

Selecting the right systems vendors for IFRS 17

June 2019



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Introduction



Stephen O'Hearn
Global Insurance Leader

Complying with the International Financial Reporting Standard issued in May 2017 (IFRS 17) is requiring an expensive and complicated transition for most insurance companies. In fact, you've probably been scrambling to prepare and were relieved when implementation was extended by a year, to January 1, 2022.

But you can't afford to press the pause button. Now is the time to accelerate. There's still a lot of work to do, starting with picking vendors to provide you with new software — and perhaps, while they're at it, transform your systems. The good news is that vendors are more ready now than they were six months ago. If you make sure you understand what IFRS 17 requires of your systems and find the vendor with the capabilities you need, you'll stay on track for a successful changeover.

What IFRS requires

The new reporting standard aligns insurance company reporting frameworks around the globe and necessitates specific activities.

Data preparation: Your actuarial and accounting teams need data prepared and put in the correct formats so they can, among other activities, separate investment components from insurance contracts, perform profitability tests, calculate expenses and acquisition costs for insurance contracts, calculate the discount rates, and record changes.

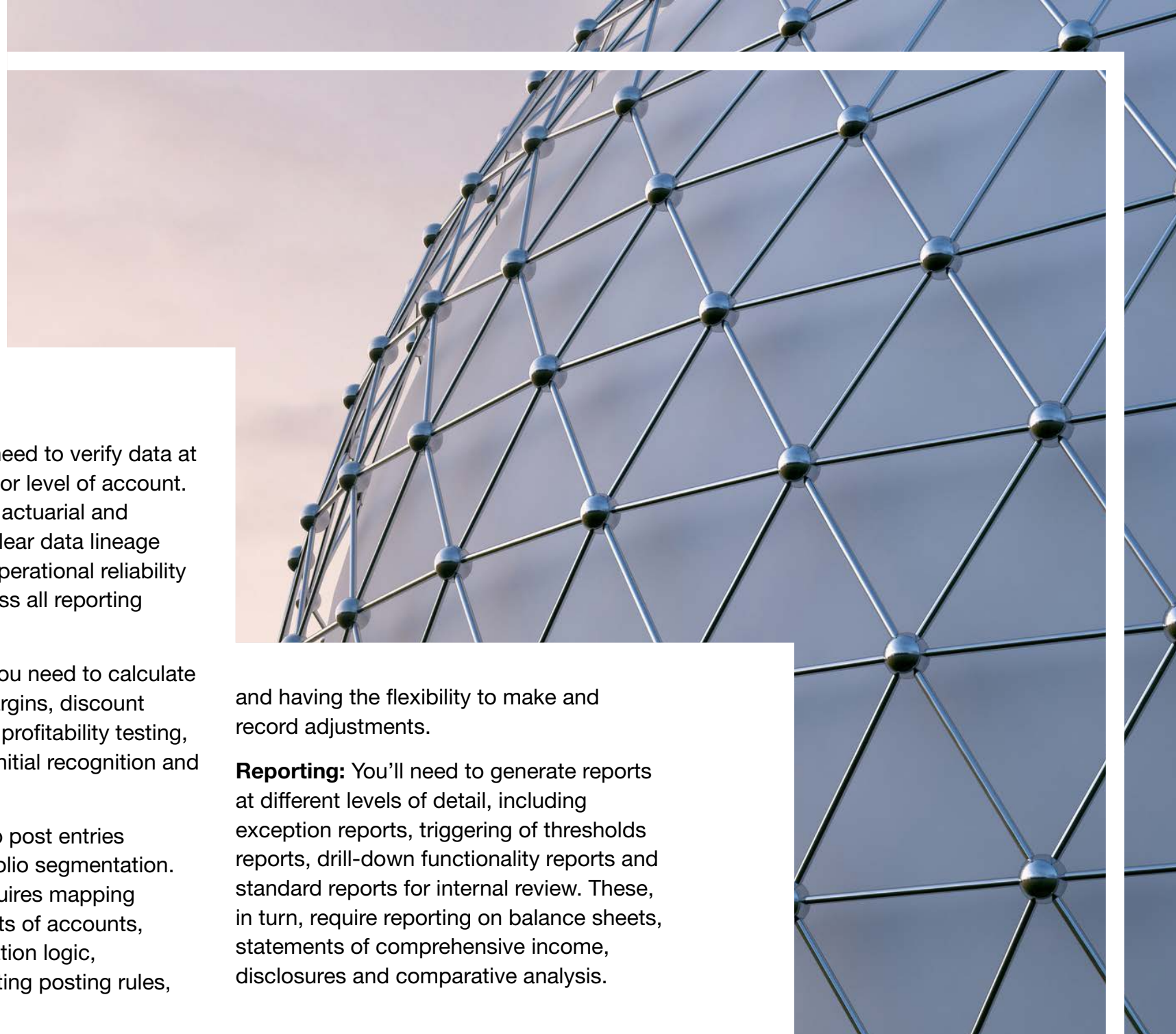
Data validation: You need to verify data at the right level of detail or level of account. That requires, for both actuarial and accounting systems, clear data lineage among sources, and operational reliability and data integrity across all reporting outputs.

Calculation engine: You need to calculate contractual service margins, discount rates, risk adjustment, profitability testing, fulfilment cash flows, initial recognition and subsequent measures.

Posting: You'll need to post entries based on careful portfolio segmentation. This segmentation requires mapping measurements to charts of accounts, having a clear aggregation logic, configuring and executing posting rules,

and having the flexibility to make and record adjustments.

Reporting: You'll need to generate reports at different levels of detail, including exception reports, triggering of thresholds reports, drill-down functionality reports and standard reports for internal review. These, in turn, require reporting on balance sheets, statements of comprehensive income, disclosures and comparative analysis.

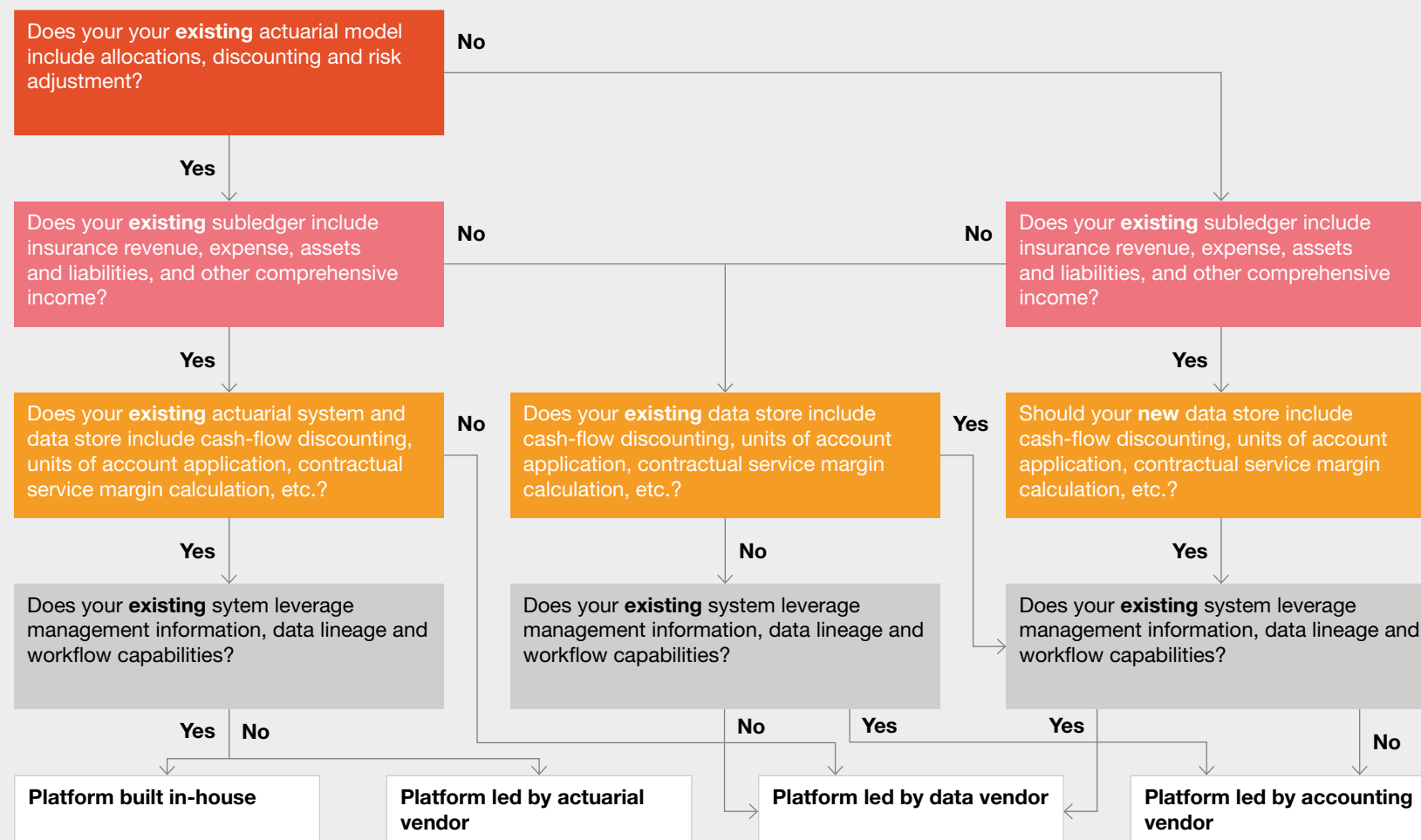


Five critical vendor capabilities

To deliver on these requirements, you first need to determine whether you can reuse your existing system capabilities to achieve IFRS 17 compliance. Two insurers with seemingly identical books of business but distinct systems could come to very different vendor decisions. Understanding your existing architecture upfront can help you whittle your list of potential vendors (see flowchart).

What type of IFRS 17 vendor do you need?

Understanding your existing architecture can help you select potential vendors and focus proof-of-concept activity. Use this flowchart to evaluate your current systems capabilities.



Source: PwC analysis



1

Next, you need to make sure that the vendor's solution has the following five key capabilities. Without all of them, a vendor won't be able to keep you fully compliant with IFRS 17.

Master data management and aggregation: This capability is necessary for data preparation, data validation, posting and reporting. Besides needing a predefined IFRS 17 data model and flexible approach to data storage, a vendor's solution needs robust data feeds, a set of predefined rules to aggregate and post data/results, and the ability to both integrate with general ledgers and actuarial models to load and post data and to create an audit trail to track results.

2

Orchestration: This capability is critical for fulfilling all of the IFRS requirements outlined above. The vendor's solution needs to orchestrate end-to-end workflows using clear reporting processes that can coordinate and assign tasks and resources. It needs to develop scripts to trigger execution of extract, transform and load (ETL), calculations, postings and other components; develop worksheets to perform adjustments; and be able to audit data inputs, outputs and any manual interventions. The vendor's solution also needs the flexibility to adapt to specific users' needs.

3

Calculation engine: Vendor solutions must provide a calculation engine capable of performing the required number of calculations. This means having technology powerful enough to process a significant volume of information, with the ability to trace and document calculation inputs and outputs in detail. In addition, a platform must offer a built-in data management and orchestration framework that allows users to oversee and configure data transformation and logic applied to input and output data, therefore providing data lineage, traceability and auditability.



Some of the calculations that a vendor solution will need to make include separation of non-insurance components, (de)recognition of contracts, profitability testing, creation of unit of accounts, calculation of best estimate cash flows, discounting of cash flows, calculation of acquisition expenses and amortisation, calculation of the risk adjustment, and calculation of the contractual service margin (at inception and subsequent measurements). The engine must also create tables for intermediate and final results.

Rules engine: A vendor's solution needs predefined rules that can integrate with data management to generate posting. The engine must be easy to deploy and able to accommodate your custom posting rules. It also needs an easy-to-use interface so finance people can configure it as needed.



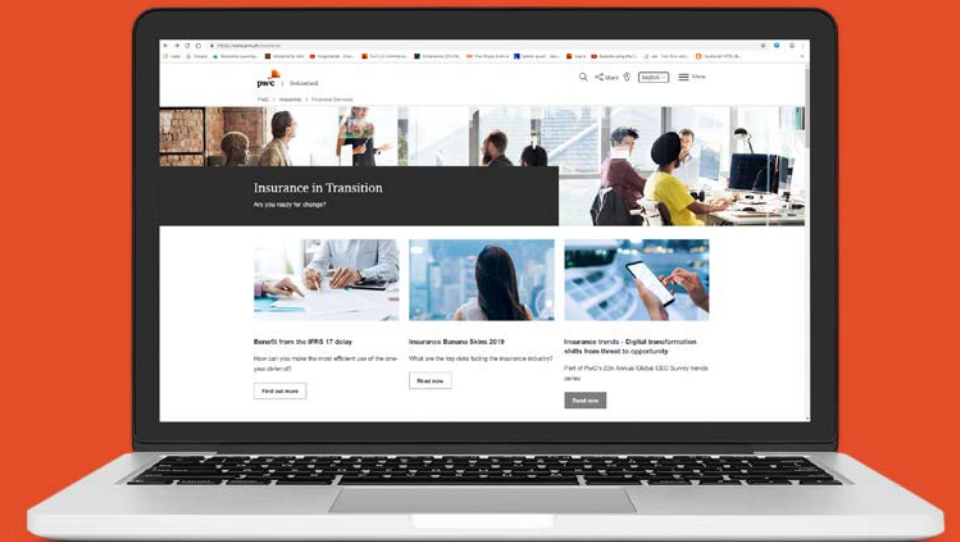
Reporting: Another critical capability is the ability to develop predefined and ad hoc reports leveraging in-memory storage for balance sheets, statements of comprehensive income, and disclosures. These predefined reports monitor the overall process status and analyse the postings generation. Ideally, the vendor's solution will present these reports in visually engaging and intuitive ways tailored to the insurer's preferences.

No time to stand still

Given the huge changes associated with IFRS 17, we estimate that there are fewer than ten vendor solutions in the marketplace today that have the necessary capabilities to offer a comprehensive solution. Even among this fairly small universe, you'll need to scrutinise the various offers to ensure you choose the one most appropriate for your needs and current IT environment. PwC's advice is to try before you buy. Pick two to three vendors, work with them on proofs of concept over the next two to three months, and then decide which one is best for you.

What next?

Refer to the contacts page and <https://www.pwc.ch/insurance> for more information on how PwC can help you with IFRS 17.



Contact



Sven Stark

Partner and Insurance Consulting Leader

PwC Switzerland

+41 58 792 20 63

stark.sven@ch.pwc.com

www.pwc.ch/insurance

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