



2021 countdown underway

Insurers prepare for IFRS 17 implementation

Global IFRS Insurance Survey 2018

Contents

Foreword	01
About the report	02
Executive summary	03
New requirements to bring greater consistency	05
Being ready on time	07
Preparing systems technology	12
Budgeting for compliance	17
Financial statement and performance reporting implications	21
Raising stakeholder awareness	25
Building internal collaborations	27
The expected benefits	30
Conclusion	32
Contacts	34

Foreword

I am delighted to present the findings from the Global IFRS Insurance Survey 2018, an international and independent analysis of 340 insurers' views on their preparation for IFRS 17, the new accounting rules for insurance contracts.

This is the third time that Deloitte has commissioned the Economist Intelligence Unit to survey senior executives from insurers operating across the globe to provide an 'industry view' of insurers' preparation activities and perspectives on the new accounting rules.

The third edition of the survey is perhaps the most important given that it gauges the views and status of preparation over one year since the publication of IFRS 17 and with just 30 months to go before the Standard becomes effective in over 100 countries globally.

The findings from the survey of 340 senior insurance finance, actuarial and IT executives highlight a material change in attitude toward the preparation for the adoption of IFRS 17 compared to Deloitte's previous surveys in 2012 and 2013. Many insurers are becoming more and more occupied with ensuring their businesses meet compliance by 2021. Most believe that the time available is just enough. In addition, the views on the usefulness of this transformational regulatory change have moved towards a more markedly positive opinion that the large implementation costs will generate greater benefits in terms of transparency, global comparability and lower cost of capital.

I am grateful to the Economist Intelligence Unit for its impartial and insightful analysis, and to all participants for their contribution to this research.

Please do contact me or the Deloitte IFRS Insurance leaders in your local markets if you would like to discuss any aspect of this report.



Francesco Nagari

Global IFRS Insurance Leader



About the report

In May 2017 the International Accounting Standards Board (IASB) released its long-awaited International Financial Reporting Standard 17 (IFRS 17 or the Standard). This marked the end of a multi-year process to produce the first comprehensive IFRS guidance for insurance contracts. This Standard is effective January 1st 2021, and replaces the current interim regulation, IFRS 4, which has, for the past decade, grandfathered prior accounting practices while the IASB was busy producing IFRS 17. In addition, the IASB has granted to all entities with significant insurance operations the option to defer the implementation of IFRS 9 Financial Instruments by three years from the 2018 effective date; IFRS 9 fundamentally changes the accounting for insurers' investments in bonds and equity securities. This decision has paired the effective dates of these two major accounting reforms, making 2021 an unprecedented milestone for changes in corporate reporting for the insurance sector.

With IFRS 17, the IASB aims to establish one set of principles for the recognition, measurement, presentation and disclosure of insurance contracts. This goal is ambitious and it will take a great deal of effort for the Standard to be universally interpreted and adopted. Efforts to comply are driving substantial changes across many parts of insurers' businesses – from actuarial and finance to product development and operations. Furthermore, due to the possibility that there will be different interpretations of how to implement the Standard across the over 100 jurisdictions in the world that will adopt it, there is also concern about how much diversity will emerge from its application.

This report aims at providing a comprehensive overview of how global insurers are reacting to and preparing for the adoption of the Standard. It assesses the industry's views on the scale and complexity of the implementation challenge. It also asks whether the timelines for systems implementation and other needed changes are realistic.

Our research is based on a survey of 340 insurance executives including senior leaders in finance, actuarial and IT. The survey focuses mainly on the participants' perception of the challenges of IFRS 17 implementation.

About the research

The Economist Intelligence Unit surveyed 340 global insurers in February and March 2018, located across Canada, the UK, France, Italy, Germany, Japan, Switzerland, Spain, China, South Korea, the Netherlands and the US.

The respondents come from a range of insurance companies: 29% are non-life insurers, 20% are reinsurers, 18% are composite insurers, 18% are life insurers, and 15% are health insurers. Insurers are also grouped by net written premiums (NWP): 83 are very large insurers with more than €5bn NWP, 85 are large insurers with €1bn to €5bn NWP, 83 have €500m to €1bn NWP and 89 report €300m to €500m NWP.

All respondents are director or vice-president level and above, and all currently work for a company that prepares financial statements in compliance with IFRS or that intends to comply with IFRS in the future. Compliance means application of IFRS for group reporting to the parent company, local subsidiary reporting or both.

A number of insurance professionals have also provided their expert perspective. We would like to thank the following people for their time and insights:

1. Charles Henaire, Deputy Chief Financial Officer, Great-West Lifeco
2. Don Cummings, Vice-President and Contoller, AIG
3. Jeong-Hyeok Park, Chief Accounting Officer, Samsung Life
4. Luigi Lubelli, Group Chief Financial Officer, Generali
5. Philip Witherington, Group Chief Financial Officer, Manulife
6. Roman Sauer, Group Chief Accountant, Allianz Group
7. Tom Stoddard, Group Chief Financial Officer and Jo Clube, Group Technical Accounting Director, Aviva

This report has been written and edited by Rashmi Dalai, Managing Editor of Thought Leadership at The Economist Intelligence Unit with editorial contributions from HuiQi Yow and Andrew Hutchings.

Executive summary

In May 2017 the IASB released its long-awaited IFRS 17 to replace IFRS 4 on accounting for insurance contracts. Insurers must be compliant from January 1st 2021.

The objectives of IFRS 17 are to introduce, for the first time, a comprehensive single principle-based framework to account for all types of insurance contracts, create greater transparency and standardisation in financial statements, where insurance contracts are reported, and bring IFRS accounting for insurance into better alignment with IFRS accounting principles in other industries.

This report is the third in a series tracking the insurance industry's journey and sentiment towards the adoption of IFRS 17. The first report in 2012, *Winning the waiting game?*, showed that the industry then was still largely waiting for clarity on the new Standard. The second report, *Gaining momentum* captured the industry's early steps towards compliance after the IASB released the second exposure draft on the new IFRS for insurance contracts in June 2013, the precursor to IFRS 17.

Five years later, and with IFRS 17 in issue for just over a year, the survey data indicate that insurers are now moving towards the effective date with an accelerated pace and cautious optimism on their ability to achieve compliance and the benefits that it may bring. This sentiment is shared by life insurers, non-life insurers and reinsurers.

Moreover, insurers are now less sceptical that the benefits will outweigh the cost. In *Gaining momentum*, only one in five insurers saw the benefits of adopting the new IFRS on insurance contracts outweighing costs. Now two in five strongly feel they will benefit from complying with the Standard.

However, this does not signal the absence of doubt around the efficacy of the new Standard in delivering the strategic benefits the IASB has set as goals for this unprecedented reform of insurance accounting. In particular, insurers are concerned that IFRS 17 will not meet its target objective of producing truly comparable financial reports, as its principles still leave some room for interpretation that could lead to continued diversity. Some also feel the Standard needs to be stress-tested in real life before being enforced on such a large scale.

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Overall, the top three expected benefits are: financial statements that better reflect business performance; easier access to capital markets; and improved information to support product design.

Key takeaways

- **Just enough time to get ready:** insurers are working towards the Standard's effective date of January 1st 2021 with cautious optimism. Overall, 45% are very confident that they will be ready by the effective date and 45% are somewhat confident, but there are variations between insurer types. Out of health insurers, 60% are very confident they will be ready, while only 37% of life insurers indicate the same level of certainty. From a regional perspective, Europe is also more confident than other regions.
- **Upgrading technology is necessary:** most insurers, 87%, reported that their systems technology will require upgrades to capture the new data and perform the calculations required for compliance. Of the 13% that said upgrades would be significant, the largest of this group (36%) were life insurers. Capturing data inputs is cited as the largest technology challenge.
- **Significant implementation costs have been budgeted:** now that the Standard has been published, most insurers have set expectations around budget. The expected spend is significantly greater than the expectations captured in 2013. Only 7% of insurers expected to spend more than €50m to be compliant with the IFRS requirements at that time. Now, 35% of insurers expect to spend that amount.
- **Technology and acquisition of specialist talent underpin implementation budgets:** insurers are dividing their budgets relatively evenly between technology upgrades, engaging external business consulting firms, expanding internal teams and engaging contractors for IT solutions. However, reinsurers and composite insurers are devoting a higher percentage of their budgets to technology solutions and contractors in order to implement these, compared with other types of insurers.
- **Actuarial, accounting and collaboration skills will be in high demand:** to become IFRS 17 compliant, many insurers are trying to drive tighter integrations between finance, actuarial and other departments. As a result, when asked what skills are needed, most respondents cited collaboration skills as equally important as actuarial skills. Insurers report having the greatest difficulty in finding actuarial and accounting expertise.
- **Lower equity, less profit volatility and slower profit emergence:** under IFRS 4, different accounting practices were grandfathered, which means that insurers moving to IFRS 17 will experience different impacts on their restated financials. The survey respondents confirmed this expected impact. However, 56% of them expect the net assets or equity of their company to be lower after their compliance with IFRS 17. An increase in the value of insurance liabilities is cited as a reason by only 14% of respondents within that group, while the others anticipate this reduction will come from other restatement requirements from IFRS 17. In comparison, most insurers are more certain (53%) that profit volatility will be lower after the new Standard. Over half also expect profits will emerge more slowly.
- **Stakeholder awareness is growing quickly:** in 2013, 69% of insurers reported having not yet started preparing for investor relations and financial communications to the market. In this year's survey, only 8% report having not started preparing communications, with 52% reporting minimal to no difficulty in progressing through this step. However, confidence in the effectiveness of these communications is not strong. Only a third strongly agreed that their board, senior management, investors and other stakeholders have a good understanding of the implications of IFRS 17.
- **Seeing more benefits vs costs:** compared with 2013, when only 21% of respondents saw the benefits of adopting the new insurance contracts standard at that time outweighing the cost of compliance, 93% now feel they will benefit from complying with the Standard. Overall, the top three expected benefits are: financial statements that better reflect business performance; easier access to capital markets; and improved information to support product design. However, these vary somewhat by region and insurance type. Key outliers include Asia, which is looking forward to the improved financial statements more than any other region, and composite insurers, which see greater transparency in IFRS financial reporting as a primary benefit.

New requirements to bring greater consistency

The changes that IFRS 17 will bring to the financial statements of insurance companies come from a single, principle-based framework that is designed to apply to all types of insurance contracts. Like all of the other IFRS pronouncements issued by the IASB, IFRS 17 and IFRS 9 set their requirements to the type of transaction: insurance contracts and financial instruments, respectively. Although this may direct the application of IFRS 17 to some companies that issue insurance contracts but do not consider themselves insurance companies, IFRS 17 contains a set of rules that ensure that it is mainly the contracts issued by insurers that fall within scope.

The IFRS 17 framework is focussed on breaking the measurement of an insurance contract into its building blocks and reporting them explicitly. On the balance sheet, this accounting measurement must make maximum use of current and market-consistent information to determine the value of the liabilities and to include in the liabilities a market-consistent allowance for any complex options and guarantees that may be embedded in an insurance contract.

Further, under the Standard, the estimate of future cash flows is done in an unbiased manner because the allowance for prudence under IFRS 17 comes from a separate component of the liability called the “risk adjustment for non-financial risk”. This is the current measure of the cost of risk that insurers face. Investors will be able to appreciate a current view of all future cash flows discounted at a market-consistent discount rate that is calibrated to the characteristics of the cash flows, rather than to the investments an insurer may have purchased.

The last building block is the expected future profit of an insurance contract, called the Contractual Service Margin (CSM). It is calculated at the point of sale and before the insurer collects any premium, when the net cash flows usually result in a net asset. The CSM is accounted for in a separate component of the insurance contract balance sheet amount.

The accounting requirements surrounding the CSM are extensive and demanding. IFRS 17 mandates the level of aggregation for the CSM to be at portfolio level for groups of contracts that are sold within a period of no more than 12 months and are characterised by a similar level of expected profitability. The presence of loss-making contracts at the point of sale calls for a special group of contracts without CSM and the expected loss must be reported immediately at the point of sale. Each of these groups of contracts that IFRS 17 creates will have their respective CSM balances updated with the changes from the other building blocks at each reporting date. In parallel, the CSM balance will be reduced to zero when an insurer no longer stands ready to pay valid claims to its policyholders. The period that an insurer stands ready to pay claims is referred to as the coverage period in IFRS 17.

IFRS 17 adoption comes with significant costs to insurers as the granularity of the calculations is extensive and greater than most of today’s accounting practices. The reporting of the CSM and the risk adjustment as explicit liability components, on top of the best estimate of future cash flows, challenges current actuarial systems to integrate with market data feeds like interest rates, equity prices and foreign exchange rates. Implementing these requirements and those from IFRS 9 will require extensive upgrades of finance and actuarial systems and will call for a substantial expansion of human resources in the finance, actuarial and IT departments during the implementation period. Life insurers face a greater burden than non-life insurers as they tend to sell insurance contracts with very long coverage periods that will require decades of CSM data.

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Further, to ensure a level-playing field across over 100 countries adopting IFRS 17, there is a mandatory requirement, when the insurer first applies the Standard, to fully restate all prior accounting records as if IFRS 17 had always applied. This exercise has been simplified when it becomes impracticable to find the necessary data but it adds a major one-off cost to the implementation of the new rules.

Once adoption is completed, though, IFRS 17 aims to bring unprecedented transparency on the sources of IFRS profit for an insurance company. This ability to speak one accounting language is expected to help insurers ultimately have stronger financial positions in the future.

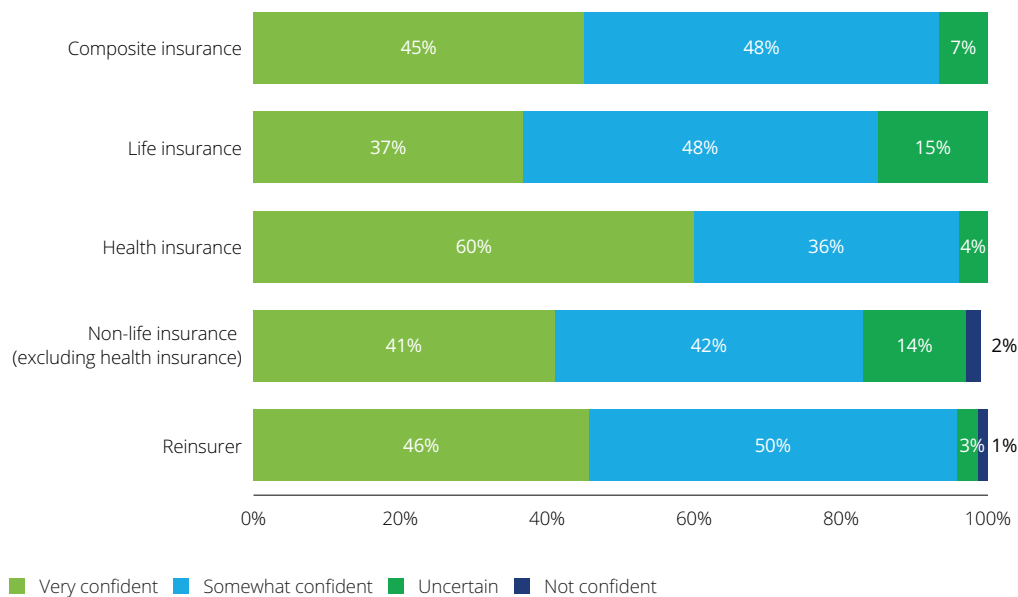


Being ready on time

According to the survey respondents, most insurers have started their efforts to prepare for IFRS 17 compliance, with 45% very confident that they will be ready by the effective date of January 1st 2021 and 45% somewhat confident. In comparison, just 1% are not confident.

However, optimism does vary by insurer type. Health insurance companies are the most confident, with 60% indicating they strongly believe that they will be prepared to comply on time. Life insurance companies, for which implementing the Standard will be more complex, are the least confident; only 37% of these insurers state they are very confident about their preparation timeframe.

Figure 1. How confident are you that your organisation can comply with the new IFRS 17 Standard by the effective date? (Excludes *I don't know* responses. Percentages may not total 100 due to rounding.)



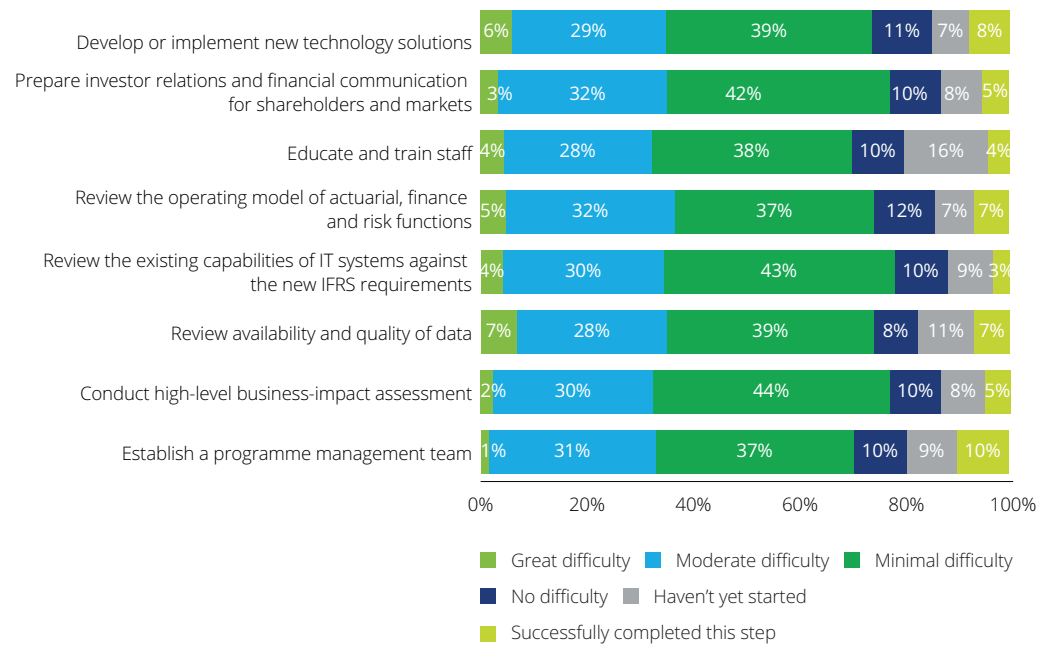
Respondents report grappling with a number of key difficulties in preparing for the effective date – the largest being reviewing operating models of actuarial, finance and risk functions.

Source: Economist Intelligence Unit

Respondents report grappling with a number of key difficulties in preparing for the effective date – the largest being reviewing operating models of actuarial, finance and risk functions. The next three, each cited by 35% of respondents as difficult, are preparing investor relations and financial communications, reviewing availability and quality of data, and developing or implementing new technology solutions.

Life insurers report a greater struggle preparing investor and market communications as compared with other insurers.

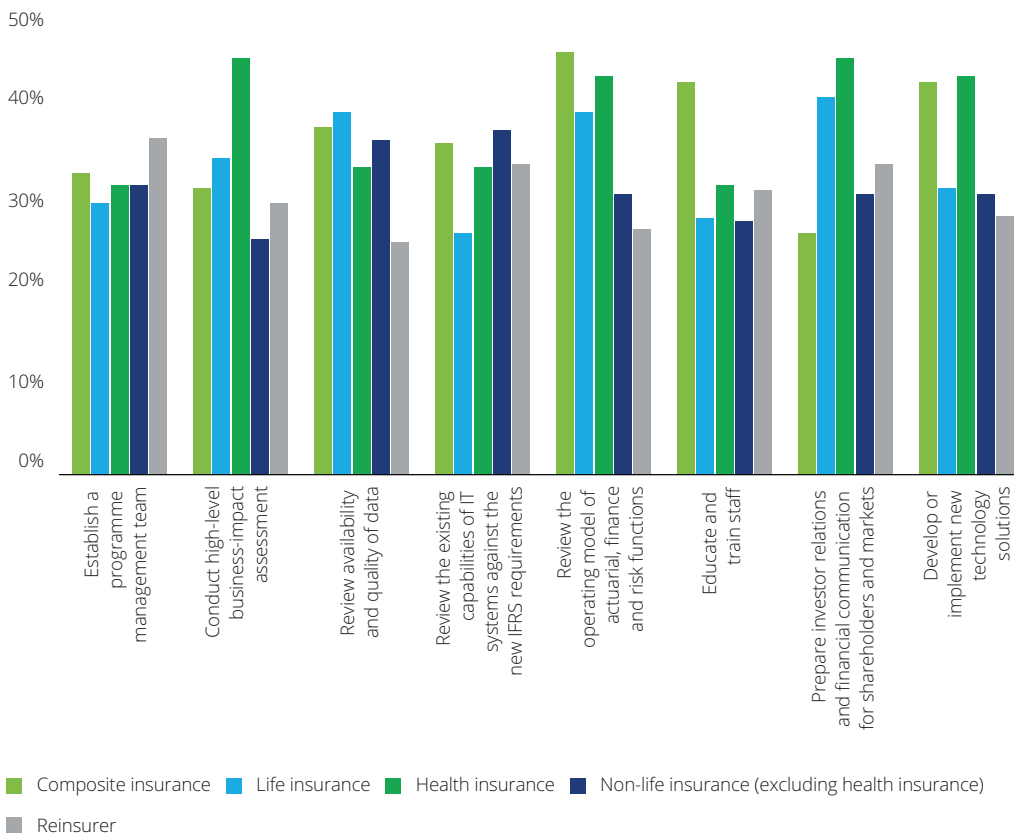
Figure 2. What level of difficulty is your organisation experiencing in moving through the steps to compliance? (Excludes *I don't know* and *don't need to do this step* responses. Percentages may not total 100 due to rounding.)



Source: Economist Intelligence Unit

Perceived challenges vary by insurance type. Life insurers report a greater struggle preparing investor and market communications as compared with other insurers, while composite insurers report the review of the operating model of actuarial, finance and risk functions as their greatest challenge. In comparison, reinsurers are facing greater difficulty establishing programme management teams.

Figure 3. What level of difficulty is your organisation experiencing in moving through the steps to compliance? (Presents respondents that reported moderate to great difficulty.)



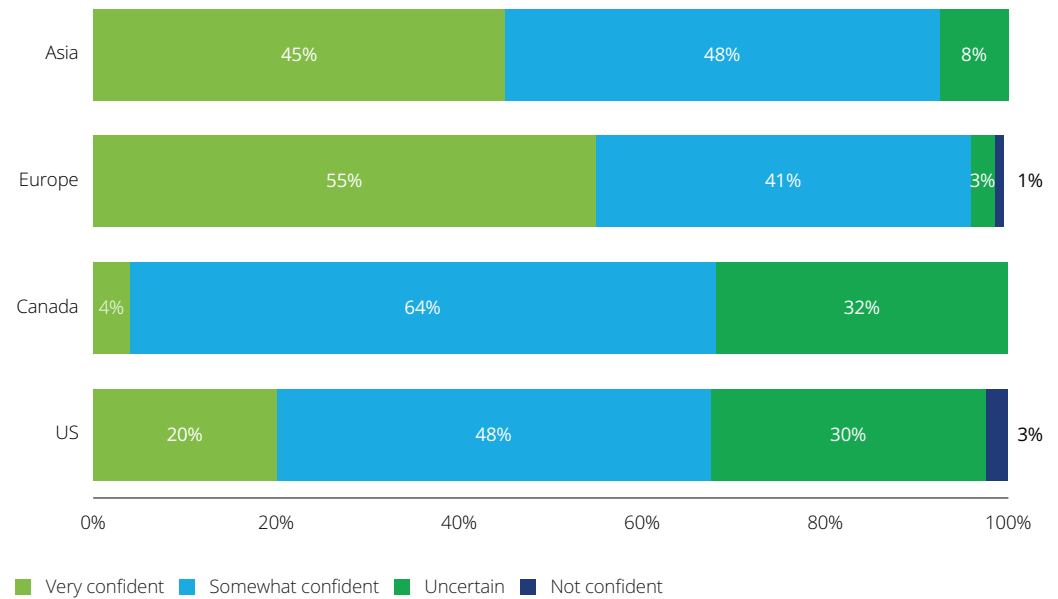
Source: Economist Intelligence Unit

Tom Stoddard, Group Chief Financial Officer at composite insurer Aviva, says that one of the complications with the Standard is the different principles for insurance contracts sold and reinsurance contracts purchased. “The accounting for reinsurance is particularly problematic because the Standard does not treat insurance and reinsurance the same way. So we can end up having a mismatch between reinsurers and cedants [a party in a reinsurance contract who transfers insurance risk to the reinsurer]. We can even end up having mismatches within companies of the same group to the extent that business is reinsured from one legal entity to another within the same accounting reporting group.”

There are regional variations as well in how capable insurers’ feel in complying by the effective date and in their key issues. In Asia, for example, 45% say they are very confident they will be ready on time compared with 55% of those in Europe.

Asian respondents also report a much higher difficulty than their European counterparts with a number of key complex facets of bringing insurers into IFRS 17 compliance.

Figure 4. How confident are you that your organisation can comply with the new IFRS 17 Standard by the effective date? (Excludes *I don't know* responses. Percentages may not total 100 due to rounding.)

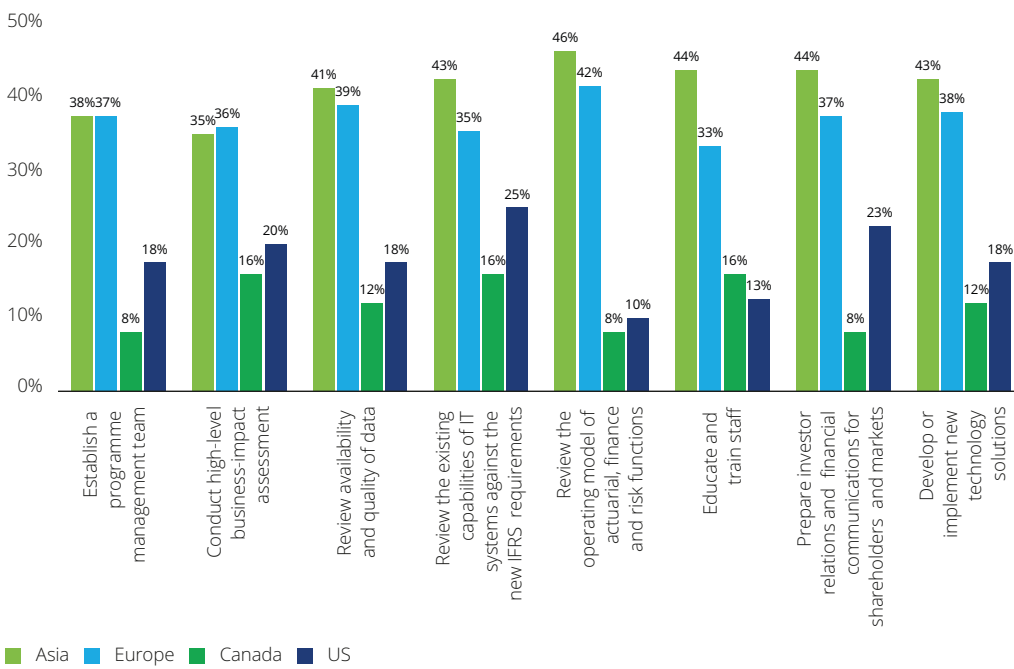


Source: Economist Intelligence Unit

In Asia and Europe, some of this can be linked to insurer type. In both regions, the segments that were “very confident” included reinsurers, health insurers and other non-life insurers. Unique to European respondents, though, was the high level of confidence from life insurers (56% “very confident” and 44% “somewhat confident”) compared to a more cautious view from the same segment in Asia (30% “very confident” and 48% “somewhat confident”).

Asian respondents also report a much higher difficulty than their European counterparts with a number of key complex facets of bringing insurers into IFRS 17 compliance. Insurers in Asia are having greater difficulty particularly with reviewing the operating model of actuarial, finance and risk functions, educating and training staff, and preparing investor relations and financial communications for shareholders and markets.

Figure 5: Challenges by region. Insurers reporting moderate to great difficulty with these issues in each of the geographical sub-groups. (Presents respondents that reported moderate to great difficulty.)



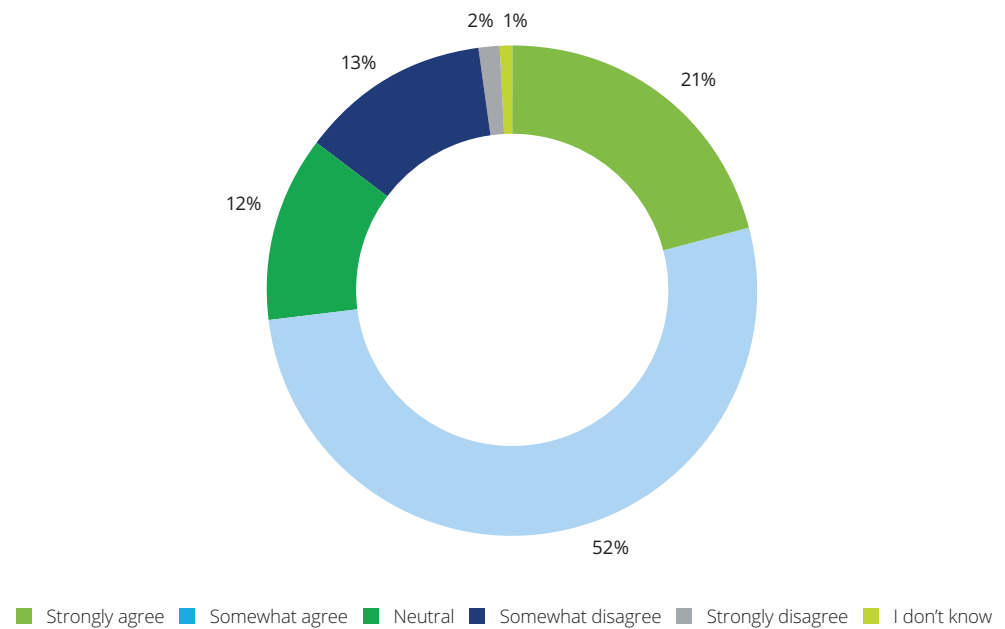
Source: Economist Intelligence Unit

Preparing systems technology

The reasons for this hesitancy are seen in the scale of work needed for most insurers to upgrade their systems technology. This is a particularly significant burden for life insurers, while health insurers are more likely to not need technology updates on the same scale.

Only a fifth (21%) are very confident they have enough time to implement the systems technology needed for IFRS 17 compliance, with the majority of respondents (52%) only somewhat confident.

Figure 6. Please indicate your agreement: we have enough time to implement the systems technology we need to be IFRS 17 compliant. (Percentages may not total 100 due to rounding.)

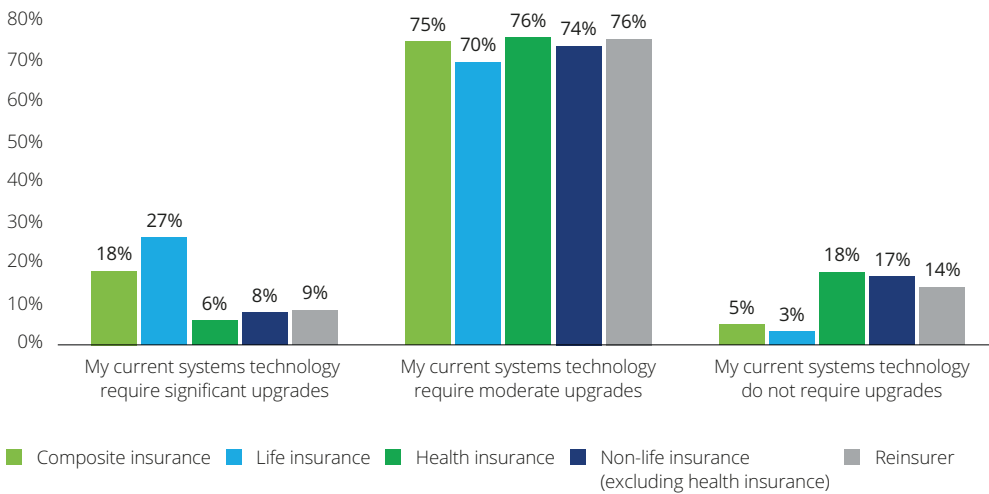


Source: Economist Intelligence Unit

The reasons for this hesitancy are seen in the scale of work needed for most insurers to upgrade their systems technology. This is a particularly significant burden for life insurers, while health insurers are more likely to not need technology updates on the same scale.

Philip Witherington, Group Chief Financial Officer at Manulife, says, "IFRS 17 is the biggest accounting change that the industry has faced for many decades. It requires that we change the ways that the systems interact, collect new data, think about the commercial impact and much more. Ideally we would like another two years to implement the Standard."

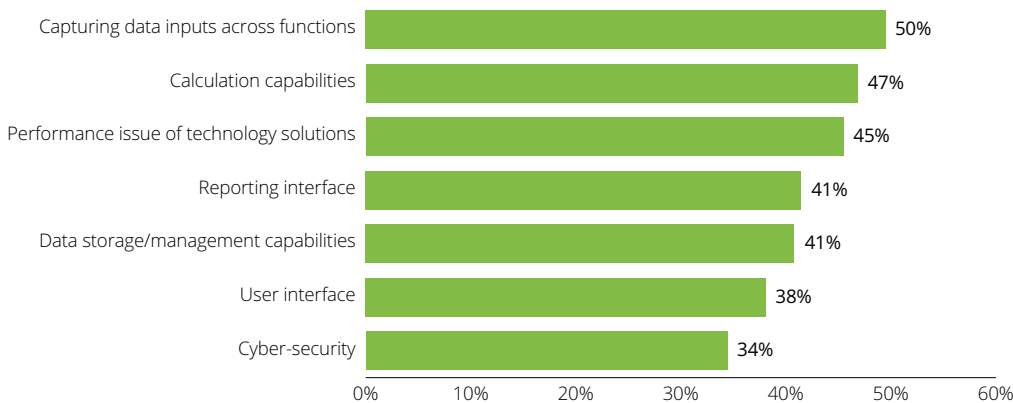
Figure 7. To what extent do you feel your financial reporting, administrative and/or actuarial systems need to be changed to meet the requirements of IFRS 17? (Excludes the percentage of those who gave a *I don't know* response.)



Source: Economist Intelligence Unit

In preparing their technology solution upgrades, insurers reported that capturing the data needed across functions and running the needed calculations are the top two issues with which they are grappling.

Figure 8. With what aspects are you struggling in preparing your technology solutions to support IFRS 17 compliance? Select all that apply. (Excludes *I don't know* responses. Percentages do not total 100 due to overlapping options.)



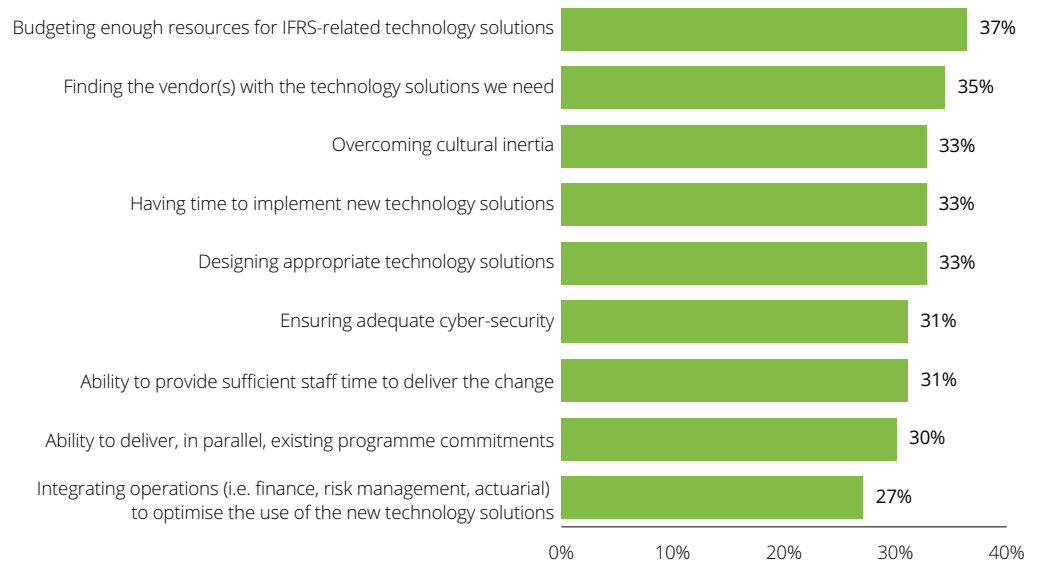
Source: Economist Intelligence Unit

“It cost us £500m overall to prepare for Solvency II. We don’t know what will be the cost of IFRS 17, but it will be significant.”

– Tom Stoddard,
Group Chief
Financial Officer
Aviva

In implementing these new technology solutions, insurers report a similarly wide range of challenges, the first being budgeting enough resources for the effort. Mr. Stoddard says, “it cost us £500m overall to prepare for Solvency II. We don’t know what will be the cost of IFRS 17, but it will be significant.”

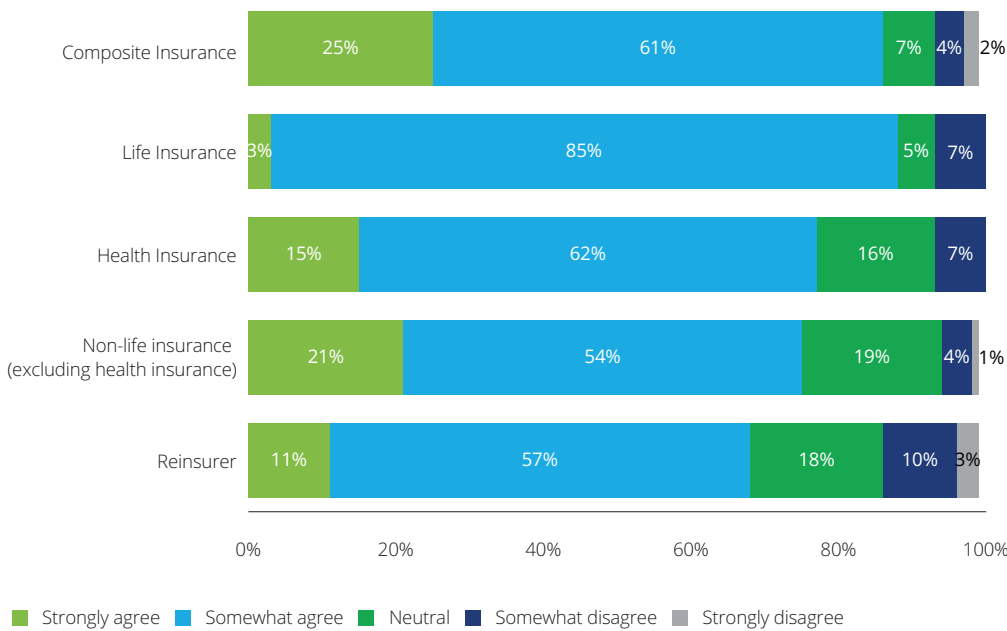
Figure 9. With what aspects are you struggling in implementing your technology solutions to support IFRS 17 compliance? Select all that apply. (Excludes responses of less than 2%. Percentages may not total 100 due to overlapping options.)



Source: Economist Intelligence Unit

Finding the right vendor is cited as the second largest global challenge for insurers, which is a particular concern as most respondents strongly or somewhat agree that they need to partner with external vendors to upgrade their systems. However, most report being able to solve this issue through using a combination of partners as well as building in-house capabilities.

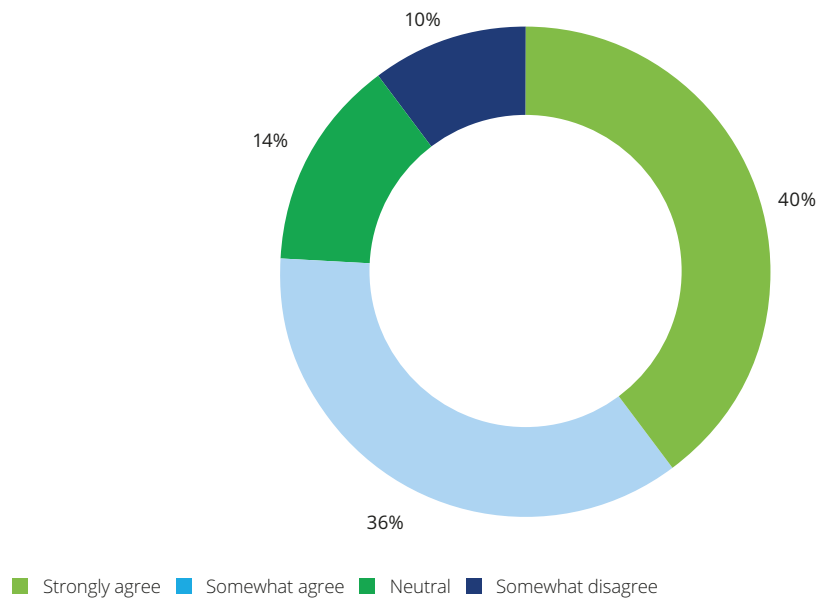
Figure 10. Please indicate your agreement: we need to partner with external vendors to upgrade our systems. (Excludes the percentage of those who gave a *I don't know* response.)



Source: Economist Intelligence Unit

Most survey respondents are finding the right software solutions, but for a significant minority (24%) this is still proving tricky and there are concerns about their untested nature, particularly at scale. Charles Henaire, Deputy Chief Financial Officer at Great-West Lifeco, points out that no one yet has a complete solution. “[Many vendors] are proposing solutions but nothing has been verified,” says Mr Henaire. “They’re all prototypes. There is no production-ready system. Do their systems work for 10,000 or 10m transactions? No one has yet tested a system of that size.”

Figure 11. Please indicate your agreement: we are able to find the software solutions we need.



Source: Economist Intelligence Unit

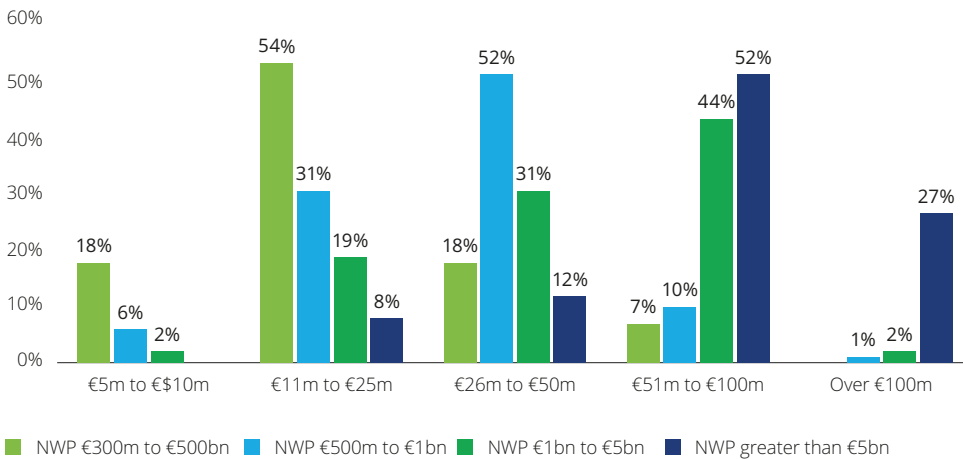
Designing the right solutions and having enough time to implement them tie for the third biggest challenge, both exacerbated by the speed at which the solutions need to be implemented. “In order to comply with the deadlines we’re going to need to start implementing from an IT systems perspective even before many of the technical issues of IFRS 17 are worked out by the existing working groups,” says Mr Stoddard. “We’re going to need to make judgements and proceed even though the guidelines under the Standard have not stopped moving.”

Budgeting for compliance

Now that the Standard is released, most insurers appear to have set some expectations around budget (despite acknowledging that setting the right budget is difficult). Expected budgets have risen significantly since 2013, when only 7% of insurers expected to spend more than €50m to be compliant with the then draft IFRS requirements. Now, 35% of insurers expect to spend that amount. Budgets also vary as expected by the size of the insurer.

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Figure 12. Please indicate your total budget for IFRS 17 compliance. Respondents by insurer size. (Excludes the percentage of those who gave a *I don't know* response.)



Source: Economist Intelligence Unit

Insurers are spending their budgets relatively evenly between four key categories: buying and building technology solutions; engaging external business consulting firms; expanding internal teams; and engaging contractors for the development and implementation of technology solutions.

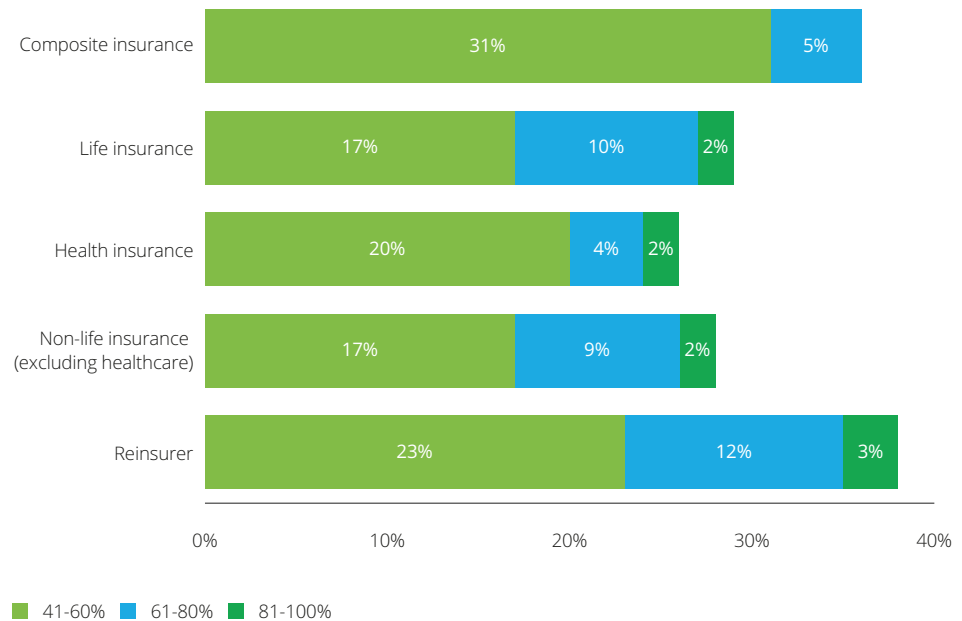
Figure 13: Please indicate how your budget is being spent. (Percentages by row will not total to 100% due to rounding).

	0-20%	21-40%	41-60%	61-80%	81-100%
Buying/building technology solutions (i.e. for actuarial projection, financial ledger and data storage systems)	24%	45%	21%	8%	2%
Engaging external business consulting firms (i.e. for project management, technical IFRS, technical actuarial and systems implementation)	26%	44%	24%	6%	1%
Expanding internal teams (i.e. for finance, actuarial and IT)	24%	44%	25%	7%	1%
Engaging contractors for development and implementation of technology solutions	22%	47%	23%	6%	2%
Other internal expenses	52%	27%	13%	8%	1%

Reinsurers and composite insurers are devoting a higher percentage of their budgets towards technology solutions compared with other types of insurers.

There are some key differences in the way budgets are being spent among insurer types. Reinsurers and composite insurers are devoting a higher percentage of their budgets towards technology solutions compared with other types of insurers. Indeed, 38% of reinsurers and 36% of composites are spending at least 41% of their budgets on technology investments alone.

Figure 14. How much of your budget is being spent on buying or building technology solutions? Respondents indicating spending 41% of their budget or more. (Percentages may not total 100 because the chart represents a sub-section of the population.)



Source: Economist Intelligence Unit

They are also spending a greater proportion of their budgets on contractors for the development and implementation of their technology solutions compared with others: 37% of reinsurers and 33% of composite insurers are spending more than 41% of their budgets on this expenditure item.

In comparison, non-life companies (excluding health insurance) and life insurance companies are spending more money internally. Respectively, 39% and 38% are spending more than 41% of their budget on building out their internal teams.

Overall, a majority of insurers expect to have a mix between part-time and full-time employees across their finance, actuarial and IT functions.

Figure 15. How many people do you estimate will be involved in your IFRS implementation efforts? (Percentages may not total 100 due to rounding.)



Source: Economist Intelligence Unit

Not surprisingly, staffing numbers for implementation are correlated to the insurer’s size. For example, 18% of companies with NWP of €300m to €1bn expect to have finance implementation teams of 51 or more professionals as compared with 45% of companies with NWP of €1bn to €5bn, and 68% of companies with a NWP of more than €5bn.

Figure 16. How many full-time employees do you estimate will be involved in the implementation of IFRS 17 in your organisation? Respondents needing 51 or more professionals in the stated categories by NWP.



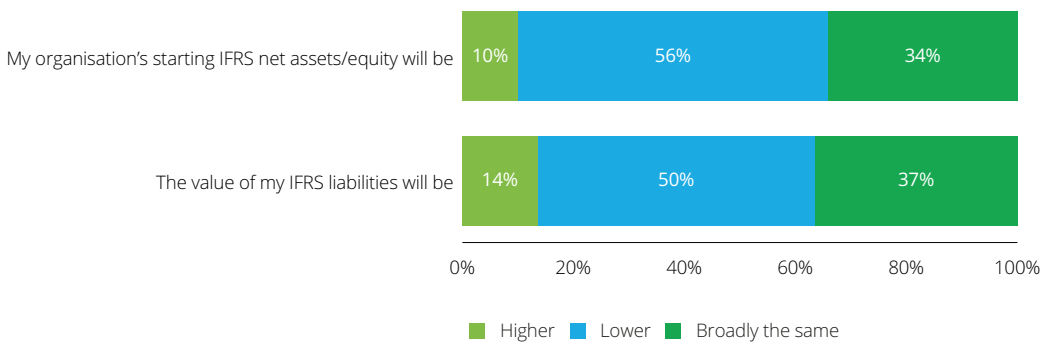
Source: Economist Intelligence Unit

These anticipated talent needs are significantly greater than previously anticipated in 2013. In our previous report, the majority of insurers reported needing fewer than 50 full-time people, with 64% of respondents predicting needing only zero to 25 and just 34% anticipating leveraging the talents of 25 to 50 people in implementing their IFRS insurance contracts projects.

Financial statement and performance reporting implications

Understandably, insurers are still assessing the impact of the new Standard on their financial statements and performance. As a result, expectations appear uncertain in some areas. For example, 56% of insurers expect their net assets or equity to be lower after their compliance with IFRS 17. Only 14% of the respondents in this group indicated the increase of insurance liabilities as the cause for the expected reduction in their future restated equity; 35% expect them to be broadly the same and 51% expect them to be actually lower than now, a distribution similar to that of the overall respondents (see figure 19). By inference, the other possible source of the reduction in equity – for 86% of the respondents expecting lower net assets — come from reporting lower amounts on the asset side where, for example, the capitalisation of acquisition costs as an intangible asset will no longer be permitted under IFRS 17 and will be written off to equity upon transition to IFRS 17.

Figure 17. How do you expect IFRS 17 to affect your financial statements? (Percentages may not total 100 due to rounding.)



Source: Economist Intelligence Unit

Given the expected change in liabilities and net assets caused by IFRS 17, there will be a change in key financial metrics that may affect an insurer's presentation of business strategies through their financially reported results. "What is important and, which differentiates the great from the good insurers, is the effectiveness of the ALM [asset liability management] strategies that are executed," says Mr Witherington. However, ALM strategies manage liabilities, guarantees and related assets together and under the Standard many components will be measured in isolation. This could impact business management and performance presentation.

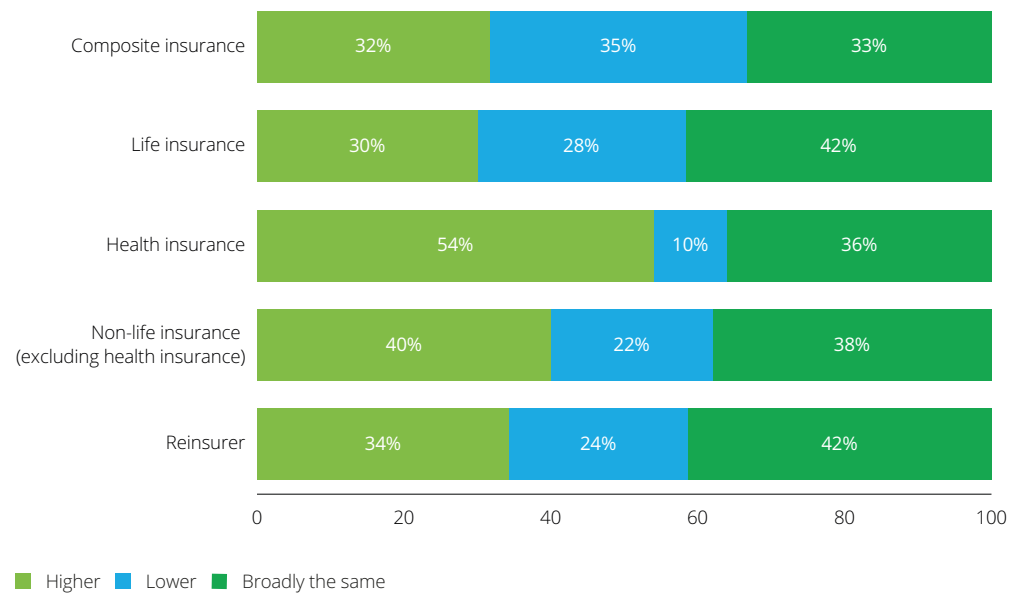
Anticipated impact on capital requirements also vary in a way that demonstrates uncertainty of the long-term impact of the new Standard. Mr Jeong-Hyeok Park, Chief Accounting Officer at Samsung Life says, "It is likely that insurers that have focused on short-term performances, rather than going on a long-term perspective, face an increasing financial pressure from this transition to IFRS 17." He sees some insurers in Korea already seeking ways to ease this strain. "In order to resolve this, Korean insurers are issuing hybrid bonds or subordinated bonds to address capital considerations," says Mr Park.

"It is likely that insurers that have focused on short-term performances, rather than going on a long-term perspective, face an increasing financial pressure from this transition to IFRS 17".

– Jeong-Hyeok Park, Chief Accounting Officer at Samsung Life

Most insurers expect that profits in the first year of application of IFRS 17 will be lower than before or broadly the same; only 11% expect profits in the first year to be higher. Profits will also emerge more slowly.

Figure 18. How do you expect IFRS 17 to impact your capital requirements? (Percentages may not total 100 due to rounding.)



Source: Economist Intelligence Unit

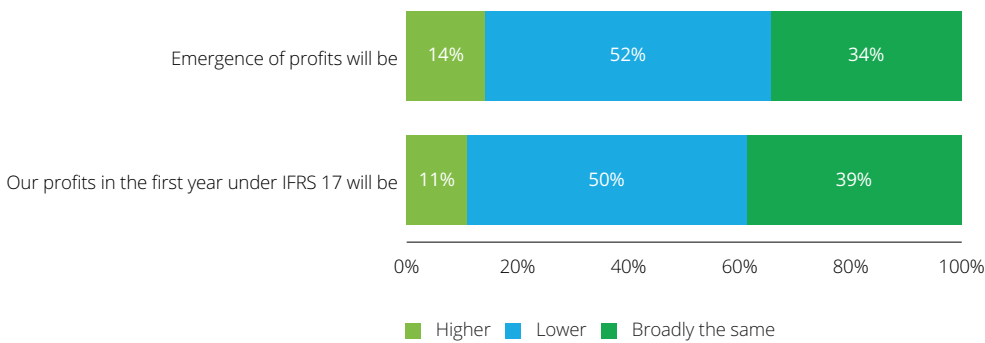
Views on expectations of earnings and capital volatility have changed over time. In 2013, 45% of survey respondents reported the potential for increased earnings and/or capital volatility as a key concern of the new insurance contracts standard. However, in this year’s survey, only 27% overall report being concerned about this.

Some life insurers maintain a slightly higher level of continued concern around volatility as compared with others – 32% are still worried about the potential for increased earnings and/or capital volatility, a worry that makes sense given the long durations of their liabilities. At the same time, 60% of respondents in this group expect their profit volatility to be lower after they apply the new Standard compared to 53% of respondents’ overall.

There is greater clarity on respondents’ expectations on how reported profits would change than on the impact on the equity and the balance sheet. Most insurers expect that profits in the first year of application of IFRS 17 will be lower than before or broadly the same; only 11% expect profits in the first year to be higher. Profits will also emerge more slowly.

This is due, in part, to the fact that there is a skew to conservatism in IFRS 17, says Mr Witherington. “New business ‘losses’ must be realised upfront whereas gains will be deferred. You therefore have a mismatch between gains and losses.”

Figure 19. How do you expect IFRS 17 to affect your financial statements? (Percentages may not total 100 due to rounding.)

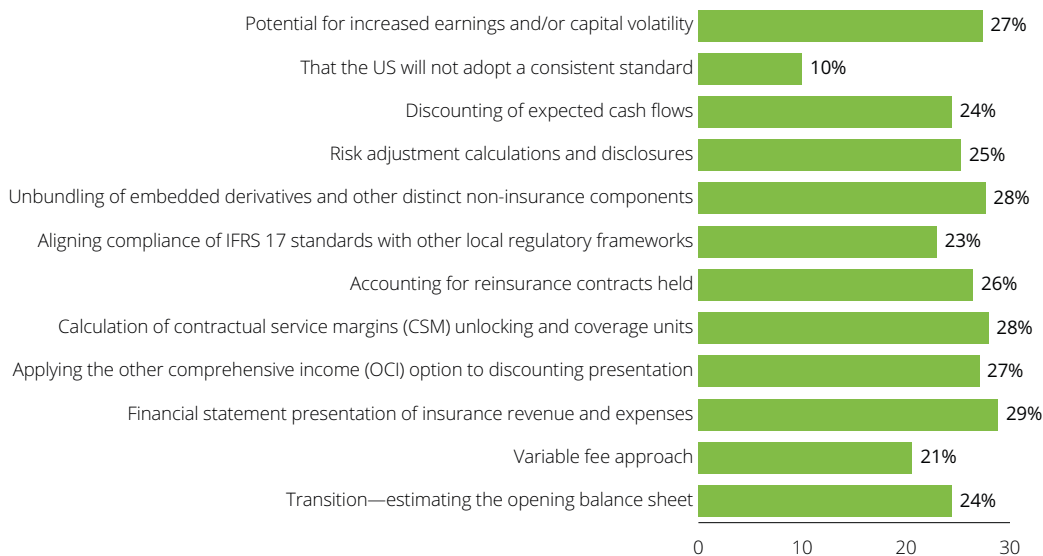


Source: Economist Intelligence Unit

Turning to financial statement presentation, insurers now appear worried about the extensive new calculations required and the new requirements to present revenue and expenses from insurance contracts that is very different from current practices, particularly for life insurance contracts. The top three concerns are around financial statement presentation of insurance revenue and expenses, calculating the CSM unlocking and coverage units, and unbundling embedded derivatives and other distinct non-insurance components.

.....insurers now appear worried about the extensive new calculations required and the new requirements to present revenue and expenses from insurance contracts that is very different from current practices, particularly for life insurance contracts.

Figure 20. What are the most challenging aspects of IFRS 17 Standard? Select up to three. (Excludes other responses. Percentages do not total 100 due to overlapping options.)



Source: Economist Intelligence Unit

In many jurisdictions there are also questions on how tax payments should be handled in the first year of compliance, as income that has already been earned may end up being earned (and taxed) again.

There are also concerns that go beyond financial statement presentation and into how the new financial statements will affect the way management run insurance businesses. Jo Clube, Group Technical Accounting Director at Aviva, says that the requirement to lock the discount rate used to calculate the expected profit over the lifetime of the contract (the CSM) on day one is problematic. “This means that any revisions to best estimate for long-term liabilities will cause a spurious charge against income, representing the differential between the day-one locked rate and the current rate we use to measure our best estimate. This is not representative of the way we’re actually managing the business, which is based on current economics and means profit recognition under IFRS 17 will not reflect the economics emerging over the duration of the contract” says Ms Clube.

Only those insurance contracts with that clear linkage between benefits payable to policyholders and the assets an insurer holds can revalue the discount rate used to update the expected profit/CSM at each balance sheet date. IFRS 17 calls this special form of CSM unlocking the Variable Fee Approach (VFA). All the non-VFA contracts will be required to have the expected profit unlocked by updating the underlying cash flows with current assumptions but continuing to discount them at the market-consistent discount rate that is applied when the contract was sold, no matter how long ago. The explanation that IFRS 17 has given for this requirement is to keep the effect of financial variables separate from the net profit or loss arising from the delivery of insurance services.

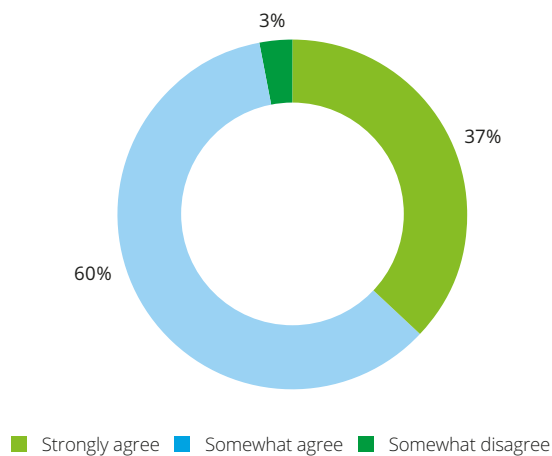
In many jurisdictions there are also questions on how tax payments should be handled in the first year of compliance, as income that has already been earned may end up being earned (and taxed) again. “It will raise the cost of doing business for us if we pay taxes a second time around,” says Mr Stoddard.

Raising stakeholder awareness

Insurers have made great strides in raising awareness of the impact of the new Standard to key stakeholders. In 2013, 69% of insurers reported having not yet started preparing for investor relations and financial communications for shareholders and markets. In this year's survey, only 8% report having not started preparing communications yet and 52% report minimal to no difficulty in progressing through this step.

However, in indicating the efficacy of these efforts, respondents painted a different picture. When asked if the stakeholders in their organisation were clear on what needed to be done and spent to be IFRS 17 compliant, only 37% strongly agreed. The majority (60%) indicated some uncertainty by only somewhat agreeing.

Figure 21. Are your organisation's stakeholders clear on what needs to be done and spent to be IFRS 17 compliant?



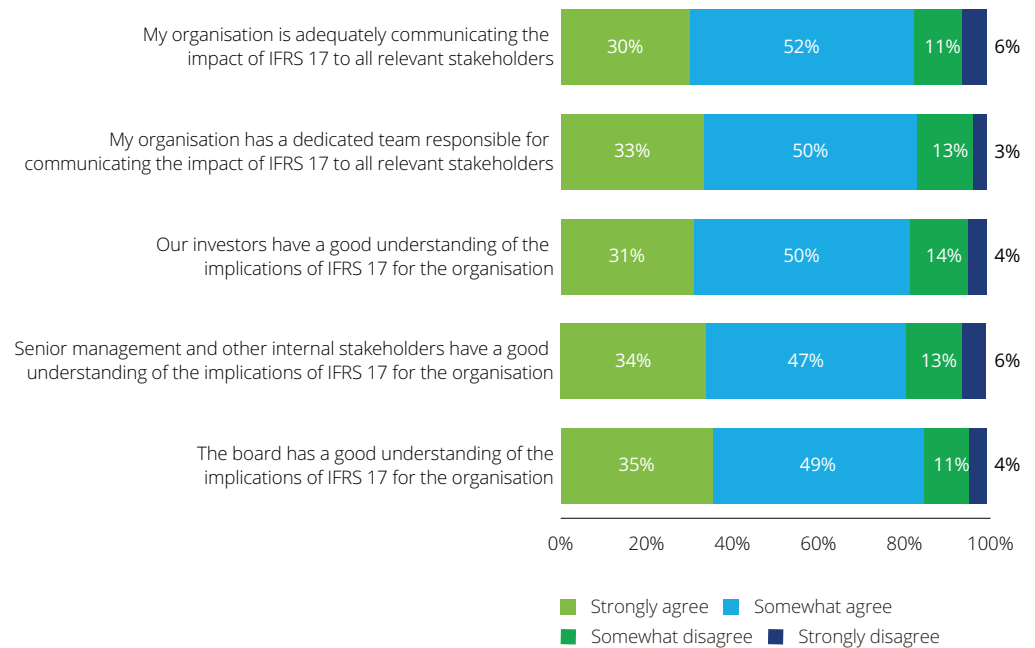
Source: Economist Intelligence Unit

This was further reflected when insurers were asked to indicate their organisation's level of communication with key stakeholders, including investors and employees. Roughly only a third indicated in each category that their companies were adequately communicating. The vast majority was less confident.

“We have a 2021 goal in mind and that’s what we’re working towards but we would not be in a position to present details externally much before then. We expect initial communications to be qualitative with quantitative impacts following in 2020 as we approach the 2021 effective date.”

– Philip Witherington, Group Chief Financial Officer at Manulife

Figure 22. Please indicate how adequately your organisation is communicating the impact of IFRS 17 to the following stakeholders? (Excludes the percentage of those who gave a *I don't know* response.)



Source: Economist Intelligence Unit

Mr Witherington attributes some of this to the short time until implementation, a risk that could hurt the communication and control elements of the process. “We have a 2021 goal in mind and that’s what we’re working towards but we would not be in a position to present details externally much before then. We expect initial communications to be qualitative with quantitative impacts following in 2020 as we approach the 2021 effective date.”

Building internal collaborations

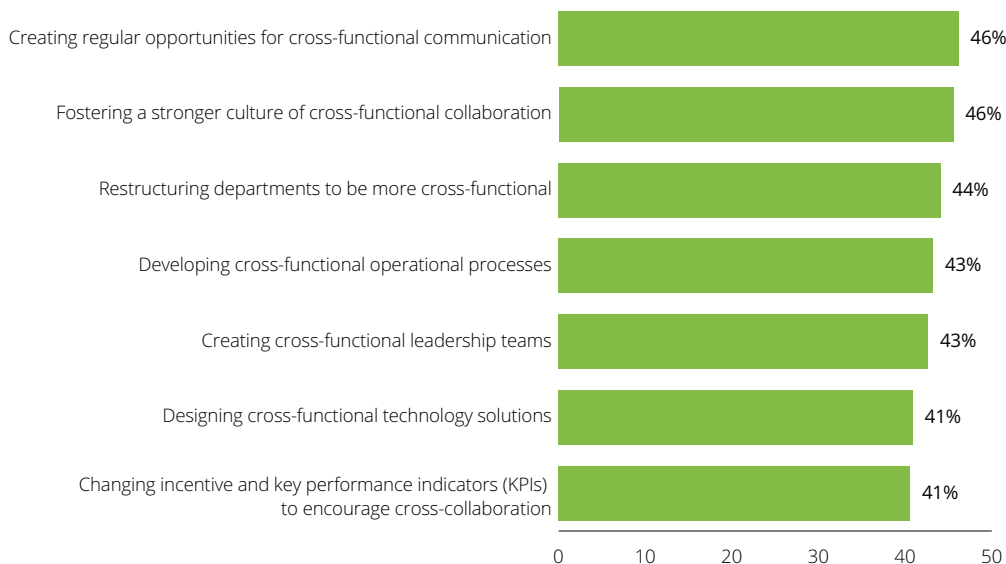
To meet the IFRS 17 requirements, insurers have to co-ordinate across departments, including actuarial, finance and IT. This is in large part because the data required to meet the Standard will need to come from a wide range of functions and be processed in new ways to meet the IFRS 17 requirements.

To that end, many insurers are seeking new data management strategies to create centralised data that can be used for compliance and other purposes, an effort that is actively tightening cross-functional integrations. Companies are also trying to create new regular opportunities for cross-functional communication, stronger cultures of collaboration, restructured departments, and cross-functional teams and processes.

“I think people are taking the opportunity to really collaborate, understand the data they need and ask: is there a way to gather the data and have a golden record” says Mr Henaire. “The Standard is definitely going to make companies look at their data and data governance more holistically.”

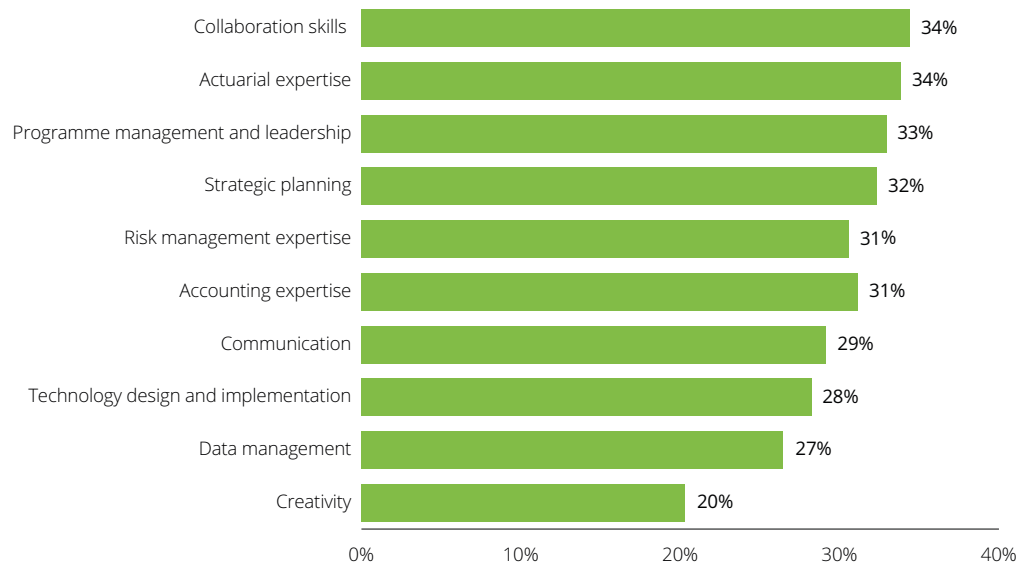
...many insurers are seeking new data management strategies to create centralised data that can be used for compliance and other purposes, an effort that is actively tightening cross-functional integrations.

Figure 23. In response to IFRS 17, how is your organisation tightening integrations between actuarial, finance, risk management, IT and other functions? Select all that apply.
(Excludes other responses. Percentages do not total 100 due to overlapping options.)



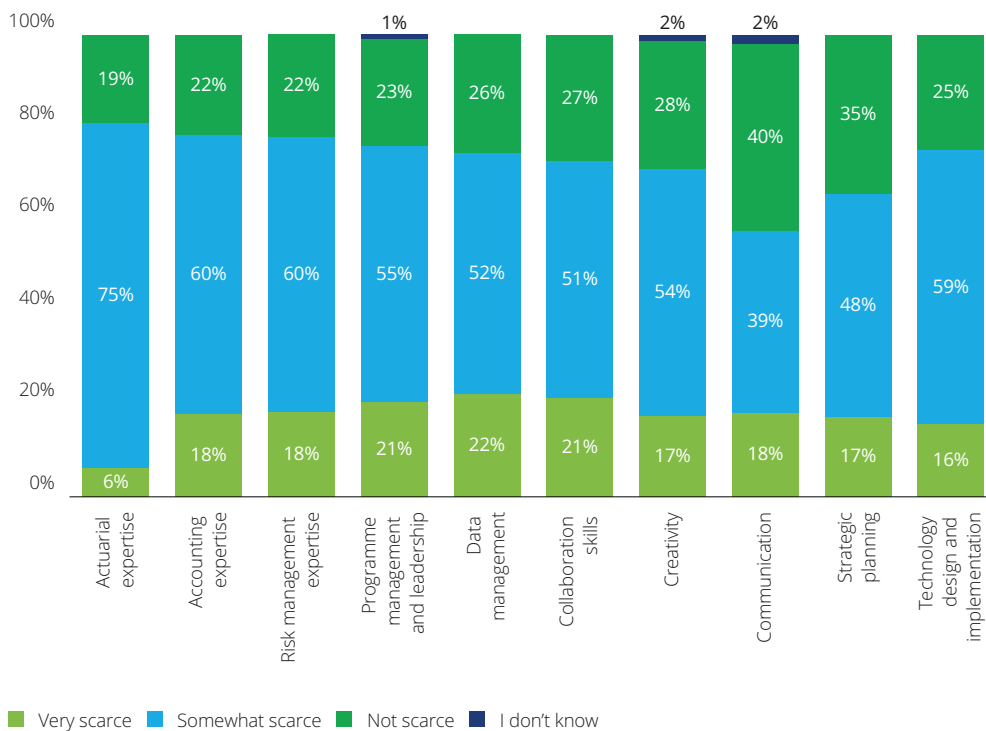
Because of this need for greater integration, collaboration skills are cited as equally important as actuarial skills by respondents when asked which skills are most needed for their organisations to be successfully IFRS 17 compliant. However, in searching for the skills that they need, insurers report having the greatest difficulty finding actuarial and accounting expertise.

Figure 24. Which of the following skills are most needed for your organisation to be successfully IFRS 17 compliant? Select top three. (Excludes other responses. Percentages do not total 100 due to overlapping options.)



Source: Economist Intelligence Unit

Figure 25. How scarce are these skills in the market. % total respondents? (Percentages may not total 100 due to rounding.)



Source: Economist Intelligence Unit

“In reality, the professional profile [we need] does not exist. The difficulty of IFRS 17 is that you’re measuring actual results and applying actuarial techniques. The fact is you don’t have many actuaries who are conversant with accounting issues and vice versa,”

– Luigi Lubelli,
Group Chief
Financial Officer
at Generali

As insurers seek to grow their teams with external talent, there is also an overall sense of a labour shortage in the market. “In reality, the professional profile [we need] does not exist. The difficulty of IFRS 17 is that you’re measuring actual results and applying actuarial techniques. The fact is you don’t have many actuaries who are conversant with accounting issues and vice versa,” says Luigi Lubelli, Group Chief Financial Officer at Generali. “The two mentalities are different. These are not easy profiles to find..... Everybody is looking for them and it’s sort of a talent war.”

IFRS 17 adoption is also competing with a number of other industry projects, adds Roman Sauer, Group Chief Accountant at Allianz Group. “Of course the number of specialists in this area is limited. This is one of the challenges for the industry on a global level, to bring sufficient manpower to the [IFRS 17] project in order to meet the timeline.”

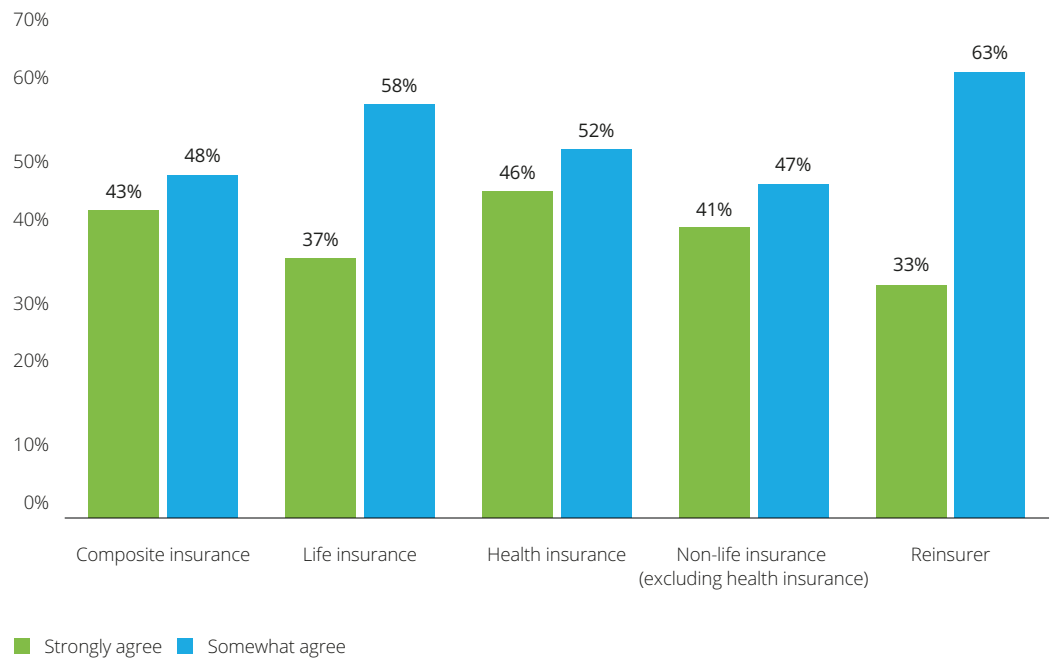
The expected benefits

Despite the difficulties, insurers are now more confident than they were in 2013 that they will gain some benefits from the effort to comply with IFRS 17.

Despite the difficulties, insurers are now more confident than they were in 2013 that they will gain some benefits from the effort to comply with IFRS 17. The proportion of respondents who agree that the benefits of adopting the Standard will outweigh the costs has almost doubled since 2013, from 21% to 40%. A further 53% somewhat agree the benefits will outweigh the costs. Only 5% somewhat disagree and 1% strongly disagree – compared with 21% who disagreed in 2013.

Of those who strongly agree that their costs are worth the future benefits, life insurers and reinsurers are, on the whole, slightly more optimistic than others.

Figure 26. For my business, the benefits of adopting the IFRS 17 Standard outweigh the expected costs. (Excludes the percentages of respondents who disagree or do not know.)

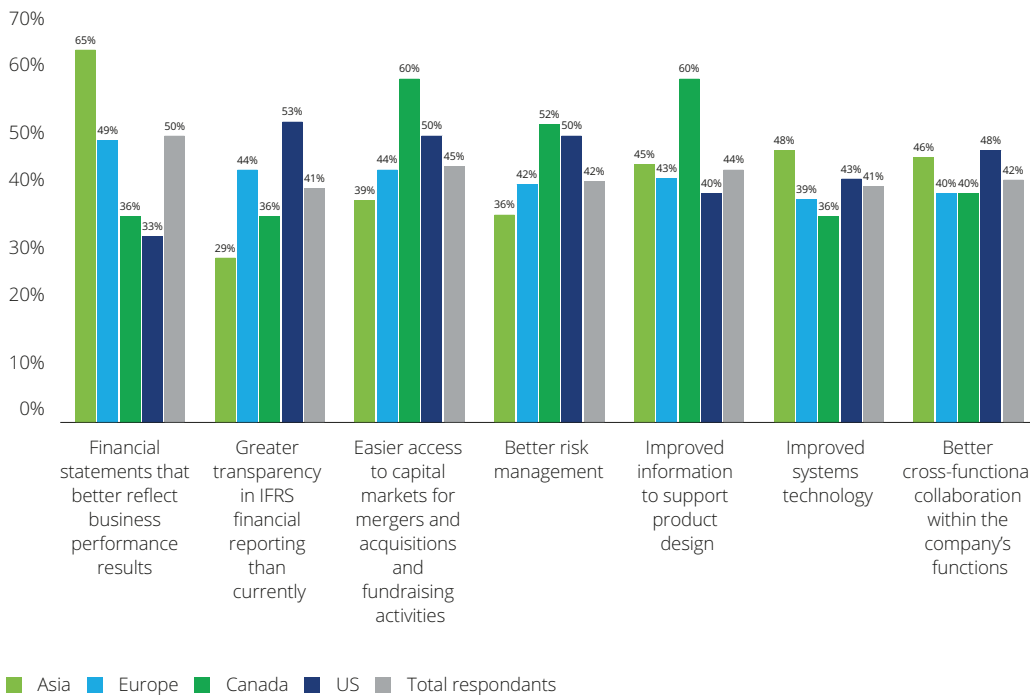


Source: Economist Intelligence Unit

Overall, the top three expected improvements cited by respondents are: financial statements that better reflect the results of business performance; easier access to capital markets for mergers and acquisition and fundraising activities; and improved information to support product design.

However, it is worth noting that there is some variation across regions, with Asia the most enthusiastic about the benefits to financial statement reporting and Canada looking most forward to easier access to capital markets and improved product design.

Figure 27. What benefits do you see for your organisation once IFRS 17 compliant? (Excludes responses of 1% or less. Percentages do not total 100 due to overlapping options.)



Source: Economist Intelligence Unit

When examined by insurance type, the top perceived benefit also differed somewhat: 50% of composite insurers ranked greater transparency in IFRS financial reporting as their primary benefit, and 49% of reinsurers are primarily looking forward to easier access to capital markets. According to Don Cummings, Vice-President and Controller at AIG, transparency may be a benefit not so easily realised in practice. “Even though there is a consistent framework that we will be using in each of the countries, if you look from company to company, there is some variation in the assumptions companies make that factor into the calculations. That comes down to judgment and the view of each company and how they look at their business. That’s going to vary from company to company,” says Mr Cummings. “That will be something that equity analysts will pick up on. They will start asking all the companies that they follow to report their assumptions. Some transparency will come from this.”

He adds that the Standard may streamline regulatory compliance in some cases. “To the extent that a particular country uses IFRS as the regulatory reporting regime for determining capital adequacy, if that’s more consistent across countries, it makes it a bit easier for us to plan from a capital management perspective (versus having 30 different regulatory reporting schemes)” says Mr Cummings.

“To the extent that a particular country uses IFRS as the regulatory reporting regime for determining capital adequacy, if that’s more consistent across countries, it makes it a bit easier for us to plan from a capital management perspective (versus having 30 different regulatory reporting schemes)”

– Don Cummings, Vice-President and Controller at AIG

Conclusion

It will be possible to write more (KPIs) directly from IFRS based information on what is the contribution of new business to the CSM, and by looking at the balance sheet how the CSM developed and rolled forward over time.

– Roman Sauer,
Group Chief
Accountant at
Allianz Group

On the whole, insurers appear more prepared and positive about the changes that are necessary to comply with IFRS 17 – and the changes it will bring. They seem cautiously confident they would get their businesses ready for the implementation “go live” at the beginning of 2021 and see sufficient benefits to justify the substantial investment necessary to achieve compliance.

Strong concerns remain though about the significant challenges ahead, particularly with regard to getting systems technology ready. As most insurers wade through the process of upgrading their existing systems, they do so with cautious optimism. In the absence of industry agreement on the availability of complete technology solutions ready to buy off the shelf, some insurers feel they must make their own assumptions about what is needed to comply, design their own systems and tailor-make their partnerships and staffing needs to execute their strategy.

This takes time, perhaps more time than is allotted, and will lead to a number of insurers not being fully confident until their systems have been stress-tested – perhaps two or three quarters after the effective date. The true impact on financial statements may also take time to emerge. This uncertainty is reflected in the current communications with investors and other stakeholders. While insurers are now much more prepared, some feel the communications are not effective, often relying on qualitative initial communications followed up with quantitative impacts as they approach the implementation date.

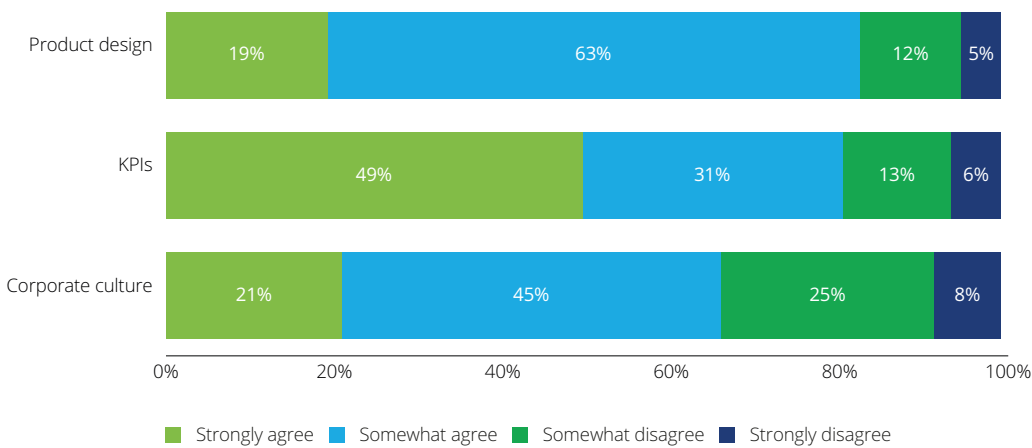
Furthermore, there will be a number of second order impacts that insurers do not yet have time to fully consider. “The reality is that what we are afraid of now is that the way the Standard approaches the insurance contract is not the way in which business is run by companies,” says Mr Lubelli. “You have to go to a level of granularity which is normally not used and somehow denies some sort of mutualisation across time and across customers.” This will impact the way insurance businesses run in the long term.

The Standard will also impact insurers’ relationships with regulators. Mr Witherington says that “the Standard will have an impact on insurers’ dealings with regulators and what the financial statements are used for, such as for capital and tax purposes. In a more complex reporting environment, we will need to put significant effort into how we explain our results to external stakeholders, including regulators and investors.”

Product design, key performance indicators (KPIs) and corporate cultures are also going to be affected as the changes progress, although these will probably emerge more clearly in the years following the effective date of 2021.

For example, says Mr Sauer, it will be possible to write more KPIs directly from IFRS-based information on what is the contribution of new business to the CSM and, by looking at the balance sheet, see how the CSM developed and rolled forward over time. “I expect we could derive more KPIs directly from the IFRS accounting,” he says.

Figure 28. What impact do you think IFRS 17 will have on the following? (Excludes the percentage of those who gave a *I don't know* response.)



Source: Economist Intelligence Unit

Right now, the Standard appears to adversely impact new product design, something that will need to be examined more closely as compliance efforts roll out. Because of the nature of the Standard, says Ms Clube, “if you’re starting a new product line, it takes a little time to get the volume up, but it’s not clear if that contract is onerous or not.” This will increase the cost of innovation.

However, insurers are more hopeful about the positive impact from the greater integration and collaboration that will result from organisational restructuring and tightening as compliance efforts roll out.

As Mr Henaire explains, “very large investments in IFRS 17 have been announced across the global insurance industry. Many organisations are taking advantage of this to undertake a wholesale transformation of their finance organisation with spending of tens of millions up to hundreds of millions of euros for some groups.” Survey respondents already see new structures improving their ability to retain staff, with 82% expecting a positive impact in this direction.

“...very large investments in IFRS 17 have been announced across the global insurance industry. Many organisations are taking advantage of this to undertake a wholesale transformation of their finance organisation with spending of tens of millions up to hundreds of millions of euros for some groups.”

– Charles Henaire,
Deputy Chief
Financial Officer of
Great-West Lifeco

Contacts

Global IFRS Insurance network

Francesco Nagari

Global IFRS Insurance Leader
China
+852 2852 1977
fnagari@deloitte.co.uk

Larry Danielson

Global IFRS Insurance Technology Leader
United States
+1 973 602 5290
ldanielson@deloitte.com

Simon Walpole

Global IFRS Insurance Actuarial Leader
Switzerland
+41 58 279 7149
swalpole@deloitte.ch

EMEA

Stephen Keane

United Kingdom and EMEA co-leader
+44 20 7303 3218
skeane@deloitte.co.uk

Jerome Lemierre

France and EMEA co-leader
+33 1 55 31 40 78
jlemierre@deloitte.fr

Hans Peter Hochradl

Germany
+49 8929 0367950
hphochradl@deloitte.de

Andrew Warren

South Africa
+27 11 202 7423
anwarren@deloitte.co.za

Jordi Montalbo

Spain
+34 93 280 4040
jmontalbo@deloitte.es

Emel Can

Switzerland
+41 58 279 7557
emcan@deloitte.ch

Thomas Ringsted

Denmark
+45 27 14 20 44
tringsted@deloitte.dk

Asia Pacific

Stuart Alexander

Australia
+61 2 9322 7155
stalexander@deloitte.com.au

Eric Lu

China
+86 10 8512 5809
erilu@deloitte.com.cn

Etsuya Watanabe

Japan
+81 80 4341 5720
Etsuyya.watanabe@tohatsu.co.jp

Taiji Suzuki

Japan
+81 90 9830 2358
taiji.suzuki@tohatsu.co.jp

Shrenik Baid

India
+91 22 6245 1120
shrenikbaid@deloitte.com

Raj Juta

Singapore
+65 6800 2010
rjuta@deloitte.com

Sung Ki Jun

South Korea
+82 2 6676 1127
sjun@deloitte.com

The Americas

Darryl Wagner

Americas leader
+1 860 725 3165
dawagner@deloitte.com

Lionel Moure

Argentina
+54 11 4320 2700
lmoure@deloitte.com

John Johnston

Bermuda
+441 292 1301
John.johnston@deloitte.bm

Neil Harrison

Canada
+1 416 601 6307
nharrison@deloitte.ca

Eduardo Esteve

Mexico
+52 555 080 6805
eesteve@deloittemx.com

Rajiv Basu

United States
+1 212 436 4808
rbasu@deloitte.com

Rick Sojkowski

United States
+1 860 725 3094
rsojkowski@deloitte.com



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