

IFRS 17 Consulting Services

THE CHALLENGE

IFRS 17, effective January 1, 2022, will have a profound impact on global P&C, Life, and Health insurers and reinsurers. The standard will impact the entire enterprise and likely change business models; and will be more complex, costly and burdensome than previous regulations. Thus it is prudent for affected companies to ensure that a transition program is completed as soon as possible.

MEETING THE CHALLENGE – THE FTI CONSULTING DIFFERENCE

FTI Consulting - Global Insurance Services professionals are insurance industry experts. We take a pragmatic approach to helping you meet the challenges of IFRS 17, including its broader impact beyond just finance and accounting. We work with you to define and implement the operational transitions needed while keeping a laser focus on aligning changes with your overall business strategy and objectives.

INTENT OF IFRS 17

IFRS 17 is intended to achieve greater transparency within the insurance industry, resulting in presumed benefits such as helping consumers make more informed decisions, and facilitating easier and more reliable analysis and comparisons by professional firms, investors and regulators.

OVERVIEW OF KEY IFRS 17 REQUIREMENTS.

Granularity of Reporting: IFRS 17 sets requirements on the level of granularity measurement at which principles and recognition should be applied; first grouping contracts with similar risks that are managed together; grouping contracts by profitability; and finally grouping according to contract inception date.

Measurement: Insurers must use the Standard's prescribed measurement model every reporting period, with measurement building blocks that include cash flows, risk adjustment, and contractual service margin (CSM).

Cash Flows: Ordinary cash flows are "the current unbiased estimate of the expected future contractual cash flows." "Fulfilment cash flows" include risk adjustment and the effect of discounting.

Risk Adjustment: A Risk Adjustment is added to the discounted best estimate cash flows, intended to represent the compensation of the entity for taking on the non-financial risk inherent in these cash flows.

Contract Service Margin: The CSM is added to a more familiar actuarial calculation of the present value of future cash flows. The CSM is designed to reflect the remaining unearned profit on a group of contracts and potentially absorb the gain at initial contract recognition. This represents a substantial change in how insurers need to manage their profit.

These requirements may be especially challenging for life insurance companies due to their complex actuarial models for projecting forward expected future cash flows.

THE BROADER IMPACT OF IFRS 17

IFRS 17 could impact the capital available to undertake opportunity initiatives; could require changes in product design; and could influence buy/sell transaction values, payment of dividends, and change the metrics for performance measurement.

Operationally, IFRS 17 will impact companies from front office to back office, especially actuarial, accounting and IT systems. Accordingly, implementation should be treated as a holistic cross functional transformation program, with a comprehensive change capability, supported by the required level of resources and budgets.

FIGURE 1 - OVERVIEW OF AREAS IMPACTED BY IFRS 17

ORGANIZATION
✓ Changes to roles and responsibility (especially between Actuarial and Finance)
✓ Changes to Management Information and key Performance Indicators
✓ Technical and functional training for workforce
✓ Establishment of new practices and committees around technical provisions
✓ Transformation planning and resource management
POLICY
✓ New accounting policy/guidelines and control procedures
✓ IFRS-17 calculation methodology guidance and reporting instructions
✓ Actuarial models and assumptions setting and inputs
✓ General Ledger Chart of Accounts changes and local account mappings
✓ Investment policy changes

FIGURE 1 - OVERVIEW OF AREAS IMPACTED BY IFRS 17 (CONTINUED)

DATA AND SYSTEMS

- ✓ Enterprise Data Management Strategy aligned with New Financial reporting data requirements, including:
 - Data quality, storage and archiving
 - Data security and controls
 - Data governance and master data
- ✓ Impacts on core insurance systems, investment systems, actuarial systems, reporting systems

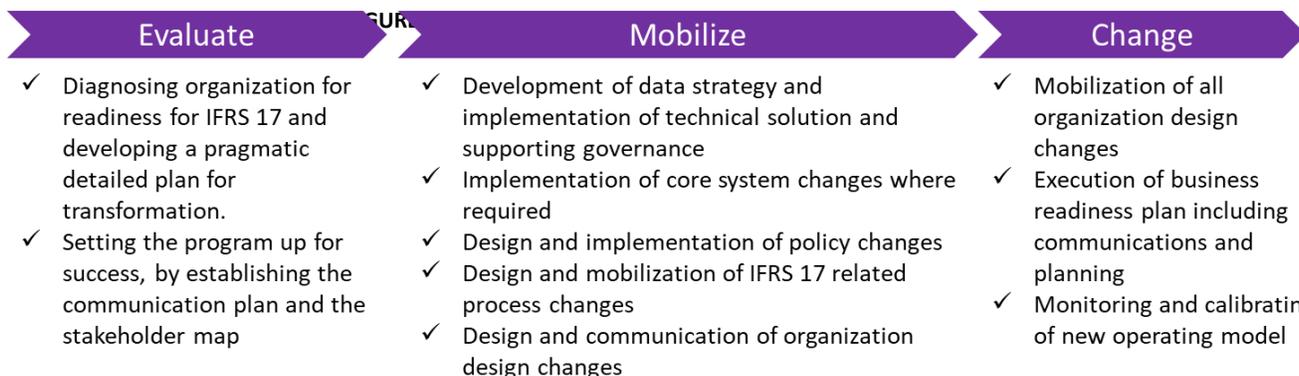
PROCESSES

- ✓ Setting materiality concepts and guidelines
- ✓ Updating closing and reporting processes, actuarial processes, planning procedures, risk management
- ✓ Changes to internal and external reporting templates, including group reporting packages
- ✓ Internal controls and audit trails
- ✓ Planning, budgeting and forecasting processes

Implementation will require significant changes to systems, processes, and controls; and will likely require the accumulation of data that has not previously been captured and included in the actuarial models in the format and grouping needed for the measurement.

OUR APPROACH

Complexity is at the heart of an IFRS 17 program. Those who are pragmatic will be most successful in its implementation.



Contact our experts to learn more about our services in supporting the critical needs of clients across the insurance industry.



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EXPERTS WITH IMPACT

About FTI Consulting

FTI Consulting is an independent global business advisory firm dedicated to helping organizations manage change, mitigate risk and resolve disputes: financial, legal, operational, political & regulatory, reputational and transactional. FTI Consulting professionals, located in all major business centers throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges and opportunities. For more information, visit www.fticonsulting.com and connect with us on Twitter (@FTIConsulting), Facebook and LinkedIn.