers to transform their business model, deliver more standardised processes, reduce costs and become more **agile**.

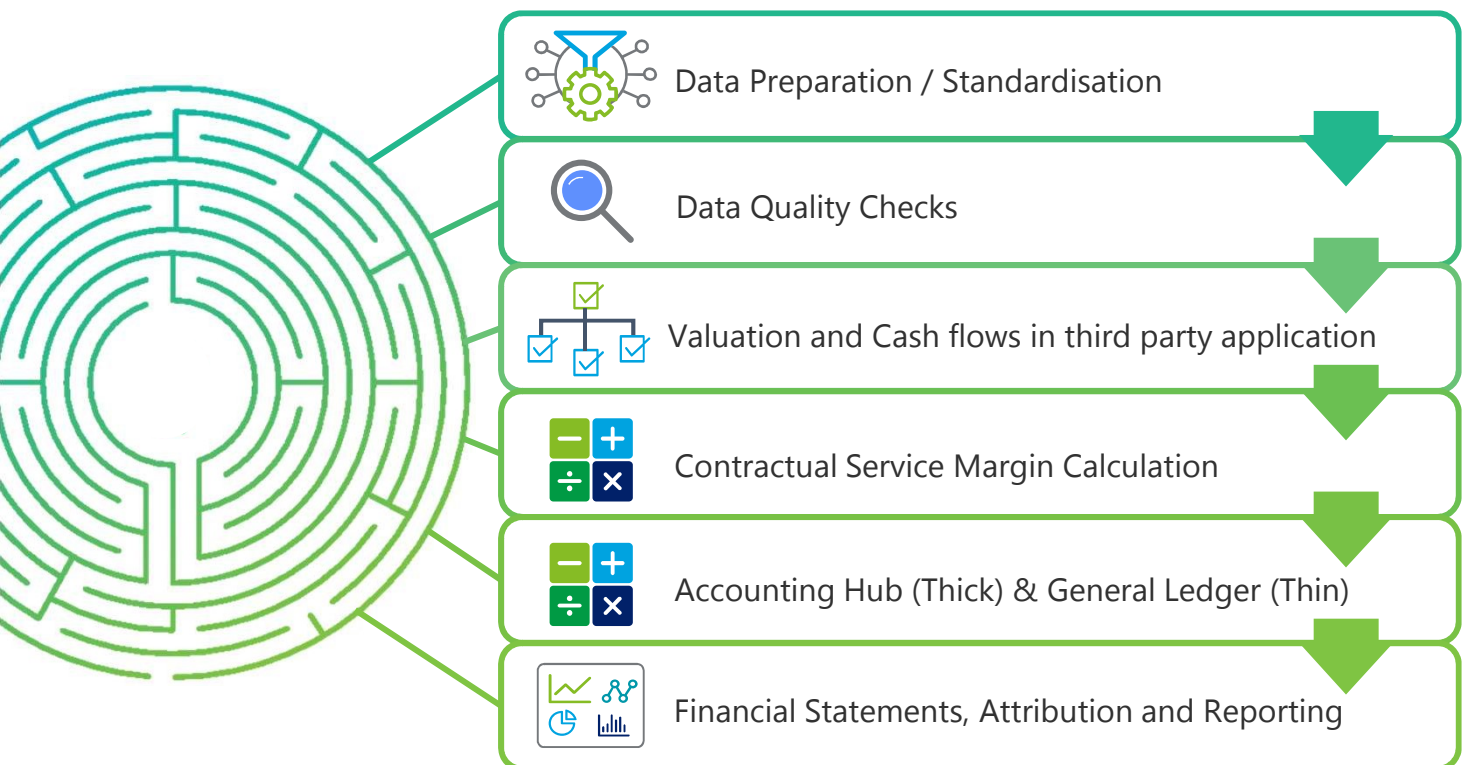
A **reduction in operational costs** will be achieved through the transformation and automation of their processes, building integrated capabilities and the adoption of new ways of working. These outcomes will be delivered by leveraging new technology in the domain of Digital Finance, Accounting & Performance Management and Analytics.

From a financial reporting perspective, Insurers are looking to become compliant with the new standard and to reduce the time their employees spend producing financial and management information. They are seeking **to build greater trust** in their data and **deliver better insight** to the business; the ultimate goal being to increase the quality of the financial information they deliver to the market and to their business functions.

Over the next 3 years (IFRS 17 is mandatory from 1 January 2021), the Insurance market in the UK will be going through a wave of transformation which will generate opportunities for Insurers. Deloitte and Oracle believe that fully integrated, Cloud-based solutions (see Fig.1 over page) will enable Insurers to accelerate their journey in becoming compliant with the upcoming changes in how to account and report Insurance Contracts under IFRS 17.

In this context, it is essential that your organisation leverages technology to ensure you not only meet the demands of regulators, shareholders and the general public, but also **maintain a competitive advantage** in the market place.

IFRS 17 PROCESS FLOW (simplified)



IFRS 17 implementation

It is important that the end-state architecture, the implementation approach and the level of integration of the design and build with existing reporting standard (e.g. Solvency II) are clearly defined upfront.

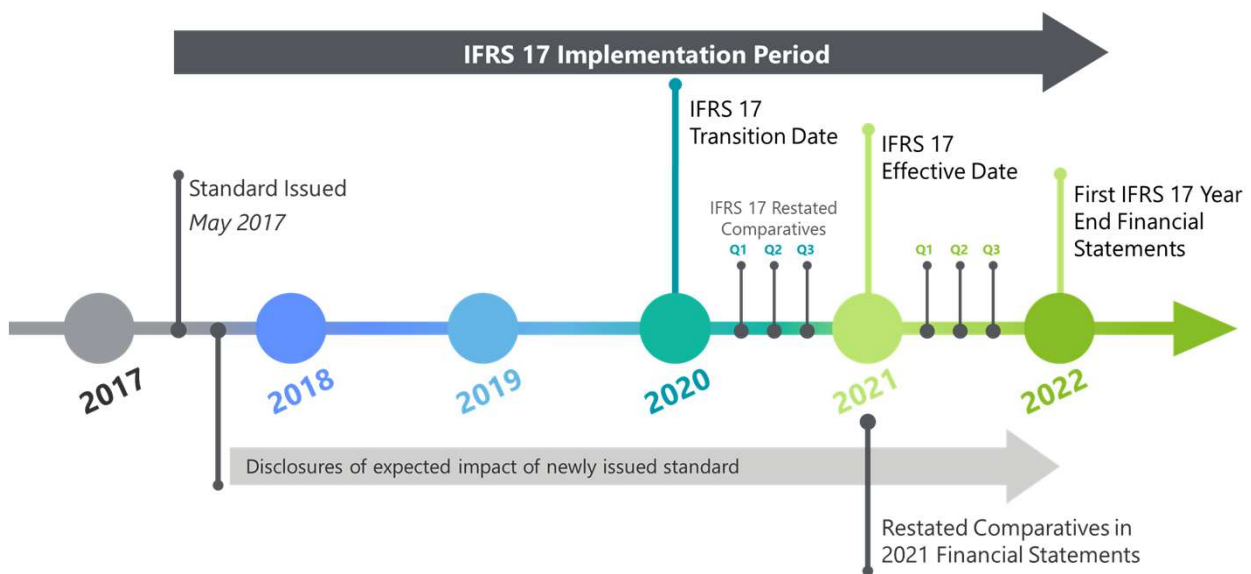
Existing reporting processes should not be impacted by the delivery of IFRS 17 while insurers transition into the new accounting regime. Specifically, we would expect Insurers will need to maintain their capabilities to deliver financial results against both the current IFRS and the future IFRS 17.

By utilising the seamless integration across the Oracle Financial suite, your organisation will be able to meet the demands of IFRS 17; through effective data management of insurance contracts, aggregation of contracts (i.e. cohorts), and the **automated** calculation of the Contractual Service Margin (CSM) under IFRS 17.

The Oracle Financial suite can **streamline** both the data and aggregation requirements and enhance management information (MI), reporting and planning processes.

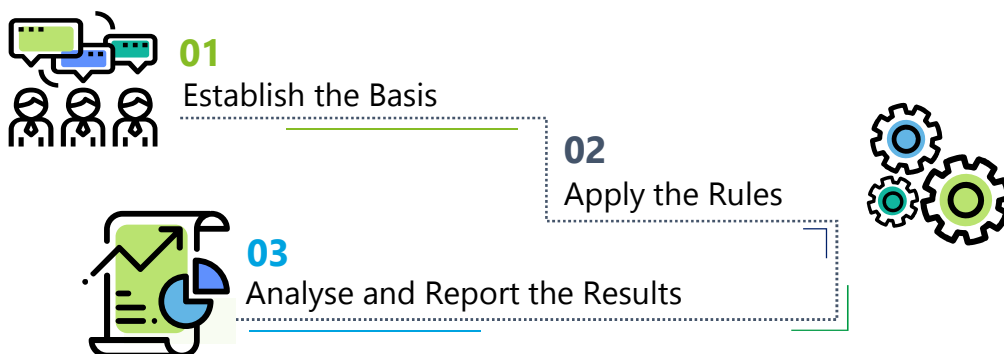
Deloitte and Oracle can together support Insurers to dramatically reduce the risk, the costs and the overall time required for the IFRS 17 implementation. Oracle offers integrated solutions as well as the option for clients to use selective Oracle components. Deloitte offers services relating to technical accounting, advisory and implementation expertise to **accelerate compliance and overall business value**.

In this context, your end-state solution will **increase data integrity** and bring a new level of confidence to statutory and management reporting.



In order to meet the deadline of 1 January 2021, you must act now to ensure an adequate level of confidence in your data systems and reporting processes is present before the 'cut-over' to the new standard.

For simplicity, we have broken down the approach to compliance into three basic steps (in further detail on the next page):



Simplified approach to compliance

Establish the Basis



Before we begin to apply the new rules it is essential we establish a sound platform on which to derive the requirements.

The Chart of Accounts (CoA) will need to be enhanced to enable both summarised and granular posting from the G/L to the Income Statement and Balance Sheet. For example, we will need to consider the Discounting, Risk Adjustment, and Contractual Service Margin (CSM).

We would recommend the use of a parallel ledger in the interim to ensure compliance with both current IFRS and new IFRS 17 rules. This will also enable greater confidence in the data when transition to the new IFRS rules is done.

Key to the success of the foundational work is the detail of the data requirements. The more granular the data can be, the more robust the results. Non-standardised and missing data should be reviewed and amended/updated in preparation for the application of the new rules.



Apply the Rules



A robust accounting rules engine is essential and the requirements under IFRS 17 translate to an even greater emphasis to ensure this is in place. Insurers will need to implement new rules and capabilities to process increased numbers of cash flow data using new accounting engine technology and to transform this data into postings that feed a thin ledger.

In addition, the management of allocated costs (i.e. Corporate overheads) vs. costs attributable to products (pay-as-you-go or unit cost basis) is key. A clear understanding of how costs are allocated or attributed within the organisation must be in place.

As an example, to aid a more granular approach, it may also be necessary to review and enhance your existing cost centre structure.



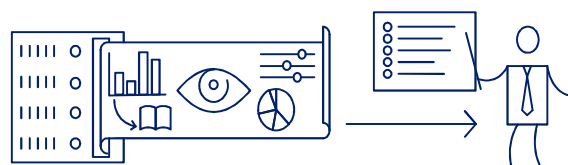
Analyse and Report the Results



IFRS 17 requires an increased level of analysis and disclosures on a number of aspects of the requirements (e.g. Volatility of the CSM throughout the life of the contract). These new analysis will need to be embedded as part of the external disclosures as well as internal MI. For example, more advanced analytics and MI on key attributes of the P/L and your product portfolio will need to be developed alongside the core statutory and regulatory reporting capabilities.

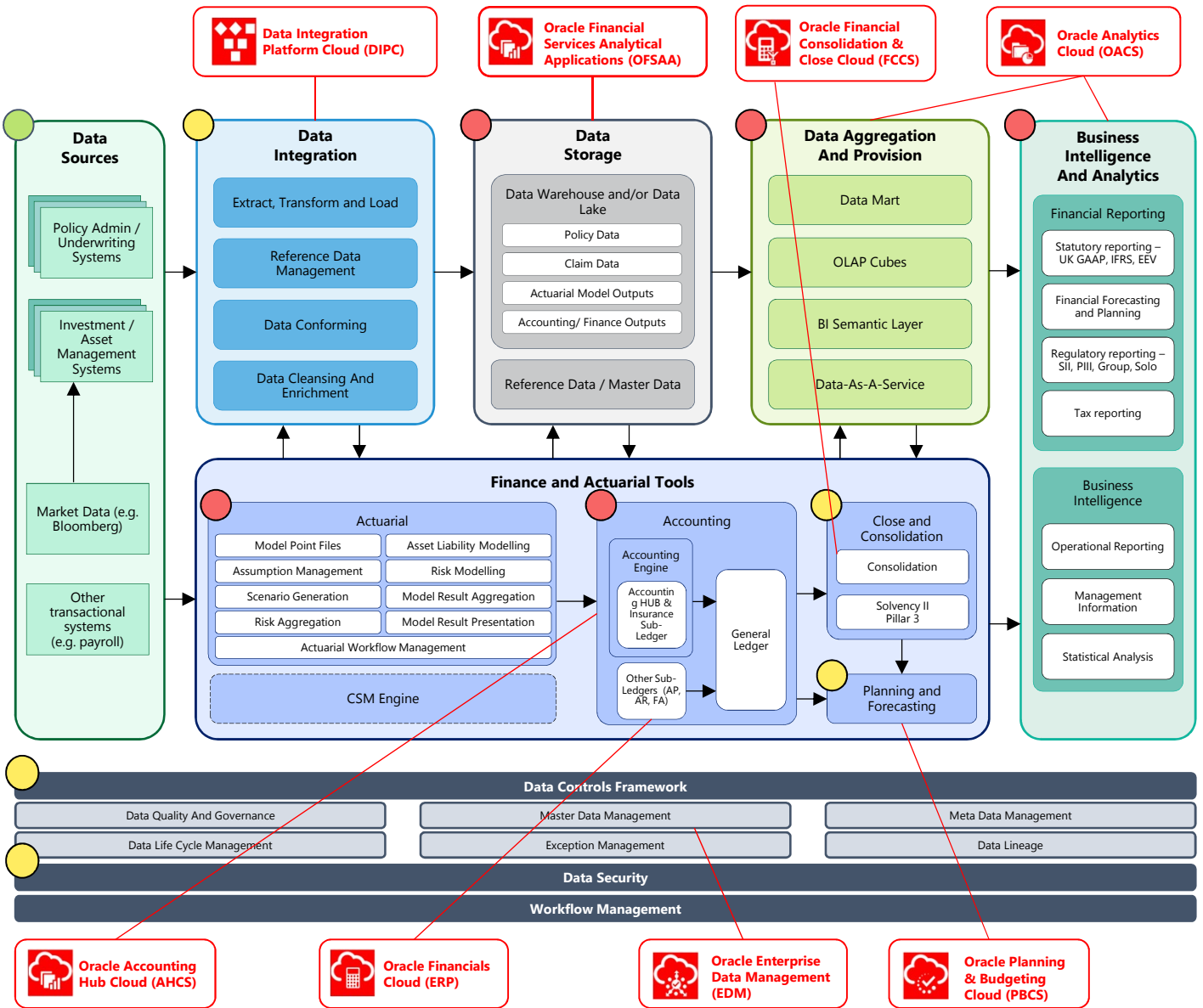
Insurers should use this opportunity to streamline and to integrate their reporting processes by reducing the instance of 'hand-offs', and standardise MI across their organisation. A single-source-of-the-truth should be adopted across functions and lines of business.

This can be achieved by leveraging Analytics and Performance Management Technology throughout the Enterprise Architecture and with the integration of the Planning, MI, Tax and Statutory reporting capabilities.



Oracle reference solution architecture for IFRS 17 (fig. 1)

Oracle's fully integrated Cloud Financial Suite enables Insurers to meet IFRS 17 requirements more efficiently and drive sustainable growth across their enterprise.



- Key**
- Significant change required to meet the IFRS 17 technical requirement
 - Moderate change required to meet IFRS 17 technical requirement
 - Low/no change required to meet IFRS 17 technical requirement

In Summary

A material change in how Insurers account and report the performance of Insurance Contracts represents a wholesale change to how organisations are configured. Through the use of technology and rigorous change management principles the change should be less disruptive than adopting a non-technology driven approach.

Governance and control around changes and the effective management of outputs can ensure that your organisation will meet the new requirements but, additionally, future-proof the organisation for upcoming changes in accounting and regulatory regimes.

Through many years of successful implementations, Deloitte and Oracle, working together, bring the technology to deliver but also the intellectual horse-power to manage the risk that is inherent with any change programme of this scale.

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