IFRS 17: Turning Compliance Into an Opportunity

Business Impact

"Insurance contracts combine features of both a financial instrument and a service contract. In addition, many insurance contracts generate cash flows with substantial variability over a long period."

IFRS 17 Insurance Contracts. IFRS.org.

Challenges

- **Adaptation to a new era.** The new IFRS 17 accounting standard affects profitability monitoring, introduces a significant number of new measurements and requires proactive insights as the standard evolves.
- **Expectations for greater collaboration.** IFRS 17 requires closer collaboration of actuaries, accounting staff and IT, as calculations must be based on a comparison of expected and actual cash flows.
- **Multiple compliance requirements.** Many insurance firms need to comply simultaneously with Solvency regulation* and IFRS 17 requirements in a synergistic, efficient manner.
- **Lack of a holistic approach.** The changes introduced by IFRS 17 increase the scope and complexity of data requirements, storage and calculations while altering the processes for producing disclosures.
- **Investor expectations.** Increasingly, investors expect insurance firms to present the information required by Solvency regulation and IFRS 17, regardless of whether they are mandated to do so.

The Issue

IFRS 17 (previously known as IFRS 4 phase II) – part of the International Financial Reporting Standards issued by the International Accounting Standards Board – improves financial reporting by providing more transparent, comparable information about:

- The effects of direct insurance and reinsurance contracts on financial performance.
- How entities earn profits or incur losses through underwriting services and investment of premiums.
- The nature and extent of risks created by issuing insurance or holding reinsurance contracts.

Compliance requires insurers to calculate totally new measures when presenting their financial position. They also need to manage the increasing granularity and complexity around accounting for insurance contracts, as well as the preparation of the underlying models, the monthly run, the consolidation and the reporting.

The implementation of IFRS 17 overlaps with Solvency compliance for many companies and makes things more difficult. Finding implementation synergies minimizes rework and costs. The same principle applies to organizations with different compliance deadlines beyond 2023.

Our Approach

We approach the problem by providing software and services to help you:

- **Meet all IFRS 17 requirements.** SAS takes a comprehensive approach to accounting for insurance contracts – from data sources to reporting. We offer predefined data models, data management, calculations based on the General Measurement Model (Building Block Approach), the Premium Allocation Approach and the Variable Fee Approach, generation of postings, subledger supporting Multi-GAAP, process management and governance.
- **Implement risk and finance calculations and reporting on one platform.** The platform ensures consistency in common data, enables comparability of data and eases reconciliation of results. The result is closer collaboration among actuaries, accounting staff and IT around reporting of expected and actual cash flows and IFRS 17 measurements.
- **Implement gradually.** Start with a less mature process and model set and evolve to an advanced process and model set that applies to the whole portfolio of insurance liabilities.
- **Accelerate required calculations.** Run processes and calculations faster by orders of magnitude thanks to the parallel execution and in-memory architecture.
- **Realize benefits beyond compliance.** Take advantage of financial planning capabilities by processing future multi-period scenarios under IFRS 17.

* An example of Solvency regulation is the Solvency II Directive (2009/138/EC), a directive in European Union (EU)law that codifies and harmonizes the EU insurance regulation. It focuses on the amount of capital that EU insurance companies must hold to reduce the risk of insolvency.

The SAS® Difference

With SAS, you can meet all requirements of IFRS 17, using a single, integrated and comprehensive platform. You benefit from:

- **Data accessibility.** SAS can read from and write to multiple types of actuarial and accounting software.
- **Traceable, auditable processes.** You can design repeatable custom processes that are fully transparent and auditable.
- **Scenario testing for the current reporting period.** Define and run processes based on several configurations or sets of expectations – each representing a different set of assumptions – before concluding production results.
- **Prebuilt rules, models and templates with embedded business logic.** Start implementation with dedicated configuration data, prebuilt data management rules and models for the GMM/BBA, PAA and VFA approach.
- **Data quality and process quality management.** Define data quality rules and data packages and monitor delivery, completeness and quality of this data.
- **Insurance-specific subledger.** Our subledger supports Multi-GAAP, manual adjustments and allocation mechanisms as it consolidates and centralizes all details feeding complex regulatory and reporting environments – increasing transparency and control.
- **Flexible definitions of the Chart of Accounts and measures disclosed.** Define various sets of rules, allocating results of calculations to the different elements in the Chart of Accounts according to intermediary and final disclosures.
- **Advanced reporting.** Access a set of accurately designed, predefined financial reports with drill-down capabilities for accessing details and source data behind the final values – supporting financial disclosure.
- **Financial planning for future periods.** Define multiple scenarios in order to execute financial planning exercises for future periods. Perform comparative analysis of production and financial planning results, as well as iterations of plans and scenarios.

Case Study

Insurance Companies: Real-World Scenario

Many insurance companies need to create and publish sets of reports covering both their local or regional Solvency regime (i.e., Solvency II in the EU) and IFRS requirements, including IFRS 17. To meet these requirements, they need a mature solution that delivers strong analytical, data management and reporting capabilities.

Solution

The SAS solution addresses data collection and storage, handling of data quality and business rules, preparation of reporting data and execution of required IFRS 17 calculations.

What if you could ...

Run the entire process for IFRS 17 – from data sources to reporting – within a single, integrated, centrally managed and traceable platform?

Ensure the consistency of data presented in new financial and risk reports and ease collaboration between actuaries and finance using a common platform?

Verify and benchmark accuracy, completeness, traceability and timeliness of your IFRS 17 implementation to ensure business is conducted in a controlled and low-risk fashion?

Start your implementation with a temporary architecture, get familiar with the new reports, and gradually add target elements based on your priorities?

Have a view of future profitability, plus foresee threats, risks and the impact of current decision making?

With SAS, you can.

SAS Facts

- SAS has extensive experience in implementing regulatory requirements such as Solvency II, LDTI, IFRS 9, BCBS 239 and all Basel-issued requirements.
- Since 2013, SAS has established a global strategic partnership with SAP. The partnership's main focus is on data integration and handling large data volumes.
- SAS risk solutions are used by more than 1,400 institutions worldwide.

To learn more about SAS risk solutions, please visit sas.com/risk.