

Implementation of IFRS 17 'Insurance Contracts'

Considerations for those charged with governance

Global Public Policy Committee - January 2020



Preface

We are pleased to share ‘Implementation of IFRS 17 Insurance Contracts – Consideration for those charged with governance’ which has been issued by the Global Public Policy Committee (GPPC)¹.

IFRS 17 heralds a new era of accounting for insurance contracts because it sets out principles-based requirements that aim to improve the comparability of the measurement and presentation of insurance contracts across entities reporting in jurisdictions applying International Financial Reporting Standards. The impact of IFRS 17 will be felt by many stakeholders, including, but not limited to: preparers of financial statements, those charged with the governance of entities that issue insurance contracts, investors, regulators, analysts and auditors.

With IFRS 17’s anticipated mandatory effective date of 1 January 2022 moving ever closer, all types of businesses, not just registered insurance businesses, need to start evaluating the impact of the new Standard now.

The paper has been organised into two main sections, covering:

- 1 Key considerations related to management’s implementation of IFRS 17, including 10 questions that those charged with governance might ask management in order to assess management’s progress on various matters including:
 - project management
 - internal control environment changes
 - resources and training
 - management’s involvement with industry groups and consistency among peers
 - technology requirements
 - impact on, and communications with, key stakeholders.

- 2 The readiness of the external auditor to audit in the context of IFRS 17 via 10 questions that those charged with governance might ask the external auditor in order to understand their observations and views on management’s progress such as:
 - their technical expertise, training and resources
 - the timing of their involvement
 - the auditor’s participation with industry groups
 - the identification of alternative interpretations and
 - group reporting considerations.

¹ The Global Public Policy Committee (GPPC) of the world’s six largest accounting networks comprises representatives from BDO, Deloitte, EY, Grant Thornton, KPMG and PwC.



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¹ GPPC is comprised of BDO International, Deloitte, EY, Grant Thornton, KPMG International, and PwC. One of the GPPC's primary objectives is to participate constructively in shaping global public policy in the public interest.



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1. Overview / Background on paper

In May 2017, the International Accounting Standards Board (IASB) issued IFRS 17 *Insurance Contracts* (IFRS 17) which is proposed in the Exposure Draft², to become effective for reporting periods beginning on or after 1 January 2022, heralding a new era of accounting for insurers. The current standard, IFRS 4 *Insurance Contracts* (IFRS 4), focuses on enhanced disclosures and allows insurers and reinsurers (thereafter together insurers) to continue using their local GAAP with certain limitations. IFRS 17 provides principle-based requirements that aim to improve the comparability of the measurement and presentation of insurance contracts across entities reporting in jurisdictions applying International Financial Reporting Standards (IFRS). As in IFRS 17 itself, references in this paper to insurance contracts also include reinsurance contracts and investment contracts with discretionary participation features unless specified otherwise.

The impact of IFRS 17 will be felt by many stakeholders, including, but not limited to: preparers of financial statements, those charged with governance, investors, regulators, analysts and auditors. Given the importance of insurance entities to the financial service industry as well as to the wider economy, it is essential that the new standard is implemented effectively.

The impact of IFRS 17 on financial statements and key performance indicators (KPIs) will likely vary significantly based on particular circumstances and characteristics of the insurer:

- products presently classified as “life” or “long duration” are likely to see their accounting model and earning patterns modified more significantly than products presently classified as “property-casualty” or “short duration” (with this being subject to detailed analysis of precise terms as the range of insurance products is complex and varies widely from country to country and is often influenced by local law and regulation);
- insurers operating across multiple jurisdictions with geographical spread will typically need to model a diverse range of insurance products and consider a more diverse range of accounting and measurement models;
- organisational structure, size, the variety of products, and the means of distribution will also drive the level of practical difficulty in the implementation of the standard.

No matter the approach selected, or the size and scale of an entity’s project to implement IFRS 17, boards and other key stakeholders will need to understand the status of an entity’s IFRS 17 implementation project, the anticipated impact that IFRS 17 will have on financial reporting (including KPIs), and the key judgements, significant estimates, and assumptions made by management. Judgements and key decisions include estimates, interpretations of the standard, explicit accounting policy choices, accounting and actuarial methodologies, governance,

² The IASB issued an Exposure Draft in June 2019 which included various proposed changes to IFRS 17.



processes and controls as well as decisions over system solutions. As representatives from the largest six accounting networks, we are familiar with the challenges and key decisions that matter most with respect to IFRS 17, and are closely following and involved in how the insurance industry is addressing them.

The Global Public Policy Committee (GPPC) is publishing this paper to assist those charged with governance, which may be a Board of Directors (the board) and/or an Audit Committee, to fulfil their responsibilities with respect to an effective implementation of IFRS 17. This paper can help those charged with governance evaluate management's progress towards implementation and assess their external auditors' general readiness to audit in the context of IFRS 17.

Sections 1.1 and 1.2 of this paper provide those charged with governance with ten questions they should consider asking of management and ten questions to consider asking the external auditors to help assess the status of the entity's implementation project and both parties' general IFRS 17 readiness. These questions have been derived from the content and detail that is in sections 2 and 3.

Section 2 considers the key areas where those charged with governance should focus when assessing management's progress on their IFRS 17 implementation and transitional plans, technical expertise and training, and impact on technology and internal controls.

Section 3 is focused on the involvement of auditors and their role in evaluating IFRS 17 transition.

Implementing IFRS 17 will require management to make technical decisions and judgements which may have a material impact on financial reporting. A companion document to this paper is also available, entitled "*Implementation of IFRS 17 Insurance Contracts: Companion document on key judgements and accounting policy choices*" (*Companion Document*), which focuses on key technical accounting and interpretation decisions to be made by management. The Companion Document also includes more detailed questions that those charged with governance can ask of management to help assess the status of the entity's application of judgement and accounting policy choices. As a result, we highly encourage reading the Companion Document in conjunction with this paper.

Adopting IFRS 17 will present many challenges. As global accounting networks, we are committed to supporting a high-quality implementation of IFRS 17 and look forward to positive engagement with those charged with governance of entities issuing insurance contracts. We hope this contribution will be of value in bringing the appropriate rigour and challenge into the IFRS 17 implementation process within your organisation.

About this paper

The GPPC is the global forum of representatives from the six largest international accounting networks – BDO, Deloitte, EY, Grant Thornton, KPMG and PwC. Its public interest objective is to enhance quality in auditing and financial reporting.



The information contained in this paper is meant to reflect general considerations. It does not provide interpretations and does not replace insurers' own research and interpretation or application of IFRS 17. Further analysis will be needed for an insurer to apply IFRS 17 to its own facts, circumstances and individual transactions.

Unless otherwise noted, any technical discussion in this paper is based on IFRS 17 as issued by the IASB in May 2017. An Exposure Draft incorporating proposed changes was issued in June 2019. The Companion Document identifies the main areas that may be impacted by the Exposure Draft by providing footnotes. The comment period for the Exposure Draft closed in September 2019. The IASB is in the process of reviewing the comments received and deliberating the proposed changes. A revised standard is anticipated by the middle of 2020. The interpretation and application of IFRS 17 may also change as practice continues to develop. Insurers should read this publication and the Companion Paper in conjunction with the actual text of the effective accounting standard and associated implementation guidance and consult their professional service advisors before concluding on accounting treatments for their own transactions. Given the forthcoming amendments to IFRS 17, those charged with governance should have a good understanding of how the forthcoming amendments may impact the entity and how the entity's project plan will respond to such changes when the amendments are finalised.

After publication of the IFRS 17, the IASB has supported implementation through the formation of the IFRS 17 Transition Resource Group (TRG). The purpose of the TRG is to provide a public forum for stakeholders to follow the discussion of questions raised on implementation issues and inform the IASB about possible actions that may need to be taken to address those questions. Members of the TRG include financial statement preparers and auditors (from different countries) with both practical and direct knowledge of implementing IFRS 17. As a result, IFRS 17 interpretation is developing. While non-authoritative, these discussions should be considered by entities when making judgements and decisions about implementation. The TRG's last meeting was in April 2019. TRG material can be accessed on the IASB website: <https://www.ifrs.org/groups/transition-resource-group-for-insurance-contracts/>.

This paper does not address the accounting requirements of IFRS 9 *Financial Instruments* (IFRS 9) although readers may wish to read "The implementation of IFRS 9 impairment requirements by banks" that was issued by the GPPC in 2016. While aimed at banks, we are of the view that this paper on IFRS 9 may be of use to insurers when it comes to implementing IFRS 9's impairment requirements. For many insurance groups, both IFRS 9 and IFRS 17 will be implemented at the same time, which increases the implementation risk of both standards. As part of their IFRS 17 implementation projects, insurers will need to understand the interaction between the accounting requirements of the two standards and make coordinated accounting policy choices to reduce or eliminate accounting mismatches which could otherwise arise.

IFRS 17 addresses the accounting for insurance contracts, so applies to all entities issuing insurance contracts, even if they are not insurance entities. This paper is intended primarily for insurance entities or groups that have significant insurance operations.



This paper does not purport to in any way amend or interpret the requirements of IFRSs. The GPPC acknowledges that the issuing and amending of IFRSs and International Financial Reporting Interpretations Committee (IFRIC) interpretations is reserved for the IASB and the IFRS Interpretations Committee.

1.1 Top ten questions that those charged with governance might ask management

1. **Project planning and management** - What plans, project governance, and management arrangements are in place to deliberate on key decisions, to organise the change management process, and to design, build and test necessary valuation models and IT infrastructure in order to deliver high quality implementation?
2. **Managing the transition** - Given the extent and complexity of the changes, and the length of the transition period, what controls and monitoring are management putting in place to ensure a timely and high-quality implementation? How will implementation decisions be monitored to ensure they remain appropriate?
3. **Business processes, systems and data** - Has management identified the best sources of information and all necessary changes to existing business systems, processes and controls, (including data and storage requirements), to ensure they are appropriate for use under IFRS 17? What are the most significant changes?
4. **Financial reporting and controls** - How are financial reporting processes and controls being designed, documented and tested, particularly where systems and data sources used for IFRS 17 reporting have not previously been subject to internal controls over financial reporting?
5. **Accounting policies, judgements and estimates** - What are the key accounting policy choices, transition options, interpretations, estimates and judgements that have been made by management? Has management assessed these against their peers and the latest interpretations and guidance?
6. **Resources and training** - How has management addressed the resourcing and training needs, bearing in mind the collaboration of multi-disciplinary teams across different functions necessary for effective implementation and post-implementation operations?
7. **Business impact** - What is the expected initial and ongoing impact on strategy, business planning, equity and income patterns, pricing, products and distribution channels, taxation, KPIs used to measure management compensation and capital management (including regulatory capital and the ability to make distributions)?



8. **Stakeholder communications** - What KPIs and management information are being used to communicate business and financial performance to internal and external stakeholders, during both the transition phase and after implementation?
9. **Disclosures** - How will IFRS 17's more detailed disclosure requirements be met and how will they compare with others in the market?
10. **Group and local application** - How is the group engaging its local subsidiaries/branches in its implementation project to ensure they will be ready to meet both group and local statutory reporting (whether the local regulatory reporting is based on IFRS or not)? How is IFRS 17 implementation being managed centrally, or locally with entity governance structures taking local reporting responsibility and reporting into an overall group "steering committee"?

1.2 Top ten questions that those charged with governance might ask the external auditor

1. **Project planning and management** - What are the auditor's specific observations or concerns, if any, around management's transition plan and timelines, oversight of the judgements and defined accounting policies being exercised, and governance over the quality of data being used?
2. **Project risk** - Bearing in mind the complexity, need for judgement, and uncertainty involved, what are the auditor's observations on management's identification of the key risks with respect to the entity's implementation of IFRS 17?
3. **Accounting policies, judgements and estimates** - Has the auditor reviewed the key accounting policy choices, transition options, interpretations, estimates and judgements made by the insurer? For which key accounting interpretations and judgements are the insurer and the auditor not in agreement, still in the process of assessment, or at greatest risk of developing differences in views?
4. **Resources and training** - How has the audit firm ensured that the audit team has the skills, knowledge and resources to respond to the risks of material misstatement arising from the implementation of IFRS 17? To what extent will the structure and profile of the audit team change as a result of IFRS 17?
5. **Financial reporting processes, systems and controls** - Based on the work performed, does the auditor have any observations or concerns about the entity's internal control over sources of key data, new or updated systems and models, or key assumptions and estimates?
6. **Managing the transition** - Where the entity has made use of proxies, practical expedients, manual or temporary solutions in implementation, how has the auditor



identified and evaluated the risks associated with these measures and challenged and assessed both the appropriateness of their use and controls over their use now and in future periods?

7. **Group considerations** - How is the group auditor evaluating the consistency in the application of IFRS 17 across the group's operations? How is the group auditor (group joint auditors) assessing whether component auditors (within their respective network when there are group joint auditors) are taking a consistent audit approach across the group?
8. **Benchmarking** - Does the auditor have any observations on the entity's benchmarking of its accounting judgements, methodologies, assumptions and estimates compared to its peers?
9. **Disclosures** - What are the auditor's views regarding the completeness and clarity of the entity's proposed IFRS 17 disclosures as well as the more immediate disclosures with respect to the impact of IFRS 17 as a forthcoming standard³?
10. **Management bias** - What process will be undertaken by the auditor to 'stand back' and consider, in the context of the financial statements as a whole, the presence of bias (intentional or un-intentional) in the entity's judgements, estimates, assumptions and disclosures regarding IFRS 17?

³ IAS 8.30 – Accounting Policies, Changes in Accounting Estimates and Errors



2. Key considerations related to management

2.1 IFRS 17 implementation project

Those charged with governance need to be informed of the key risks related to the implementation of IFRS 17. This includes understanding the structure and governance needs of the implementation project, ensuring an appropriate project plan exists, understanding the project's priorities and constraints, ensuring appropriate progress reporting and risk monitoring mechanisms exist, and ensuring an appropriate level of communication between project leadership, senior management, risk committees, audit committees and boards.

2.1.1 Project governance and oversight

Due to both the fundamental changes that IFRS 17 introduces in how companies will report insurance activities, and the complexity of applying the standard's requirements, strong project management and an appropriate governance structure are critical to successful implementation. Project governance and oversight should include a committee (the committee), supported by executive sponsors, that includes representation from all relevant business functions so each function can provide its input and understand the impact that IFRS 17 will have on them. Functions that should be involved in the project include technical and general accounting, accounting policy, business finance, actuarial, risk management, IT and subject matter experts from other business functions (legal, underwriting, claims management, risk, internal audit, etc.) as appropriate. Additionally, the use of external advisors should be considered to provide the project teams with technical support and advice on best practices for program management and governance.

2.1.2 Implementation and transition project plan

An IFRS 17 strategic implementation and transition project plan should be developed and steered by the committee to establish and track strategic milestones for the project. The plan should clearly indicate major milestones and deadlines and include estimated timelines to complete the key tasks and phases of implementation. This strategic plan should be supplemented by a detailed project plan that breaks the major milestones into individual work streams and phases and clearly identifies who will be responsible for each activity and deliverable.

On a regular basis, status updates (including the identification and mitigation of project risks) should be provided by the committee to those charged with governance.



2.1.3 Key priorities

Project activities should be prioritised. This is critical because of the limited time that entities have to implement IFRS 17, the project's complexity, the possibly wholesale changes associated with implementation, and the interdependency between certain project tasks and milestones. Project teams should consider these interdependencies to determine whether certain activities must be completed before others (e.g. new system implementation or updates may need to be completed before processes, workflows and controls are updated). The IFRS 17 project competes with other projects for limited resources internally and within the industry, which will put extra pressure on timely and quality implementation.

Specific priorities may differ significantly between entities. While some may wish to modernise or even transform their finance and technology capability while implementing IFRS 17, others may prioritise basic compliance with the standard. It is critical that project teams within an entity have the same understanding of its priorities to ensure the most effective use of resources.

For groups, the involvement of local entities in the implementation project will also need to be considered and planned. In many cases, local entities may need to comply with IFRS 17 both for group financial reporting and for local regulatory reporting purposes. This could cause a divergence between group and local regulatory requirements, especially in cases where regulators specify a particular policy treatment or have established different local initial application dates.

2.2 Internal control environment changes

The impact of IFRS 17 will be wide-reaching for most in-scope entities, with additional complexity introduced in the accounting for insurance transactions, including more estimation and judgment and an increase in the use of modelling. Management needs to ensure that it implements a robust system of internal control over these estimates and judgments, and the data and valuation models which underpin them.

The extent to which IFRS 17 will impact an entity's internal control environment will vary depending on, amongst other things, the entity's existing infrastructure and complexity, the existing level of automation, and how they choose to implement IFRS 17. For many, the approach will be to enhance and build on existing infrastructure - adding supplemental controls where necessary to address new financial reporting processes. Conversely, those that choose to use IFRS 17 adoption as an opportunity for a full transformation of their accounting, actuarial and other systems, will need to design and test appropriate controls from the ground up.

Outlined below are some areas of consideration for the system of internal controls and the potential impact on insurers' IFRS 17 projects.

2.2.1 Controls over data



IFRS 17 introduces more estimation and judgement and increases the frequency with which assumptions need to be revisited. This will increase the need for high quality and reliable data sets to underpin the valuation models which generate these estimates, and entities will need the ability to capture, process and store significantly more data. Entities will need to ensure that they have the appropriate systems in place to deal with these data requirements and importantly, robust controls throughout their process to ensure consistency, completeness and accuracy of all the data sets used.

Management will also need to consider the data that will be required to support the opening balance sheet adjustments upon initial application of IFRS 17. For many, this will involve multiple sources and types of data, elements of which may not have formed part of the accounting under the entity's existing accounting framework. In addition, given the timing of when management will be performing its transition work, it is quite possible that systems and controls will still be in the process of development, meaning the transition work will be performed using more manual processes. This introduces further risk around the transition adjustments and management should ensure it has robust controls in place over the processes used to arrive at these numbers and disclosures as well as over the data used, in particular if revised processes are not fully embedded in business as usual activities.

Regardless of the approach adopted, entities will need to consider how access to data will be controlled and granted to non-accounting personnel, such as those from actuarial, pricing and operations.

2.2.2 Controls around significant judgements, assumptions changes and other inputs

Business processes and controls will need to be designed and implemented to ensure:

- expected future cash flows are accurately captured, aggregated, recognised and measured, and appropriately adjusted to reflect the time value of money,
- the risk adjustment is consistently calculated based on management's methodology established for the entity's consideration of non-financial risk,
- the Contractual Service Margin (CSM) is appropriately calculated, amortised and re-measured, and
- data and inputs into these calculations are accurate and reliable.

Controls will also need to be designed and implemented to ensure these calculations, and the valuation models that drive them, cannot be modified inappropriately.

Because judgements and assumptions will need to be made as part of the calculation process, there will also be a need for controls around how these judgements and assumptions are determined, their internal consistency, who reviews them and whether they are properly approved



and documented. Valuation models will also need to be subject to validation and internal assurance.

Some entities likely already operate in an environment with strong controls around existing actuarial models. Introduction of IFRS 17 will require entities to expand controls around new systems, additional inputs and calculations, and around the significant increase in the data being collected and stored. Careful consideration needs to be given to how management review controls are designed and implemented to ensure they are robust and operate at a sufficient level of precision to prevent or detect misstatements.

2.2.3 Monitoring controls

As many of the new calculations and processes introduced to comply with IFRS 17 will likely be automated to some degree, monitoring controls will become critical to ensure the inputs and output of the systems and financial information are consistent with management's expectations. Monitoring of results will need to be precise enough to ensure that errors are detected, particularly in the early post-implementation phase as issues are being resolved and while management's expectations are being established.

2.2.4 Control considerations relating to temporary transition solutions

Entities should try to ensure appropriate processes and controls are implemented with sufficient time to ensure they are operating effectively prior to transition, and provide time for any required remedial actions. This is particularly important for entities with internal control over financial reporting (ICFR) reporting requirements.

Some entities may rely on temporary transition solutions in the interim to meet the IFRS 17 implementation timeline. More manual processing and spreadsheet-based calculations outside of an integrated and controlled accounting and actuarial framework may be adopted while entities finalise the implementation of their longer-term solutions. Although such interim solutions are intended to be temporary, entities and their management remain responsible for designing and executing effective controls over the processes concerned to ensure the integrity and accuracy of financial reporting. This will require additional consideration of controls around any manual processes, and verification of the calculations involved, as temporary solutions are likely to be more prone to error.

2.2.5 Group considerations

Groups will need to ensure that consistent practice exists across all entities and business units, and decide whether to design and implement centralised processes, controls and IT systems. Alternatively, groups may adopt a more decentralised approach, allowing business units to design and implement their own processes and controls. Regardless of the approach taken, a robust monitoring process needs to be implemented to enable risks to be monitored effectively by



management and those charged with governance, which may be more challenging under the latter approach.

2.3 Resources and training

The successful implementation of IFRS 17 will require that project teams have a strong understanding of the new accounting requirements and their application, combined with knowledge of other business functions, such as actuarial, IT and underwriting. Insurers whose accounting function has historically operated relatively independently from the actuarial or other business functions will find that the new measurement requirements under IFRS 17 will require greater cross-functional interaction than may have been necessary in the past. This will introduce challenges, such as training non-accountants on how they will be impacted by IFRS 17 and ensuring that accountants understand modelling and actuarial matters and that actuaries have the necessary understanding of accounting entries and how the actuarial valuations flow through to the general ledger and financial statements. As a result, existing accounting and actuarial resources will be subject to increased pressure.

At the same time, IFRS 17 will require the re-evaluation of KPIs and performance reporting and monitoring. Actuarial and operations will need to be cognizant of how decisions made under IFRS 17 will impact KPIs and financial results. In addition, entities may want to review the business consequences of reporting on an IFRS 17 basis, for example considering possible changes to the design and pricing of certain products, re-evaluating how products are distributed or intermediaries remunerated, reviewing their asset liability management or the design of their ceded reinsurance.

IFRS 17 will introduce the need to track and store a significant volume of data. This will be necessary to support the measurement of insurance contracts and to provide quantitative disclosures at an appropriate level of aggregation. Additional resources will be required for modelling and ongoing data management. Those charged with governance should ensure that management has considered the entity's resource gaps and what the long-term resourcing strategy and operating model should be.

Transitioning to IFRS 17 requires entities to account for their insurance contracts as if the standard had always been applied, unless this is impracticable (for example, if after making every reasonable effort, the entity is unable to gather historical data for contracts issued many years before). Although there are reliefs available, from an operational perspective, complying with the transition requirements will introduce further strain on resources.

Some expected indirect effects of IFRS 17 could include changes to the basis of taxation where general purpose financial statements influence tax computations. IFRS 17 will change how and when profits are recognised, and tax authorities may change tax legislation in anticipation of the effects of IFRS 17 on profits. This means that internal tax teams will need to be flexible to adapt to the changing requirements or short-term uncertainties in those jurisdictions in case the tax



authorities do not keep pace with the IFRS 17 implementation timeline. Those charged with governance should inquire how management anticipates addressing these ancillary challenges from a resourcing perspective.

2.4 Management's involvement with industry groups / consistency among peers

The application of IFRS 17 is intended to increase comparability in overall financial reporting and in the measurement of insurance contracts. To realise these benefits, it will be important for entities to be cognizant of how their peers and industry groups are interpreting and applying IFRS 17.

Those charged with governance should encourage management to discuss its implementation or interpretation issues at national and international forums and obtain feedback from its advisors and auditors. Those charged with governance should also encourage management teams to discuss issues with their industry peers.

In certain jurisdictions, prudential and stock market regulators have started to monitor IFRS 17 implementation efforts by requiring entities to report their implementation progress on a regular basis. This will enable regulators to identify common issues and concerns with respect to decisions and judgements early in the process to avoid undue diversity in practice by entities and provide them with sufficient time to address any concerns raised by the regulators.

2.5 Technology needs / changes

As previously noted, insurers will need to implement system changes to comply with IFRS 17. This will give insurers the opportunity to review their technology landscape and architecture to examine various options for the future and ensure changes will benefit the organisation for the longer term. Those charged with governance should be informed about IFRS 17 technology solutions because of the impact these changes could have on the IFRS 17 project, budget, operations and the financial reporting process. In this section, we look at the considerations for technology solutions and needs around IFRS 17.

2.5.1 Technology approach

In implementing IFRS 17, insurers need to consider their technology options. After considering existing systems, some insurers are choosing to custom-build an integrated model; while others are building on existing system platforms to meet the requirements of IFRS 17 (with either internal custom designed or vendor provided solutions).

Some entities are seeking to minimise their expenditure on IT, for example acquiring a CSM engine, automating work flow management and upgrading their chart of accounts. Others wish to



accomplish additional objectives such as addressing legacy technology issues or achieving a more comprehensive modernisation of their finance technology landscape. Whatever the final technology selected, the immediate focus needs to be on understanding how the technology decisions will impact people, processes, data and controls and how much customisation and testing it will need to support the delivery of IFRS 17 results.

2.5.2 Vendor selection

There are several vendors in the market developing solutions for IFRS 17, which means entities need to evaluate the suitability and flexibility of these various options. It is important to engage all relevant internal functions as the solution will likely extend beyond finance and actuarial functions, underscoring the need for clear communication throughout. In addition, some insurers are seeking external input in their selection of the most appropriate vendor(s).

Vendor solutions are at differing stages of development, and the scope of each solution varies. Each entity's functional gap analysis needs to be sufficiently detailed to enable management to accurately match an available solution to the gaps identified. It is unlikely that any one solution will provide an answer to all the wide range of challenges in the IFRS 17 implementation project. Entities should not underestimate the implementation challenges involved, even when using vendor solutions.

2.5.3 Data considerations

Another critical aspect of IFRS 17 implementation is data management. Insurers should consider developing robust data management strategies to meet the complex data requirements of IFRS 17. The project may present an opportunity to revisit how insurers accumulate, store and access data, positioning them to enhance their future decision making.

2.6 Impact on, and communication with, key stakeholders

Given the importance of insurance entities to the global financial system and the wider economy, the effective implementation of the new standard has the potential to benefit many parties. Conversely, a low-quality implementation will result in disruption and risk to many key stakeholders. As such, it is important to understand the key considerations of those stakeholders.

2.6.1 Chief Financial Officer

IFRS 17 introduces a number of changes to the language of insurance accounting and how financial performance and position are presented. The income statement, and therefore the performance KPIs, will differ from what stakeholders are used to. For instance, Insurance revenue will include items such as changes in the risk adjustment and CSM; and incurred losses will be discounted, making it difficult to compare the results under IFRS 17 with historical financial



statements. Finance leadership and investor relations teams will need to invest substantial time educating and preparing their stakeholders for these changes.

2.6.2 Internal audit

Given the complexity of the expected impacts of IFRS 17, internal audit functions should plan and conduct in-flight project reviews to ensure that the project will meet its commitments to stakeholders. Reviews of the IFRS 17 implementation program can include, but not be limited to, reviews of the project governance, timely status reporting, risk monitoring, testing of new IT system changes, testing of completeness and accuracy of transition data, and reviews or testing of new internal controls and governance frameworks. The internal controls concerned may include those that relate to key judgements and accounting policy choices.

The appropriate involvement of internal audit should provide management and those charged with governance with a degree of assurance that they will meet their IFRS 17 compliance requirements in a timely manner. Conducting post-implementation reviews/audits can also provide assurance that new policies, systems, processes and controls were appropriately developed.

2.6.3 Investors / Analysts

By introducing more consistent and comparable accounting principles, IFRS 17 has the potential to provide greater transparency into insurers' profitability and financial performance. Despite this, it will take time for investors and analysts to gain a full understanding of the financial statement results and disclosures that insurers will be providing. To prepare the investment community and manage expectations, senior management should proactively educate investors and analysts on the key issues and expected impacts of IFRS 17.

2.6.4 Supervisory bodies and regulators

Supervisors may play a role in supporting entities' transition to new significant accounting standards, including IFRS 17, especially in jurisdictions where regulatory reporting is driven by IFRS financial information. Supervisors will want to ensure that all entities are providing high-quality financial data and other information so they can appropriately analyse and benchmark the financial information. Certain local supervisory or regulatory bodies have started to request progress reports from entities to understand their project structure and resources, project status, significant accounting impacts and operational preparedness.

Certain supervisors are considering the impact that IFRS 17 has on the determination of regulatory capital, in particular where the determination of regulatory capital is derived from IFRS financial statements. In other jurisdictions where statutory capital requirements are not derived from IFRS financial statements, regulators are considering adopting a model based on IFRS.



3. Key considerations for the involvement of the external auditor

It is critical that external auditors are involved throughout an entity's journey to implementation of IFRS 17 so that audit risks associated with the transition to the new standard can be addressed on a timely basis. External auditors should be engaged at an early stage in challenging the key accounting and technical decisions and judgements being made by management. It is likely that new data, systems, processes and controls will all need to be subject to audit.

3.1 Technical expertise / training / resources

IFRS 17 will not only be a significant change for insurers, but also for the auditors. Auditors will need to respond to the complexity, subjectivity and estimation uncertainty introduced by IFRS 17. In addition, auditors will need to understand the recognition, measurement, presentation and disclosure requirements as well as practical implementation methods, to effectively audit the application of the standard. Among other things, auditors may need a deeper understanding of actuarial concepts, models and modelling techniques and audits will likely need increased use of experts and specialists, for example, actuaries and other valuation specialists, data analysts and IT auditors. Similar to the entity's actuaries, the audit firm's actuaries will also need a deeper understanding of how data flows into the accounting records and ultimately the financial statements. In addition, the data requirements and use of complex IT systems supporting the financial amounts will likely increase the involvement of IT auditors. Those charged with governance should start querying their auditors now as to their expert and specialist capabilities and what steps the auditors are undertaking to develop the necessary understanding of the requirements of IFRS 17 and a robust approach to auditing financial statements prepared under the new standard. The timeline and increased volume of work will also need to be considered by auditors, particularly in the transition year audit.

3.2 Timing of auditor involvement

Because IFRS 17 will impact so many areas of insurers' operations and potentially require significant changes to systems, business processes and internal controls, it will be critical for the auditor to be kept informed during the transition and implementation process. As management works through its implementation plan, it should seek auditors' review of the key areas of judgement (including accounting policy choices), valuation models, changes to the control environment, implementation of new systems and processes, and completeness and accuracy of disclosures as early as possible to avoid surprises during the audit and potential rework. Those charged with governance should discuss with the auditors the timing and substance of their involvement.



3.3 Auditor participation with industry groups

Those charged with governance should ask the audit firm's views on contentious issues, areas where there is no consensus, and areas open to debate. Those charged with governance should understand how well the audit firm stays abreast of the views emerging from industry groups and regulators in the territories where they conduct business.

3.4 Identifying alternative interpretations

Like with many new standards, the introduction of IFRS 17 requires judgement in many areas and as a result there is risk of diverging opinions/interpretations in practice. It is important for those charged with governance to fully understand areas in which alternative interpretations exist, and engage auditors in this discussion.

3.5 Group considerations

The group engagement team determines the scope of work to be performed, and the nature and extent of involvement in the work performed by component auditors.

This will be influenced by whether management has adopted a top-down, bottom-up or blended approach to implementing IFRS 17 across the group; the extent to which group management has been involved in implementation at components; the extent of differences across the group in business activities, processes, systems and controls, laws and regulations; the effectiveness of group-wide controls and other factors.

The group engagement team is likely to increase its involvement when component auditors are auditing areas of significant complexity, subjectivity or estimation uncertainty. This would include model, assumption and data selection and model design and application.

Auditors of groups will have to incorporate into their audit program appropriate steps to ensure that component auditors are performing their audit consistently with group-level guidance and across geographies and business lines, including judgements on interpretations and controversial areas.



4. Conclusion

We hope this paper, which should be read in conjunction with the Companion Document, has raised some relevant topics for those charged with governance of insurers to consider as the industry works towards adoption of IFRS 17. The new standard will not only impact financial reporting but, as highlighted above, has the potential to significantly impact insurers' operations and the industry as a whole. It is critical that implementation of IFRS 17 is given the time, resources, and oversight it requires. We hope that raising broader awareness to those charged with governance will increase accountability of management over its IFRS 17 implementation project and contribute to successful adoption of the final standard⁴.

⁴ The IASB is in the process of reviewing the comments received on the Exposure Draft and deliberating the proposed changes. A revised standard is anticipated by the middle of 2020.