ORACLE

IFRS 17
A Survival Guide

The International Accounting Standards Board (IASB) issued the new standard for insurance contracts – IFRS 17 – in May 2017. Compliance with the complex new standard for insurance contracts will require an overhaul of the processes and the IT systems and this Survival Guide will help you successfully navigate the change.

June 18, 2019

DISCLAIMER

The following is intended to outline our general product direction. It is intended for information purposes only, and may not be incorporated into any contract. It is not a commitment to deliver any material, code, or functionality, and should not be relied upon in making purchasing decisions. The development, release, and timing of any features or functionality described for Oracle's products remains at the sole discretion of Oracle.

TABLE OF CONTENTS

RATIONALE FOR IFRS 17

'IFRS 17 Insurance Contracts' replaces an interim standard 'IFRS 4 Insurance Contracts' that was issued back in 2004. IFRS 17 comes into force on January 1, 2022.

IFRS 17 tries to address the following issues existing currently:

Comparability: Accounting policies for similar insurance contracts vary from country to country depending on the accounting practices that evolved in each country over time. This results in lack of comparability not just among the companies issuing insurance contracts but also within the insurance company subsidiaries spread across different geographies.

IFRS 17 lays down specific guidelines for the companies to measure their insurance contracts based on the contract features (like coverage-term, protection vs participation oriented, etc.) to ensure consistent accounting across countries.

IFRS 17 lays down guidelines to recognize the profits on accrual basis which is the existing accounting norm for industries other than insurance.

Transparency: The way insurance companies present their financial results does not clearly demarcate between the underwriting profit and the investment profit. This results in lack of transparency about the source of profit and the underlying risk.

IFRS 17 recommends disclosing the insurance service result separately from the insurance finance result; this disaggregation would give an insight into the status of core insurance business in isolation and would also in turn result in improving comparability among insurance companies.

IFRS 17 also recommends disclosing the reconciliation of the insurance contract liabilities (disaggregated further into Liability for remaining coverage excluding loss component, Onerous/loss component and Liability for incurred claims) from beginning to end of the reporting period, which would further improve transparency.

Relevancy: Currently insurance companies are not required to update the cash flow estimates that were arrived at the time of inception of insurance contracts. This is specifically a concern for long duration contracts. Also, the selection of discount rate for determining insurance contract liabilities is based on the expected return that is expected from the investments.

IFRS 17 recommendation on measurement of insurance contract liabilities requires the insurance companies to revise the cash flow estimates at each reporting period. This would ensure a better visibility on the performance of the insurance company's various groups (onerous/non-onerous/others) of insurance contracts.

IFRS 17 recommends selection of current discount rates that best reflect the cash flow patterns of the insurance contracts, so the discount rates could be arrived at by either following a top-down (i.e. starting with an actual or expected reference portfolio rate) approach or a bottom-up (i.e. starting with a risk free rate of return) approach.

KEY CONSIDERATIONS FOR IMPLEMENTING IFRS 17

IFRS 17 proposes considerable accounting changes and adoption of IFRS 17 will require close collaboration among the actuarial, risk, finance and IT functions within an insurance company. Here are a few key considerations for implementing IFRS 17:

Reassessment and regrouping of existing insurance contracts: IFRS 17 has proposed three methods – Building book approach or General measurement model, Premium allocation approach, Variable fee approach – of valuing insurance contracts from inception. The insurance companies need to review their existing books of business and ascertain the contracts-reclassification required for choosing the right measurement method. The additional IFRS 17 requirements for grouping contracts within a risk-portfolio are profitability (onerous/non-onerous/others) and contracts that are incepted not more than a year apart.

Data management: The contract grouping requirement as discussed above will present a huge data challenge for the insurance companies both while transitioning to IFRS 17 and in future. Huge amount of historical data needs to be analyzed and then aggregated to arrive at the transition-day requirements. Historical assumptions and experiences starting from the transition date will then need to be captured going forwards. The granularity at which the data is captured in the future and the sources of these data need to be clearly identified. There will be a need for increased data storage. Of particular importance will be the quality of data and its availability in a timely manner thus requiring controls and workflows to be in place.

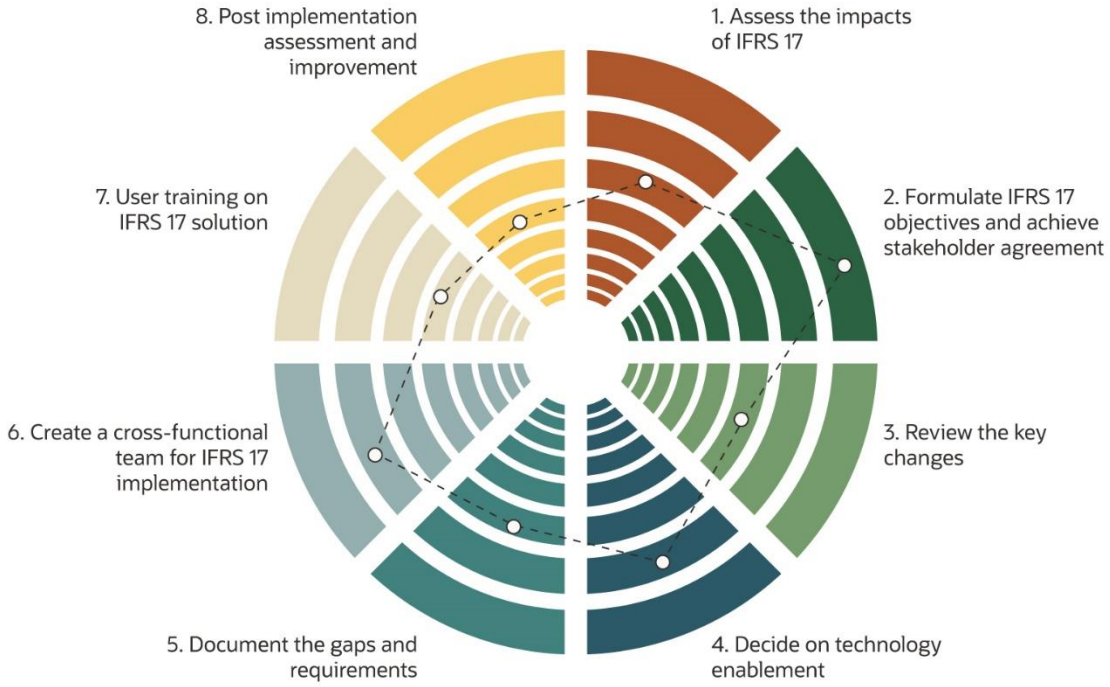
Actuarial modelling: Projected cash flows and risk adjustment are the critical inputs from actuarial models for arriving at IFRS 17 measurements. The cash flow models may need to be updated to cater to the grouping requirements, especially the 1-year grouping requirement. Insurance companies are free to choose their own risk adjustment model as suitable (but at a cohort level) and parallels could be drawn to Solvency II risk margin model, however a wider review of the differences between IFRS 17 and Solvency II from a modelling standpoint is required prior to this.

Accounting integration and Allocations: IFRS 17 being an accounting change would require considerable changes to reporting and disclosures that are driven by data (e.g. actual cash flows) and modelling inputs (e.g. expected future cash flows and risk adjustment). Additionally, the directly attributable costs and the actuarial calculations (say, at a group/portfolio level) would be required to be broken down to more granular level (say, at a policy or model point level). A revamp of the existing ledger is required in order to cater to the IFRS 17 requirements. Integration of source systems and actuarial modelling with 'updated' accounting (ledger) coupled with finance control, audit and reconciliation along with allocation capability are critical for IFRS 17 implementation.

ORACLE'S RECOMMENDED APPROACH AND CHECKLIST FOR IFRS 17 COMPLIANCE

Compliance with IFRS 17 would be an enterprise-wide initiative that cuts across actuarial, risk, finance, IT and lines of businesses. It is therefore important to have a clear strategy with a well-defined governance structure to ensure a smooth rollout.

Following is a suggested checklist for a successful IFRS 17 rollout.



IFRS 17 objectives: IFRS 17 is a complete overhaul of accounting for insurance contracts requiring changes to an organization's processes, policies and systems. Insurers would need to assess the impacts of IFRS 17 on their existing processes, policies and systems not just to make changes to comply with IFRS 17 but also looking at this as an opportunity to improve and refine the status quo. Therefore, it is imperative that the IFRS 17 objectives are clearly formulated and agreed upon by all the stakeholders.

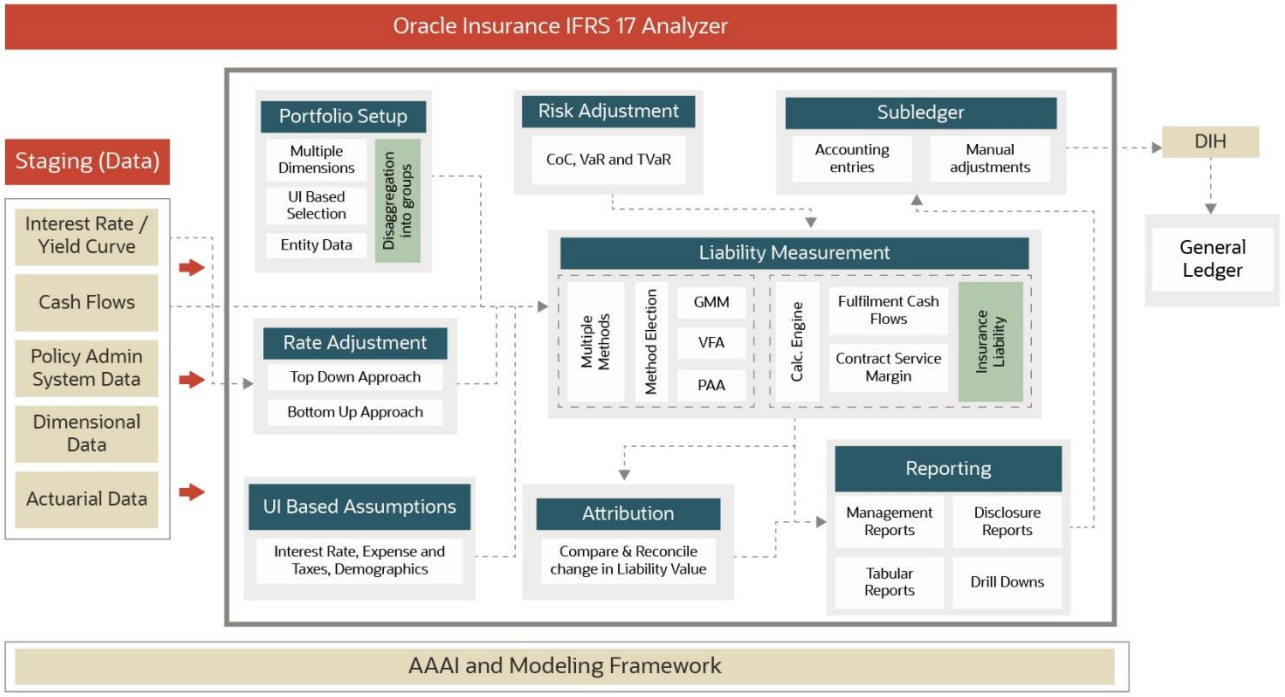
IFRS 17 preparation: Once the objectives are formulated, the technicalities of the changes required for IFRS 17 need to be finalized and communicated within the organization. The key elements that need to be considered here are the data architecture and data flow, actuarial modeling changes, discount rate determination, risk adjustment approach, changes to the chart of accounts, GL integration and reconciliation and final disclosures. Additionally, the crucial decision on technology enablement, whether a completely new solution sitting between actuarial and accounting systems or an enhancement to either the actuarial system or the accounting system, needs to be made.

IFRS 17 rollout: Prior to the rollout of IFRS 17 solution, gap analysis with respect to policies, processes and systems should have been completed and the gaps clearly documented along with the supporting technical documentation. The business requirements should also have been documented. It is imperative that a strong cross-functional team comprising people from Actuarial, Risk, Finance and IT functions along with IFRS 17 and accounting subject matter experts is formed for IFRS 17 implementation. The cross-functional team needs to work very closely during the project lifecycle along with the vendor and partner teams for a successful rollout. User training is also paramount to a successful rollout. User trainings should be properly planned based on the role being played by different teams and each team should clearly understand their accountability towards meeting compliance goals.

Post implementation, the systems and processes should be continuously assessed for further improvement.

ORACLE'S SOLUTION FOR IFRS 17

Oracle provides a framework for ingestion of data from source systems, setting up of business rules for portfolio setup and disaggregation into groups, rate and risk adjustments, performing calculations, attribution and reporting, and sub ledger accounting needed to ensure compliance with the standard.



The Oracle Insurance IFRS17 Analyzer solution is designed to take data from a staging area that is common across all Oracle Financial Services Analytical Applications (OFSAA) installations and enable its reuse for analytical needs. The calculation engine in the solution can either consume the present value of future cash flows directly or it can consume the estimated future cash flows and discount them to the present value, which are then used for computation of insurance liabilities disaggregated into the required components. The calculation engine also calculates some of the key metrics like Contractual Service Margin (and its projection), Insurance Revenue, Insurance Service Result, Insurance Finance Expense and Other Comprehensive Income (due to change in financial risk).

The solution provides prebuilt calculation templates for General Measurement Model (GMM), Variable Fee Approach (VFA) and Premium Allocation Approach (PAA) liability measurement methods and provides workflows for calculation template definition, calculation run, accounting rule definition, generation of accounting entries, manual adjustment for accounting postings etc. Additionally, the solution allows users to configure business rules for portfolio setup and disaggregating the portfolio into groups and cohorts.

The solution enables disclosure reporting of liability analysis for all the three measurement methods and comparison between GMM and PAA methods. It also enables management reporting of CSM projection trend, summary of profitable vs onerous contracts in portfolio, comparative analysis of CSM and insurance liability between periods.

ORACLE'S PROVEN METHODOLOGY AND CONSULTING FRAMEWORK FOR IMPLEMENTING IFRS 17

Implementation of IFRS 17 compliance would be a complex affair, as it needs to be coordinated across the Actuarial, Risk, Finance, IT and business functions. It requires subject matter expertise in each of the above areas, as well as experienced input from technical architects, product experts, and engagement managers. A well-defined implementation approach that encompasses the entire lifecycle of the project is critical to ensure urgent compliance deadlines are met.

The Oracle Unified Method (OUM) is a proven methodology for IFRS 17 that includes guidance on knowledge transition, and inbuilt approaches for agile delivery in large programs.

The following are the principles of OUM:

- Iterative and incremental: OUM recognizes the advantages of an iterative and incremental approach to development and deployment of information systems.
- Business process and use-case driven: Business processes and use cases are used as the primary artefacts, if applicable.
- Architecture centric: The system is architected as a "living environment" equipped to accommodate changes at multiple levels.
- Flexible and scalable: In OUM, this principle is extended to refer to the execution of the method processes themselves. Project managers and practitioners are encouraged to scale OUM to be fit-for purpose for a given situation.
- Risk focused: A key focus in OUM is to attack and reduce the most significant project risks. This helps the project team address the most critical risks as early as possible in the project lifecycle.

The following are the benefits of OUM:

- More Focused Effort: OUM enables projects to clearly define business scope as well as the need to create architectural models of the enterprise. This planning results in tighter scope control, more accurate business understanding, and a firm foundation to align with customer expectations.
- Built-in Flexibility: By combining activities and tasks in different ways, OUM can be applied to many types of information technology software development and implementation projects.
- Saves Time: Seasoned information technology practitioners representing years of experience have contributed their knowledge to OUM. Project teams to take advantage of this experience by leveraging these leading practices along with industry standards.
- Higher Quality: OUM subscribes to an iterative approach that incorporates testing and validation throughout the lifecycle, rather than testing for quality only at the end of the project.
- More Cost Effective: OUM facilitates improved control of project expenses by using a flexible work breakdown structure that allows you to perform only necessary tasks.
- Reduced Project Risk: Implementing an iterative, broadly applicable method mitigates requirements mismatch. A key focus in OUM is to identify and reduce the most significant project risks. This allows for the most critical risks to be addressed as early as possible in the project lifecycle, which results in a measurable reduction of schedule and budget risks.

In addition to leveraging the OUM for project delivery, Oracle Financial Services Analytical Applications (OFSAA) Consulting's end-to-end IFRS 17 implementation framework covers all relevant areas including:

- Data Management
- Portfolio setup and disaggregation into groups
- CSM and insurance liability measurement, for insurance and reinsurance
- Rate and risk adjustment
- Accounting and ledger integration
- Reporting

The OFSAA Consulting team has also set up an IFRS 17 model office which can be used as a sandbox for testing relevant IFRS 17 use cases or day-in-the-life scenarios. The group has a rich inventory of collaterals, design templates, architecture reference models, deployment options, and project plans that are effectively leveraged by consultants during implementation.

Saikat has over 12 years of experience in the insurance and financial services industry in various capacities – subject matter expert, domain consulting, project management and presales.

Saikat is a certified Fellow, Life Management Institute (FLMI) and holds a post graduate diploma in business management. He has passed several actuarial exams conducted by the Institute and Faculty of Actuaries (IFoA) and the Institute of Actuaries of India (IAI). He has worked with many top tier insurers across the globe in consulting, implementation and transformation projects during his overall experience. He engages with insures on their journey to integrated risk, finance and regulatory reporting, and helps in unlocking the value in their data and systems.

About The Author

Saikat Paul

Senior Principal Consultant,
OFSAA Consulting,
Oracle Financial Services Software Ltd.

CONNECT WITH US

Call +1.800.ORACLE1 or visit oracle.com.
Outside North America, find your local office at oracle.com/contact.

blogs.oracle.com/financialservices linkedin.com/showcase/oraclefs twitter.com/oraclefs oracle.com/ifrs17

IFRS 17 A Survival Guide
June 18, 2019