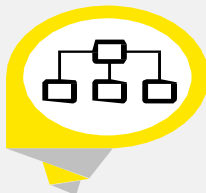


IFRS 17 – Operational Implications

Martyn van Wensveen, Partner EY Malaysia
IFRS 17 Implementation Lead (APAC)

Key lessons learnt so far from our IFRS 17 engagements

1



IFRS 17 is much more than an accounting change, it has a major impact on the entire organization (front-, middle- and back-office)

2



If you think that the IFRS 17 standard is complex, wait till you try to implement this in real life!

3



Do not underestimate the amount of time it takes to find the required data to fulfil the extensive IFRS 17 primary financials and disclosure requirements

4



The biggest amount of work is the end-to-end Data, System & Process (DSP) changes – need to make sure IT does not become bottleneck!

5



Follow a proven IFRS implementation methodology (with well structured and centrally prepared tools and templates)

6



Important to emphasize both the **content** and **process** skills needed to get the job done (difficult to find people who master both skills!))

7



Need to appoint a separate **accounting lead** (IFRS 17 specialist), **actuarial lead** (financial & business impact models), **systems lead** (ERP/EPM) and **project lead** (finance change specialist) to jointly manage the IFRS 17 implementation.



Scoping and Planning



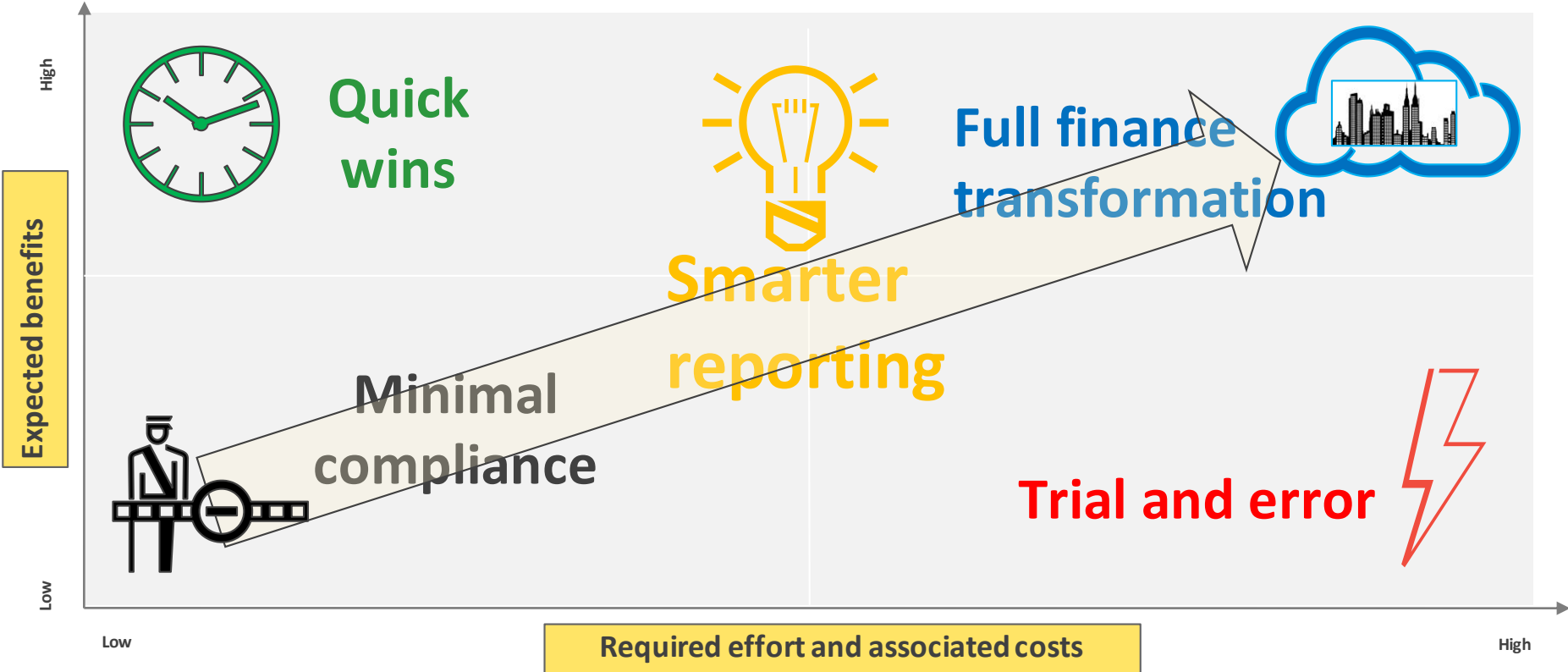
People and Change



Stakeholder engagement and Communication

Before you can start, you must first determine the shared ambition level of the organisation (“mandate for change”)

It is important to determine your ambition level before embarking on your IFRS 17 implementation ...



... so that you can derive the expected benefits from the pledged investments and resources!

Operational implications – The big picture (TOM)

1. Policy

- ▶ New accounting policies/procedures and control documentation
- ▶ IFRS 17 methodology guidance and reporting instructions
- ▶ GL Chart of Accounts changes and account mappings
- ▶ Assumptions setting (for modelling)
- ▶ Investment policy changes (IFRS9)

5. Data

- ▶ Refinement, upgrading, conversion and migration of (complex) actuarial valuation models
- ▶ New financial reporting data requirements (input/output)
- ▶ Data reconciliations at different levels
- ▶ Data gathering, storage and archiving
- ▶ Data quality, security & controls
- ▶ Data governance and master data management

2. Performance Management

- ▶ Changes in MI reports and KPI's
- ▶ Planning, budgeting and forecasting processes need to be adjusted
- ▶ VBM, scorecards and incentive schemes



6. Processes

- ▶ Materiality concepts/guidelines
- ▶ Updating closing and reporting procedures, planning processes, actuarial processes, risk management etc.
- ▶ Internal and external reporting templates including group reporting packages
- ▶ Internal controls and audit trail

3. People

- ▶ Training
- ▶ Cross functional collaboration (especially for Finance & Risk)
- ▶ Project resourcing & budget
- ▶ Managing change fatigue

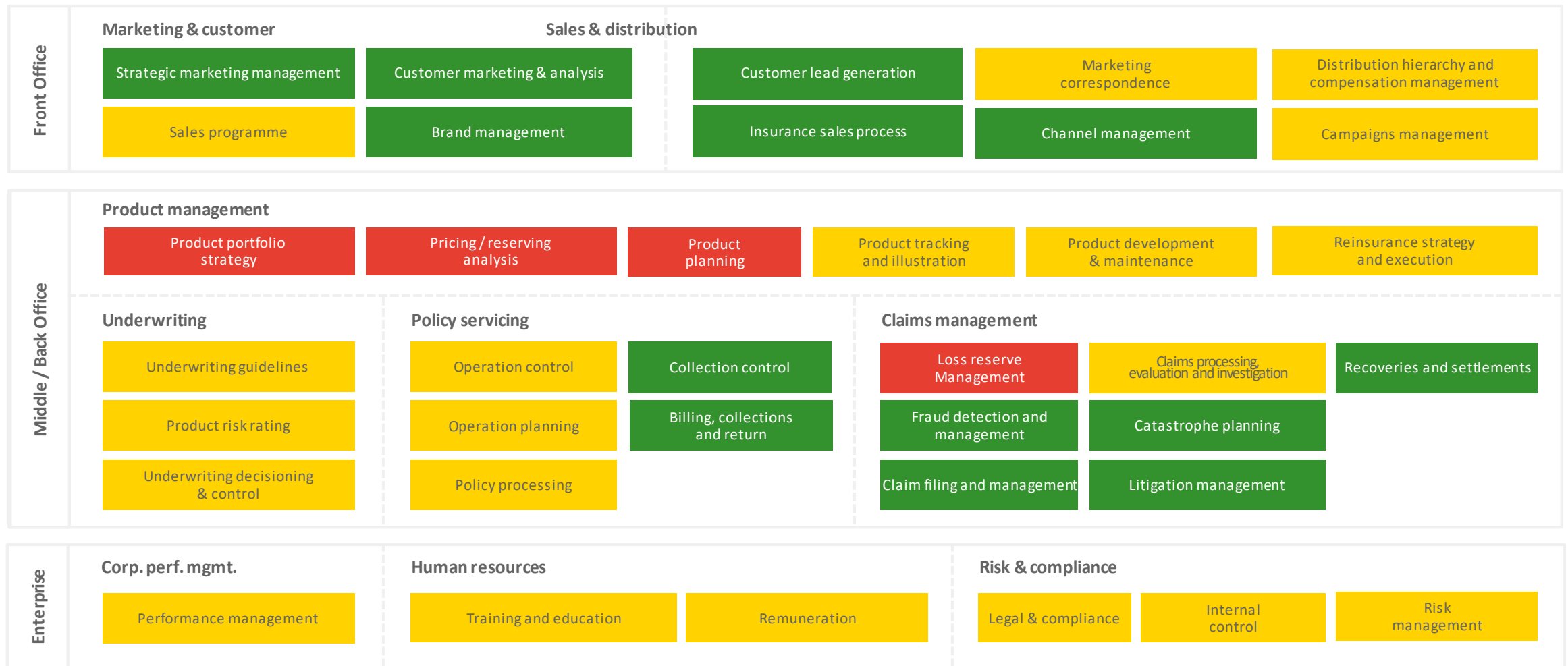
4. Organisation

- ▶ Clear roles & responsibilities between Actuarial and Finance departments
- ▶ Technical Provisions Assumptions/ Expert Judgement Committee
- ▶ Impact on outsourcing contracts

7. Technology

- ▶ Core systems, investment system, actuarial systems, pricing systems, etc.
- ▶ Posting logic/engines
- ▶ General Ledger, consolidation package and reporting systems
- ▶ System interfaces
- ▶ Current system capacities & capabilities (agile technology)
- ▶ New functionalities/features

IFRS 17 does not only require Finance, Actuarial & IT changes, it can have a profound impact on your entire business operations



Degree of impacts to key functional areas

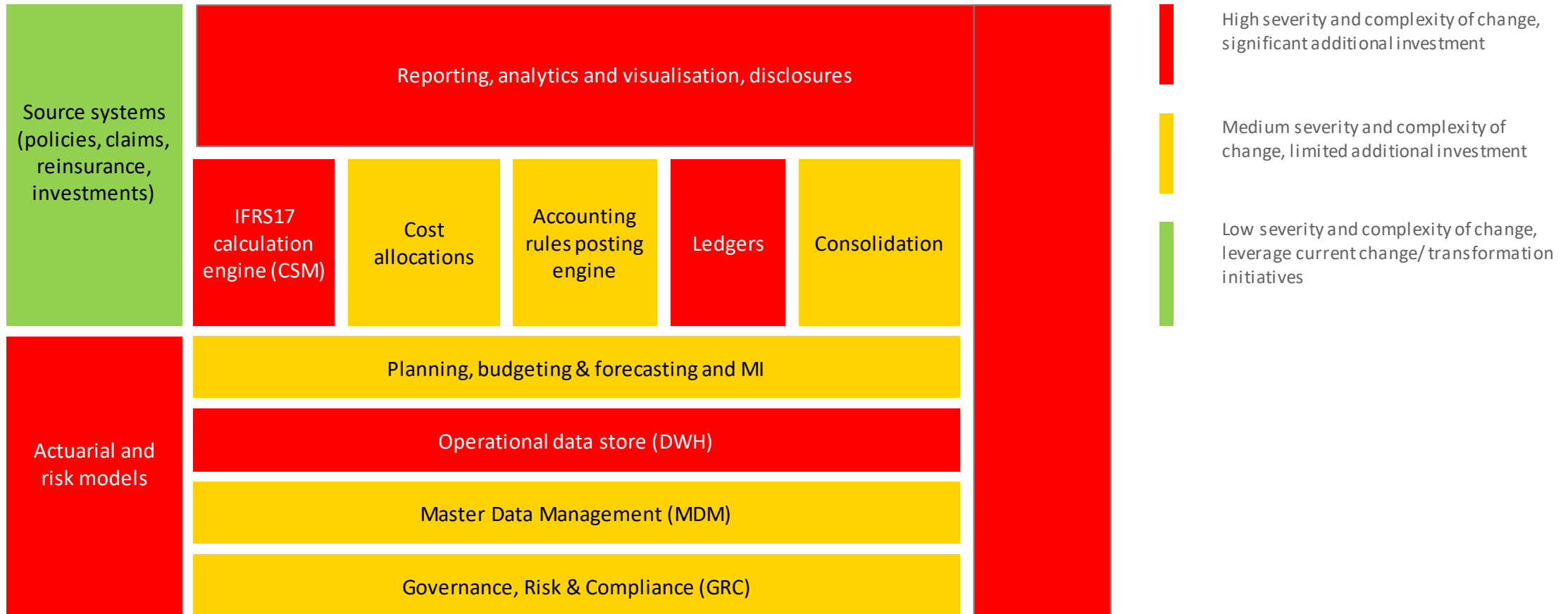
Low or no impact

Medium – indirect impact

High – direct impact

Careful consideration of the impact across the entire system architecture is required

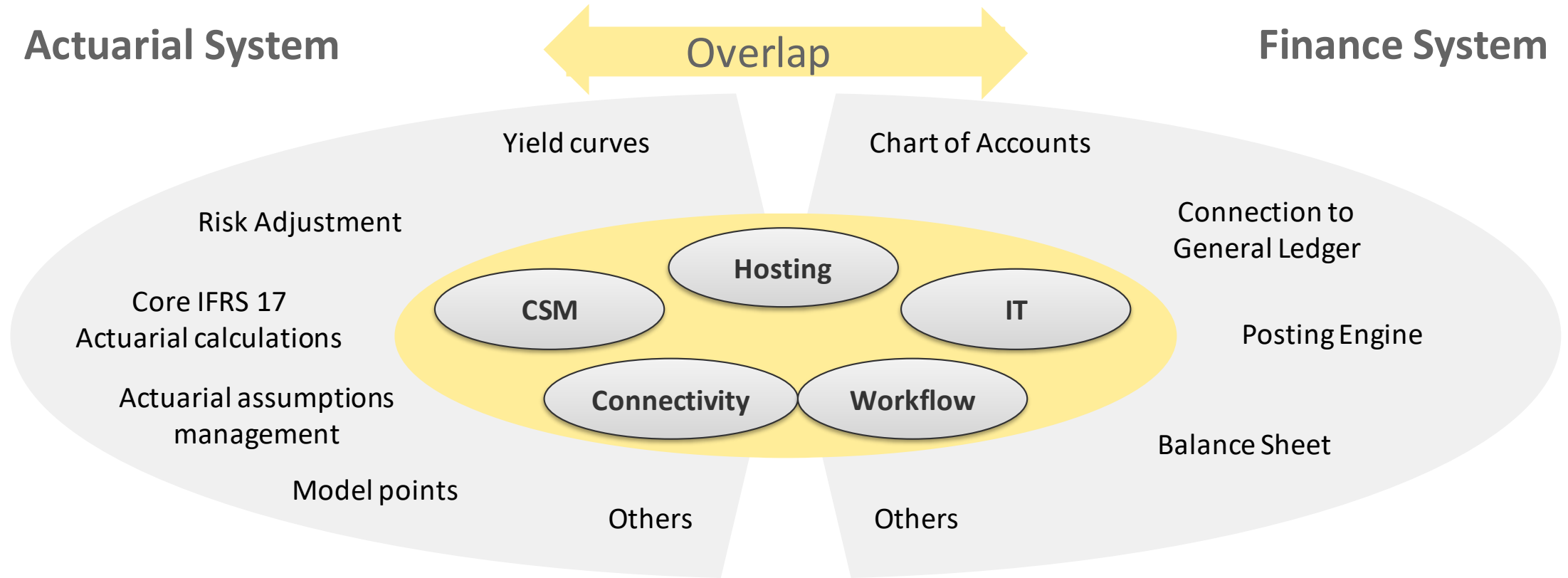
The complexity of the IFRS 17 implementation is **high (red) to medium (yellow)** across the entire financial & actuarial Data, Systems and Processes (DSP) infrastructure



There are basically 3 system solution options available to address your IFRS 17 needs

	1. Enhance your current Actuarial system	2. Buy or build a new Finance sub-ledger solution	3. Develop integrated multi-GAAP GL solution
What it does	<ul style="list-style-type: none"> ▶ Enhance current actuarial system to produce CSM calculations ▶ Build on existing MCEV/Solvency II tools ▶ Enhance existing Finance systems and IT solutions to cover IFRS 17 specific accounting and reporting requirements 	<ul style="list-style-type: none"> ▶ Buy or build IFRS 17 capabilities through the introduction of new integrated sub-ledger solution (owned by Finance & Risk) ▶ Includes an integrated, pre-configured insurance data model for source data and results data onto one platform that eliminates redundancy ▶ A powerful enterprise data warehouse 	<ul style="list-style-type: none"> ▶ Central Finance system with enhanced multi-dimensional IT capabilities to provide a new Multi-Ledger, Multi-Client, Multi-Product, Multi-Currency, Multi-Time IFRS 17 Platform ▶ Use of in-memory calculation features with integrated database
Pros	<ul style="list-style-type: none"> ▶ Easiest and fastest solution to implement ▶ Built primarily on existing tools and processes ▶ Lower investment required 	<ul style="list-style-type: none"> ▶ Opportunity to implement a new, more efficient subledger system ▶ Shorter time to benefits realization ▶ Ancillary benefits in areas outside IFRS 	<ul style="list-style-type: none"> ▶ Higher flexibility of the implemented solution ▶ Enables addition of other requirements ▶ Granularity at multi-GAAP level
Cons	<ul style="list-style-type: none"> ▶ Less efficient system setup (add-ons) ▶ May not fit the future IFRS 17 reporting needs ▶ Considerable manual steps required 	<ul style="list-style-type: none"> ▶ Multiple data sources and complexity of the process means higher implementation risks ▶ Significant upfront investment ▶ Critical path risk (need a “Plan B”) 	<ul style="list-style-type: none"> ▶ Takes longer to realize benefits from migration ▶ Likely to have some manual steps and interim solutions until stabilized ▶ Most expensive option to implement and technology is unproven

The right solution is a matter of balance



So what are the key IFRS 17 requirements that a new end-to-end IFRS 17 subledger system should be able to fulfil?

MUST-HAVE SYSTEM REQUIREMENTS (to be able to comply with new IFRS 17 standard):

- ▶ Support data gathering/staging from multiple sources (Policy admin system, Actuarial system, Market data feeds, General Ledger, etc)
- ▶ Comes with built-in multi-dimensional IFRS 17 data model (part of integrated data warehouse solution)
- ▶ Must support data aggregation and grouping at cohort level (for contracts with similar risk profile, split by onerousness and not more than 12 months apart)
- ▶ Support cost allocation for directly attributable expenses (sourced from GL)
- ▶ Perform CSM Calculations (using both GM/BBA and VFA methods)
- ▶ Data storage for review/approval, disclosures and analytics
- ▶ Accommodate GL posting rules for all business transaction event types in accordance with IFRS 17 accounting policies
- ▶ Post the correct IFRS 17 double bookkeeping (Dt/Cr) journal entries in the GL system

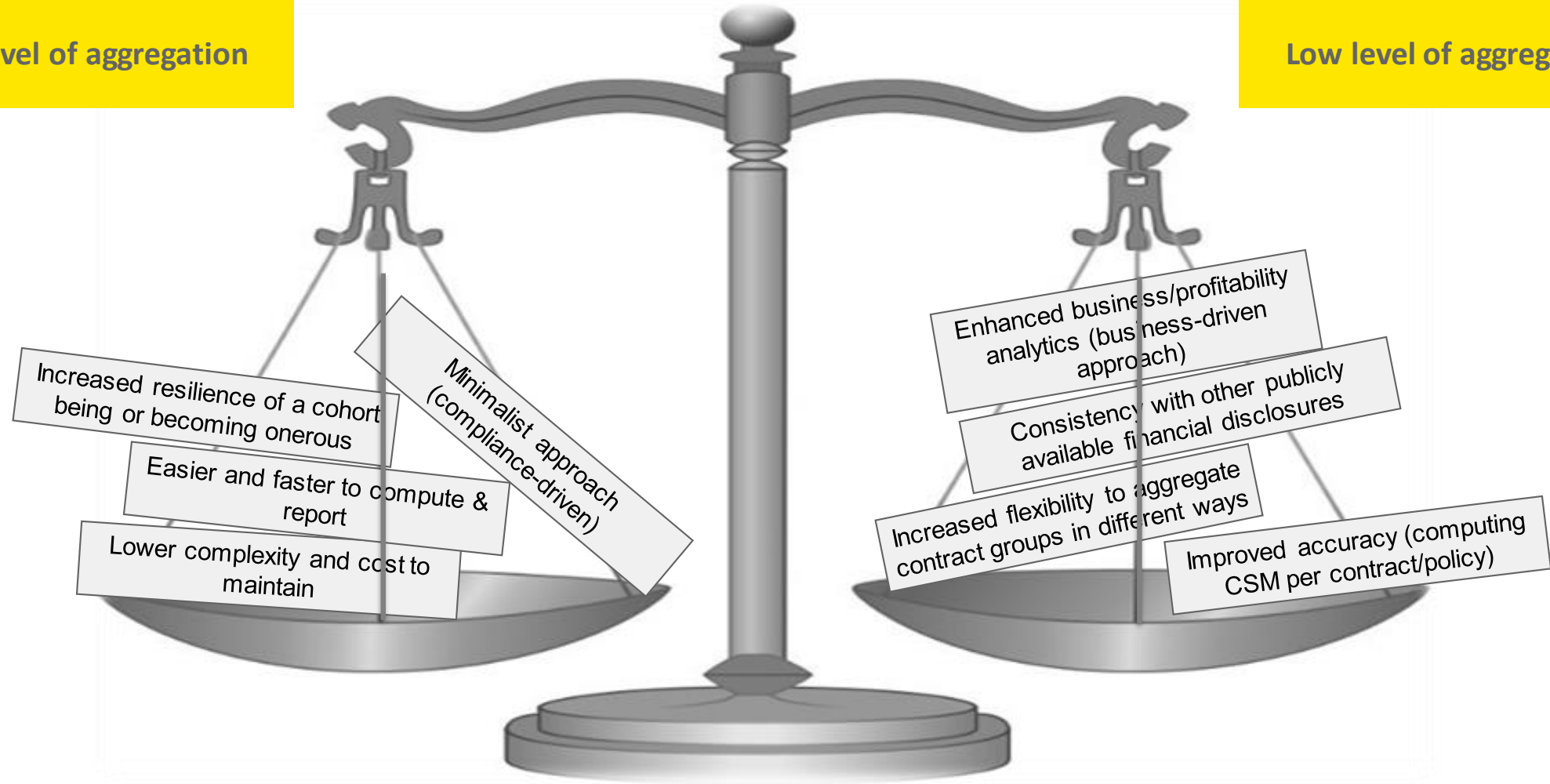
OTHER OPTIONAL REQUIREMENTS (not driven by the new IFRS17 standard but by internal needs):

- ▶ End-to-end workflow management tool (control center) with full audit trail
- ▶ Comply with internal control procedures and other SOPs
- ▶ Basic analytics & visualization capabilities
- ▶ Support both Cloud (private/public) and on-premise (host) processing
- ▶ Comply with relevant industry security standards
- ▶ Meet or exceed system performance criteria as per agreed SLA

The “level of aggregation” choice has a major impact on the system design and data volumes

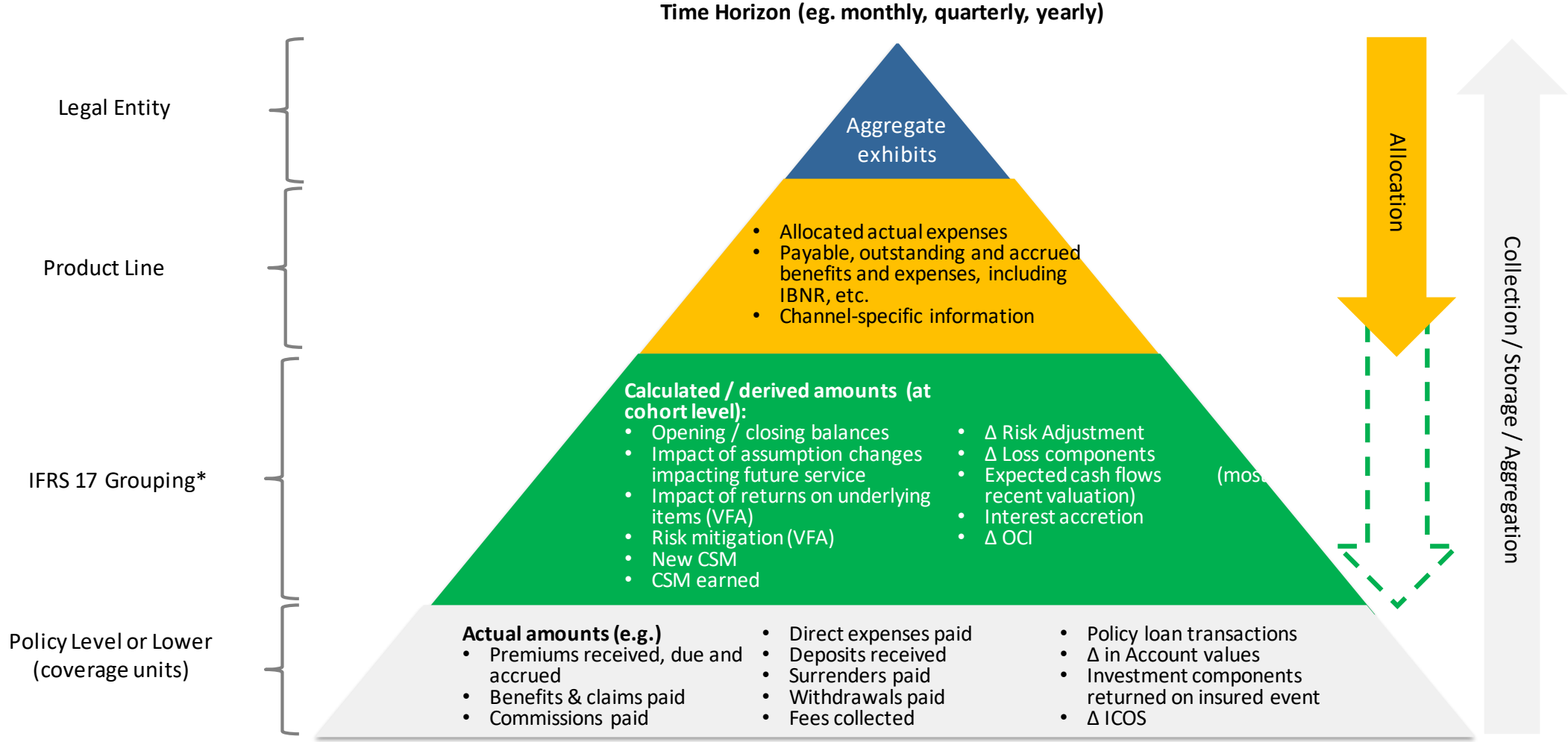
High level of aggregation

Low level of aggregation



Potential data aggregation pyramid

illustrative example



*Grouping as defined including cohorts based on issue date **Payable amounts related to unexpected premium may need to be separated

Our preliminary assessment shows several key finance processes will need to be changed too

Need to redesign financial close process & calendar

- ▶ Deadlines to publish results remain unchanged or may even shorten
- ▶ More complex calculations need to be done
- ▶ Potentially greater demand for manual activities on an interim basis (until full system solution in place)
- ▶ Additional time required for analysis (based on new measurement framework and new KPIs)

Major change to financial reporting processes

- ▶ New format of balance sheet and P&L
- ▶ New Chart of Accounts and Accounting Logic (posting rules)
- ▶ Significant additional disclosure requirements (e.g. CSM methods, estimation approaches, risk information, investment component, movement tables etc.) will require system and process changes
- ▶ Content and structure of data to be captured by reporting systems will change significantly
- ▶ Local stat/reg/tax reporting

Planning and performance management

- ▶ Planning, budgeting and forecasting processes need to be adjusted to the new IFRS regime
- ▶ Provision of new management information and KPIs that make financial performance under IFRS17 transparent and consistent with external reporting requirements (published results)

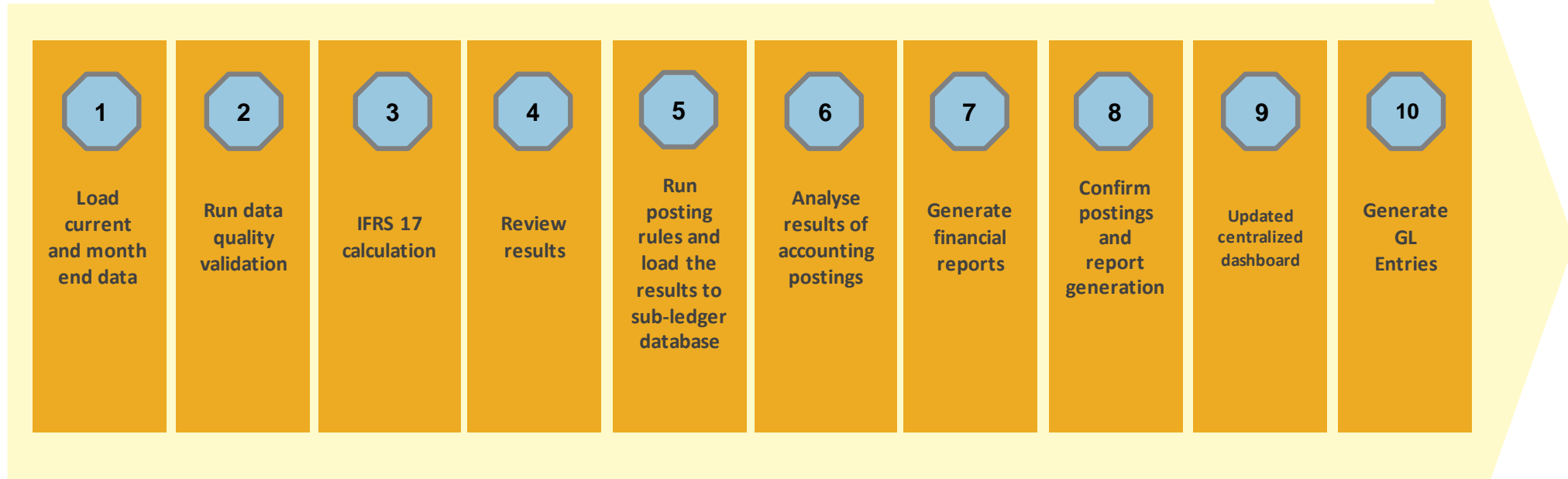
Control and audit processes

- ▶ Adoption of new processes will require the design of specific controls to ensure quality and robustness and integration into existing control frameworks
- ▶ Auditability of reported figures across the entire financial reporting value chain
- ▶ Management of historic data for reported figures and input/source data (sub-ledger system)

IFRS 17 Finance Operations – how it will work in real life

1. Entities prepare cashflow input from their local actuarial and policy admin systems
2. Cashflow data at cohort level loaded in CSM calculator (local or central)
3. CSM run-off data fed into subledger data store and supplemented with additional disclosure data from source systems (eg. policy data), actuarial system (eg. market data and assumptions) and general ledger (eg. cost allocation data)
4. Subledger closing (finance operations)
5. Feed subledger data into expanded IFRS general ledger (through mapping table)
6. Group consolidation / intercompany eliminations / reconciliations
7. Prepare financial reporting:
 - Group consolidated reporting & disclosures (FA)
 - Local statutory reporting (FA)
 - Local regulatory reporting
 - Local tax reporting
 - Run analytics (FP&A)
 - Update actuals against budget and forecast (FP&A)
 - Local management reporting (MA)

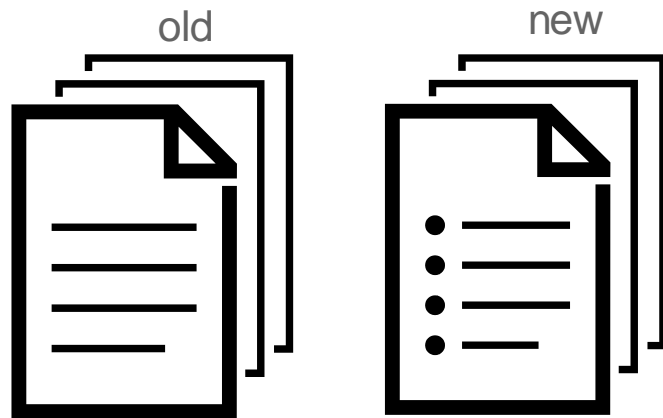
High-level IFRS 17 Sub-Ledger System Process Flow



The best approach to do an IFRS 17 implementation is to work backwards from the final deliverables

First think what the 'new world' would look like (in 2021)...

Consolidated IFRS 17 balance sheet, statement of comprehensive income and explanatory report



...then think what you can/need to do now (2018) to get there in a well managed and timely manner

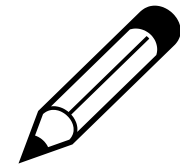
Assessment phase:

1. Accounting & reporting gap analysis
2. Financial impact assessment
3. Operational impact assessment
4. Implementation plan & budget

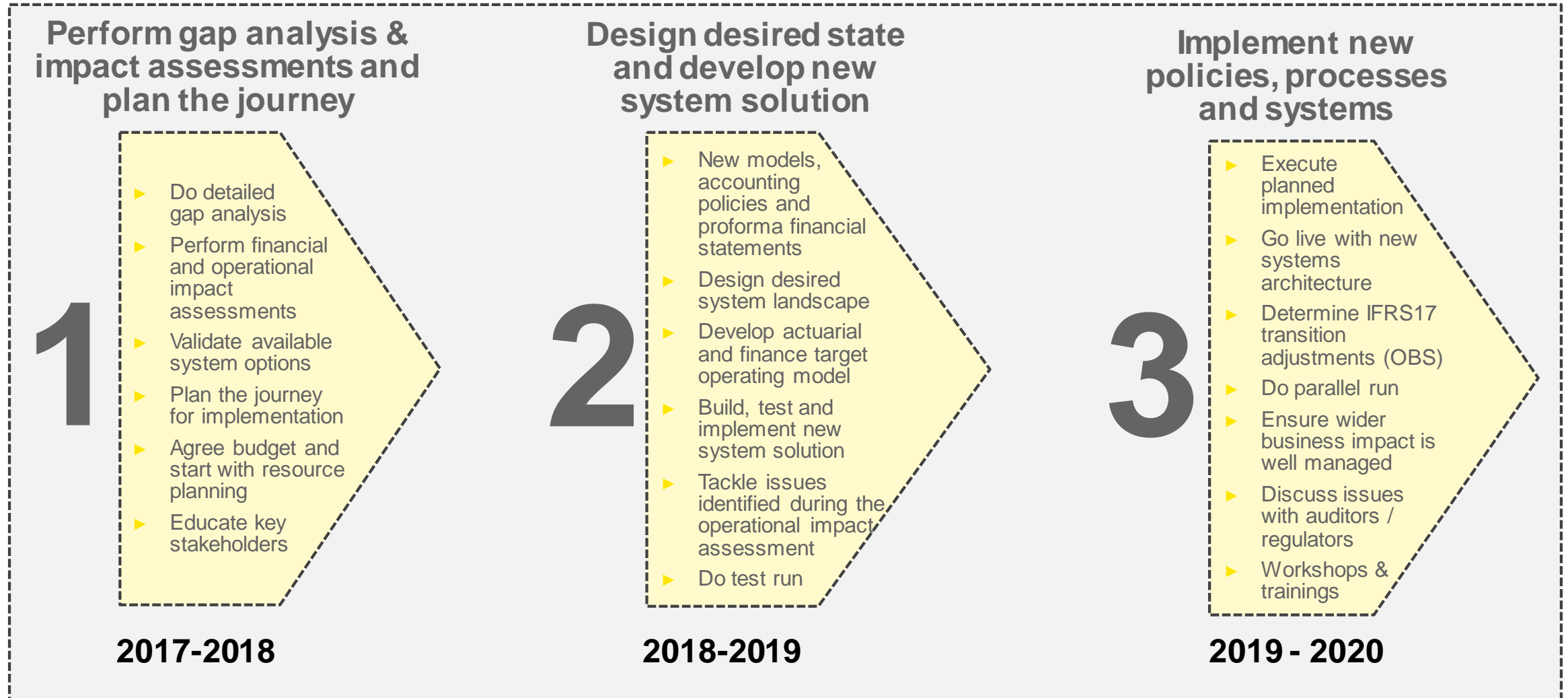


Design phase:

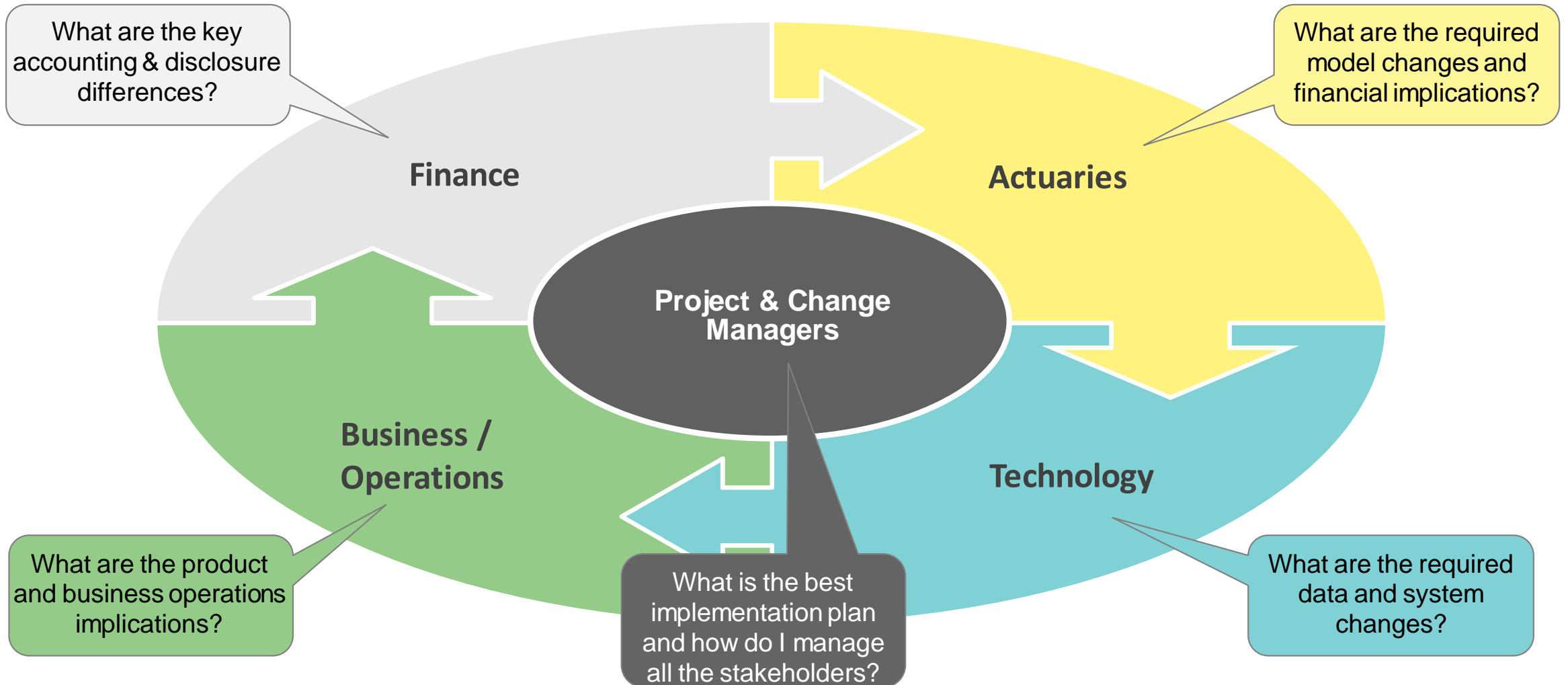
1. Position papers / accounting policies
2. Proforma financial statements
3. New models & system options / design
4. Process changes



We recommend a phased approach to manage the timely implementation of IFRS 17



Getting all the required people involved and engaged is key to a successful IFRS 17 project delivery



Your IFRS17 readiness checklist (to be completed by June 2018)



1. Start your IFRS 17 impact assessment project now if you have not already done so



2. Mobilize project resources & identify key stakeholders to be involved



3. Conduct core team training (covering both technical content & implementation approach/plan)



4. Do a detailed accounting gap analyses (using a pre-populated gap analyzer tool)



5. Conduct financial and operational impact assessments based on gap analysis results



6. Determine available system options and decide best option(s) for your company



7. Make a realistic implementation roadmap & budget (including IT!)



8. Share findings with impacted stakeholders (Board, Management, Group)



9. Discuss findings with external auditors and regulators – after Group consultation

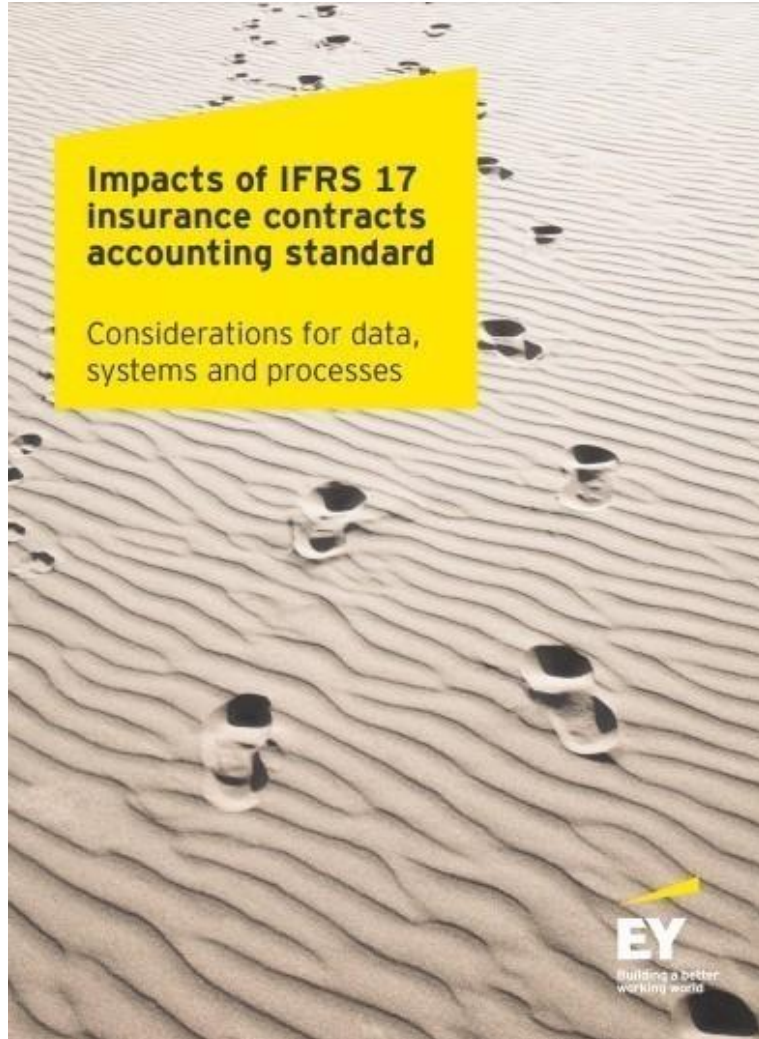


10. Secure budget and prepare for Design (2018) and Implementation (2019-2020) phases

“Working on an IFRS 17 project feels a lot like crossing a bridge while building it at the same time!”



Our EY Global IFRS 17 DSP publication is available online !



[http://www.ey.com/Publication/vwLUAssets/ey-ey-impacts-of-ifrs-17-insurance-contracts-accounting-standard/\\$FILE/ey-ey-impacts-of-ifrs-17-insurance-contracts-accounting-standard.pdf](http://www.ey.com/Publication/vwLUAssets/ey-ey-impacts-of-ifrs-17-insurance-contracts-accounting-standard/$FILE/ey-ey-impacts-of-ifrs-17-insurance-contracts-accounting-standard.pdf)

EY

Assurance | Tax | Transactions | Advisory

About EY

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 167,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve potential.

For more information, please visit
www.ey.com.

EY refers to the global organization of 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 their clients.

This presentation was prepared for training purposes. This means that the contents were not subject to either an audit or a review. As a consequence, our presentation provides no assurance on the financial data and notes thereto as included in this presentation.

© 2018 Ernst & Young
All Rights Reserved.