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For entities who have already adopted IFRS 17 ("the Standard"), year-end 2023 has seen the publication of the first set of full IFRS 17 financial statements. This was the culmination of a multi-year effort by these (re)insurers to develop their IFRS 17 accounting frameworks, the supporting systems and the detailed new disclosures.

For those who adopted the standard as part of this "first wave", focus will now shift towards making the supporting processes more efficient and robust, upskilling all teams on the new systems and enhancing the ability to rationalise, explain and forecast IFRS 17 results. Many entities will also be studying the disclosures made by other entities, with a desire across market participants to assess how their published financial statements benchmark to those of peer group companies.

There are also a cohort of (re)insurers who, for a variety of reasons, will be adopting IFRS 17 at a later date, as part of a "second wave". For those (re)insurers, consideration should be given to the challenges that were experienced by those who adopted the Standard as part of the first wave, so as to benefit their own transition projects.

Although the aims of both cohorts may be different, both will derive value from taking stock of the lessons learned from the initial wave of implementation and determining the most effective path forward.

In this article, we set out our observations on the key challenges that arose on IFRS 17 implementation and explore potential next steps for both the first and second wave as they embark on their respective journeys.

Implementation: Key challenges observed

Accounting policies

An entity's accounting policies set out how it has interpreted the requirements of the Standard, and how these interpretations should be applied to its own business. The accounting policies therefore document key decisions and form an important reference point given the inherent complexity of IFRS 17. As a result, the selected policies drive the downstream activity for the development of the systems and processes used to produce the IFRS 17 Financial Statements.

Failure to engage with this early in an implementation project created roadblocks at later stages or lead to early decisions that were incompatible with the business written, available data or capabilities of the technological solutions adopted. This created challenges for many first wave adopters.

Finance function operating model

For all entities, this sets out the ultimate operating model for the finance function including the production of IFRS 17 results.

Some entities aspired for complete finance transformation at the outset of their projects. However, in this more ambitious cohort, the vision for some became closer to “ensuring compliance” as the scale of the project (and the associated challenges) became apparent. Other entities leveraged existing processes as much as possible, targeting additional effort only in respect of very focused areas.

Generally, insurance groups ran centralised projects, where central policies, tooling etc. were developed for all subsidiaries to use. Whilst a centrally led project may be more efficient from a cost perspective, it can lead to some challenges – we observed specific challenges on:

- Transfer of knowledge from the corporate centre,
- Development of central policies and procedures that lacked insight into nuances of individual local markets and local regulatory expectations,
- Challenges for regional management to get comfortable with the overall results,
- Clarity around ownership of the process and sign-off of local financial statements.

Failure to have a clear vision of the finance function operating model at outset means there’s no clear target to work towards as processes are built. The view on the operating model can evolve over time – but in the more successful projects all stakeholders shared a common view on this evolution.

Data

IFRS 17 implementation has sometimes been referred to as a data project, rather than an accounting one! This reflects the challenges that the Standard creates in terms of both sourcing historic data and storing emerging data, particularly that needed related to the accounting for the contractual service margin (“CSM”) over time. Where this has created challenges for companies is that they have not duly considered their own requirements in terms of data sourcing, cleansing and storage, with processes being established that are not sustainable in the longer-term.

Systems

Related to the data points, IFRS 17 has required entities to fundamentally re-assess the systems utilised. Enhancements have been required for existing actuarial models and accounting ledger systems.

New systems have been required for the assessment and ongoing monitoring of the CSM and potentially the risk adjustment. Where we have seen challenges for entities is in relation to the development of these systems, with the development time and associated testing being more complex than anticipated, leading to higher costs and project delays. In addition, opening balance sheet and comparative results have often had to utilise complex, bespoke spreadsheets – leading to resource intensive manual processes with corresponding process, governance and control gaps.

Time

The reality is that, with complex financial change projects, more time is always needed. There will always be more testing, analysis and refinement that can be done. With the implementation of IFRS 17, there was often (but not always!) a marked difference between those entities which had several years' preparing results, and those which didn't.

The first cycle of results may generate some surprises – systems don't work, data does not flow as expected, results are hard to understand or lack credibility. A second set of results may address some of these issues but create challenges around rationalising movements. Over time, processes, understanding and controls evolve.

Companies that had the benefit of dry runs before they had to publish results typically reduced some of the need for manual, labour intensive processes for year-end 2023.

Communicating results

The P&L under IFRS 17 is fundamentally different to that under IFRS 4, and hence significant effort is required to understand and explain the results. We observed that some entities had challenges in explaining movements to key stakeholders, rationalising the profitability of the business and clarifying the key performance indicators that could be monitored. For those charged with strategic decision making, this created challenges as they tried to understand how planned initiatives might impact IFRS 17 results. External stakeholder engagement was also a challenge – the disclosures under IFRS 17 are inherently more complex and entities often struggled to gather and present the level of detail required.

Resourcing

Companies often cite battles in the "war for talent" – this was definitely the case where there was, initially, a limited pool of individuals with knowledge on IFRS 17. Consideration was required around how to "resource up" IFRS 17 projects, with trade-offs required between the use of permanent and contract resources.

Further challenges arose due to the other items above – delays and challenges on systems/operating models meant that resource intensive manual processes often had to be utilised to produce results. Not unrelated, staff-turnover and retention have been challenges in some organisations.

Resourcing and retention then drive follow-on challenges in relation to the transition of the IFRS 17 project to the BAU reporting environment.

External audit

The production of the year-end 2023 financial statements effectively meant that auditors had to review three sets of results (opening balance sheet, comparative results and 2023 results) and a complete set of new financial disclosures. This was inherently challenging given the complexity of IFRS 17, made more complex by, in some cases, the sustained evolution and instability of the associated accounting policies and reporting processes.

Next steps: First wave

For the first wave, much of the focus will be on enhancing and improving what was produced for year-end 2023. Our understanding is that much of the activity of the first wave will focus on the following areas:

Disclosures

A key aim of IFRS 17 was to improve the comparability of the results published by insurers. However, whilst the principles of IFRS 17 are the same, how they are interpreted and applied varies significantly across the industry. We therefore expect some refinement during 2024 as insurers review the disclosures of peer group companies and take steps to ensure that their disclosures do not create uncertainty or ambiguity in relation to how they have adopted the Standard.

Communication

A key focus area will be on developing the ability to understand, rationalise and explain the emerging IFRS 17 results to all key stakeholders – internal leadership, boards of directors and audit committees and market participants. Giving deeper thought to the key challenge areas from 2023, and in particular, reflecting on the questions that were hardest to answer, may focus minds on where immediate development activity is needed. We expect a key area will be on producing more detailed insights on the analysis of change, focusing in particular on rationalising experience variances.

Automation

For year-end 2023, many companies had to utilise tactical solutions to deliver results, rather than their desired long-term strategic solutions. In fact, we have observed some companies commenting that their reporting processes *regressed ed* and *disimproved* due to IFRS 17, in that they now have lower levels of automation and control than they had prior to adoption of the Standard.

Over the next 12-24 months, we expect first wave adopters to invest time and effort in implementing strategic solutions, so as to avoid manual tooling, reduce operational risk and improve working day timetables. Processing time and controls will be key focus areas, automating data validations and reconciliations across systems so as to reduce manual workarounds and provide greater assurance over the results.

Any tooling developed for these purposes should aim to bring reporting processes into the 21st century and not regress. We expect a focus on the use of tools and systems employing the latest techniques, such as artificial intelligence and data analytics.

Audit remediation

Auditors, both internal and external, are likely to have produced a number of findings in respect of year-end 2023 for management to address and remediate. Engagement with auditors is key to understand what items are crucial for immediate remediation, what may be addressed by existing planned development activities and what can be paused or postponed for future consideration.

Auditors themselves will be looking to understand how year-end 2024 will differ from year-end 2023; where tactical solutions were adopted, these may have led to additional audit effort over and above what was expected. Implementing strategic solutions in advance of the next year-end may necessitate standalone audit testing but may lead to reduced audit effort going forward.

Planning

No different than with the implementation project, given the myriad of activities that need to be undertaken and the stakeholders involved, planning is key. Rome was not built in a day, and all of the challenges that emerged at year-end 2023 are unlikely to be rectified in the 6 months between now and the end of the reporting year. Clarity on the immediate goals is required, with an appropriate plan and resources then put in place to achieve this.

Key lessons: Second wave

For the second wave what can they learn from the first wave's experiences to support a successful IFRS 17 implementation?

Start with the end in mind

Planning is crucial, but you cannot develop a delivery plan when you are not clear on what is being delivered. There may be scope to revolutionise your reporting process – there may not be – but we encourage entities to develop a clear view on the final target finance function operating model.

We would encourage entities not to be constrained by existing processes in place - focus not on how to amend existing processes but on what the ideal target end state should be, considering not just the production of numbers, but financial statements, business planning projections and key performance indicators. A large-scale project like IFRS 17 offers opportunities to automate, streamline and enhance reporting processes, reducing working day timetables and associated costs.

Once your view on the ideal target operating model is clear – quantify the effort required to achieve this, then assess the gap between these aspirations and your budget. Assess the trade-offs you must make and what you can feasibly build. Only when you have a view on this, can you develop a delivery plan and mobilise resources behind this vision.

Policy is key

At the earliest possible stage, develop your accounting policies – this is a key focus area as it drives a series of future decisions within the development of the underlying systems and processes. Road- test the policies – consider proof of concept results for key products and identify potential gaps, challenges or key judgements that have unintended consequences. Recognise that as a second wave adopter, you are not operating in a vacuum – publication of results means market practice is clear in some areas and you can use this to shape your approach.

Dry runs

As you work towards preparation of your first set of financial statements, allow time for dry runs. Results prepared outside of the pressures of a reporting cycle allow more time for analysis, review and remediation. Navigating uncertainty is easier when deadlines are not looming.

Engage

Identify and engage with your stakeholders at an early stage – assess their needs and factor this into your planning:

- **Senior leadership** will require project status updates, as well as clarity on the key judgements required, their impacts and the implications of policy decisions. They need to understand how the new Standard impacts presentations of profitability, the key focus areas of external stakeholders and how the Standard impacts strategic decision making.
- **Boards and Audit committees** may require training on the impacts of the Standard and how the new financial statements will look. Whilst some areas of focus will overlap with those of senior leadership, stakeholders at director level also need to execute oversight of the project delivery and be comfortable with the developing control framework.
- **Auditors** will need to review and assess the selected accounting policies and engage with a review of the production processes and draft financial statements as they are prepared. Early engagement on the more subjective areas is key to avoid any delays in audit finalisation.
- **IT, Finance and Actuarial** functions will all need to be involved, with a level of collaboration required beyond that required for earlier financial statements. Clear delineation of responsibilities, with clear accountabilities, needs to be established.

Resources

Consider the resources you need to manage both your project and business as usual reporting. It is unlikely that existing finance, actuarial and IT functions can deliver on such a large scale project whilst still delivering on the current day jobs. Therefore, thought is required to the additional resources needed, their necessary skillsets and how these are to be most effectively deployed.

Time

For a large scale project like IFRS 17, the earlier you start, the better – this gives you time to undertake dry runs, progress your systems and engage with stakeholders to ensure the information you are producing is adequate and insightful.