IFRS 17 Survey Results

Your journey so far

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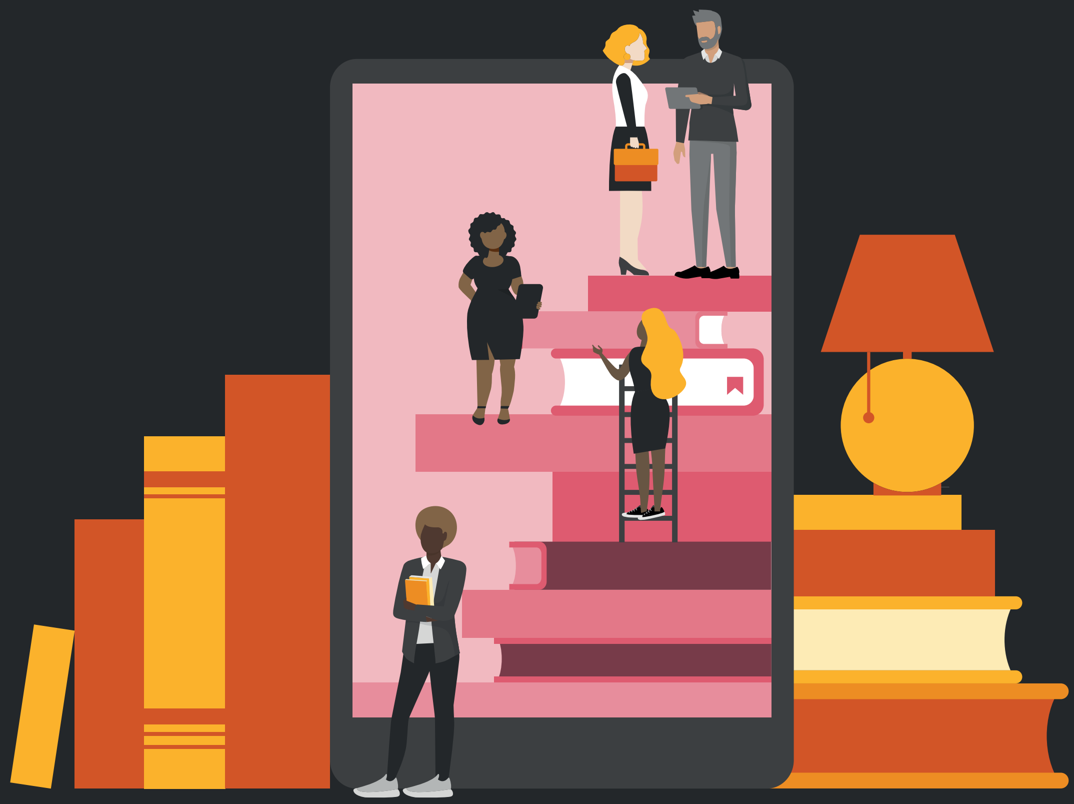


Executive summary

IFRS 17 fundamentally changes the way in which insurers account for contracts, with far-reaching effects on a range of business functions. A strategic and carefully considered approach to IFRS 17 implementation can help insurers to identify, improve and even transform ineffective and inefficient systems and business processes.

In May 2020, we conducted a survey on IFRS 17 projects to gain an understanding of how insurers operating in South Africa are conducting their IFRS 17 programmes. The responses provide insights into approaches followed, progress made and challenges faced by those tasked with implementing IFRS 17 for their organisations. We received responses from 14 insurers — including four life, five short-term and five composite insurer groups — to understand their IFRS 17 journey so far.

The reporting requirements of IFRS 17 severely impact many functions within an insurance organisation, including data requirements, systems, processes, actuarial modelling, finance systems and processes. Many of these impacts only come to light as insurers start designing their IFRS 17 solutions.

The results of the survey is presented in key themes that emerge around the interest of the board of directors, the impact of the updated standard issued in June 2020, implementation challenges, costs and progress.

The board should be kept abreast of the implementation progress to ensure the necessary time and resources are allocated. Our survey identified greater involvement by the boards of the large insurance companies. Even though key performance indicators (KPIs) are not yet top of mind, boards should start considering updated KPIs as this will shape how the business will be analysed by investors in the future.

An updated IFRS 17 standard was published in June 2020. One of the most significant updates is the effective application date of the standard, which changed to 1 January 2023 from 1 January 2021. This amendment has been welcomed by insurers as it provides greater confidence that they will be able to implement the standard (77%) as well as be able to modernise and improve their systems (38%), among many other identified benefits.

Even with the deferral of IFRS 17 application, insurers are faced with many implementation challenges, of which the most significant and common challenge, by far, is the integration of various solutions needed to produce the IFRS 17 results. Insurers should not underestimate the challenges that are brought about by the granularity of required data and how data will flow between policy administration systems, cash flow/CSM modelling tools and finance applications.

We found that implementation costs are top of mind for boards. Insurers are spending significant amounts on implementing the standard. Many insurers have changed their initial implementation cost estimates — some by between 31% to 50% or even more. Insurers should therefore continuously consider whether their planned resources are adequate as they progress with their IFRS 17 journeys. We provide insight on the areas where insurers are spending the most time and money.

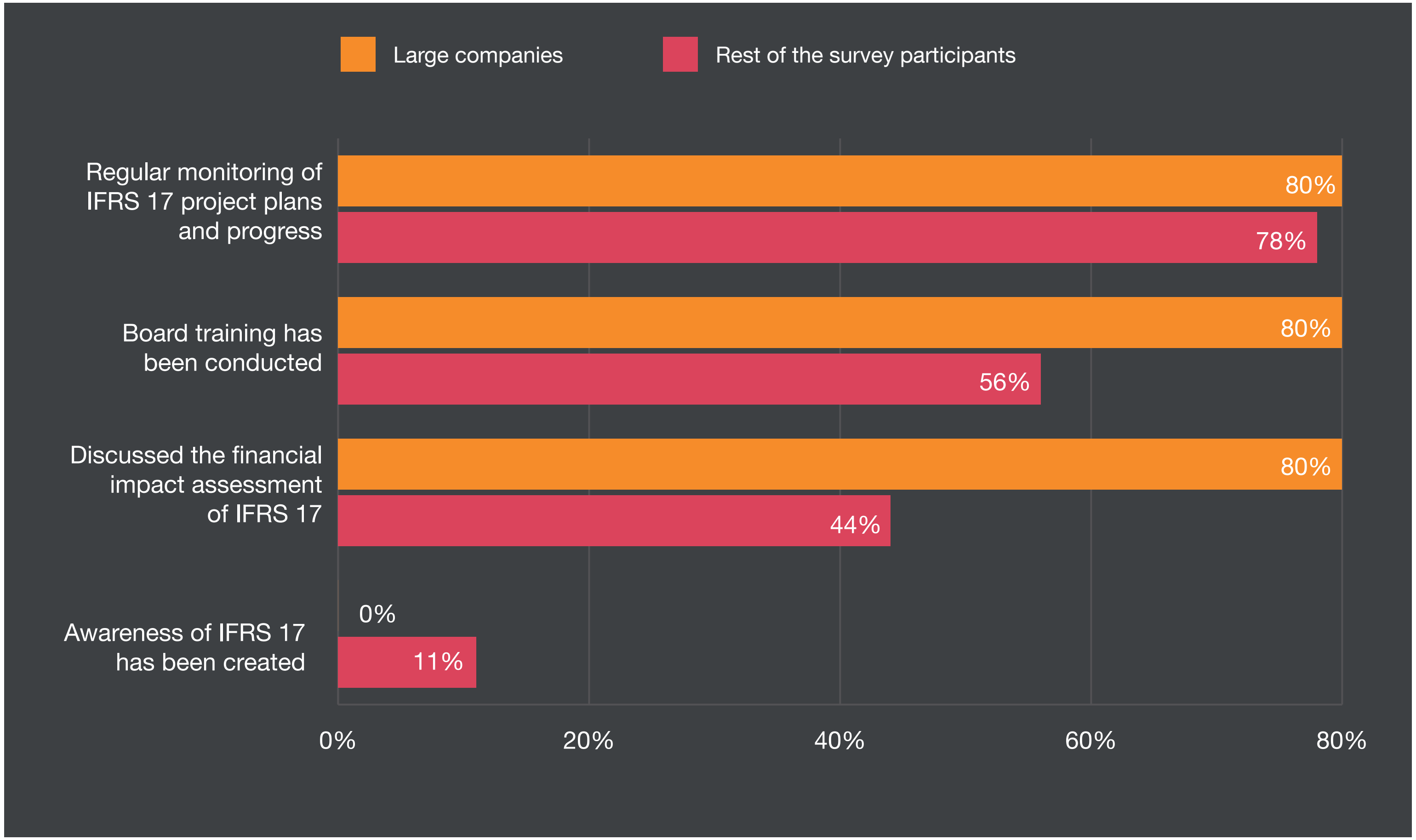
In terms of IT vendors, we were interested in gaining insight into how insurers are planning to approach the technology requirements brought about by the complex reporting requirements. We see a difference in approach here between the large and smaller insurers. The time needed to implement new vendor solutions should not be underestimated.

We established the stage of completion of various implementation projects and, not surprisingly, found that the large insurers are more advanced in their journey than the rest of our participants.

Insurers are facing a variety of immediate financial and operational challenges as a direct result of the COVID-19 lockdown. Finance leaders have to balance necessary cost cutting efforts with digital transformation initiatives to strengthen the resilience of their businesses. In this context, we believe you will find this survey useful in assessing your IFRS 17 journey and progress so far against some of your peers.

Boards' interests

Boards' involvement in IFRS 17



PwC Observation: It is pleasing to observe that more than 70% of participants' Boards regularly monitor the IFRS 17 project plans and progress. Large companies are ahead in training their board members on IFRS 17 (80%) and in engaging their board members on the financial impact of IFRS 17 (80%). The rest of the survey participants still need to make further progress in those areas.

The next steps for all companies is to consider the level of education, what KPIs will be determined and how results under IFRS 17 will be communicated to the market. We expect this to change as insurers progress with their implementation plans.

Those charged with governance has to consider many aspects around the implementation of IFRS 17. *Read more about it here.*

Boards' areas of interest

The following represents the interest of the Boards ranked from highest to lowest by the participants:

01 Financial performance impact

02 Implementation costs
Plans and progress updates

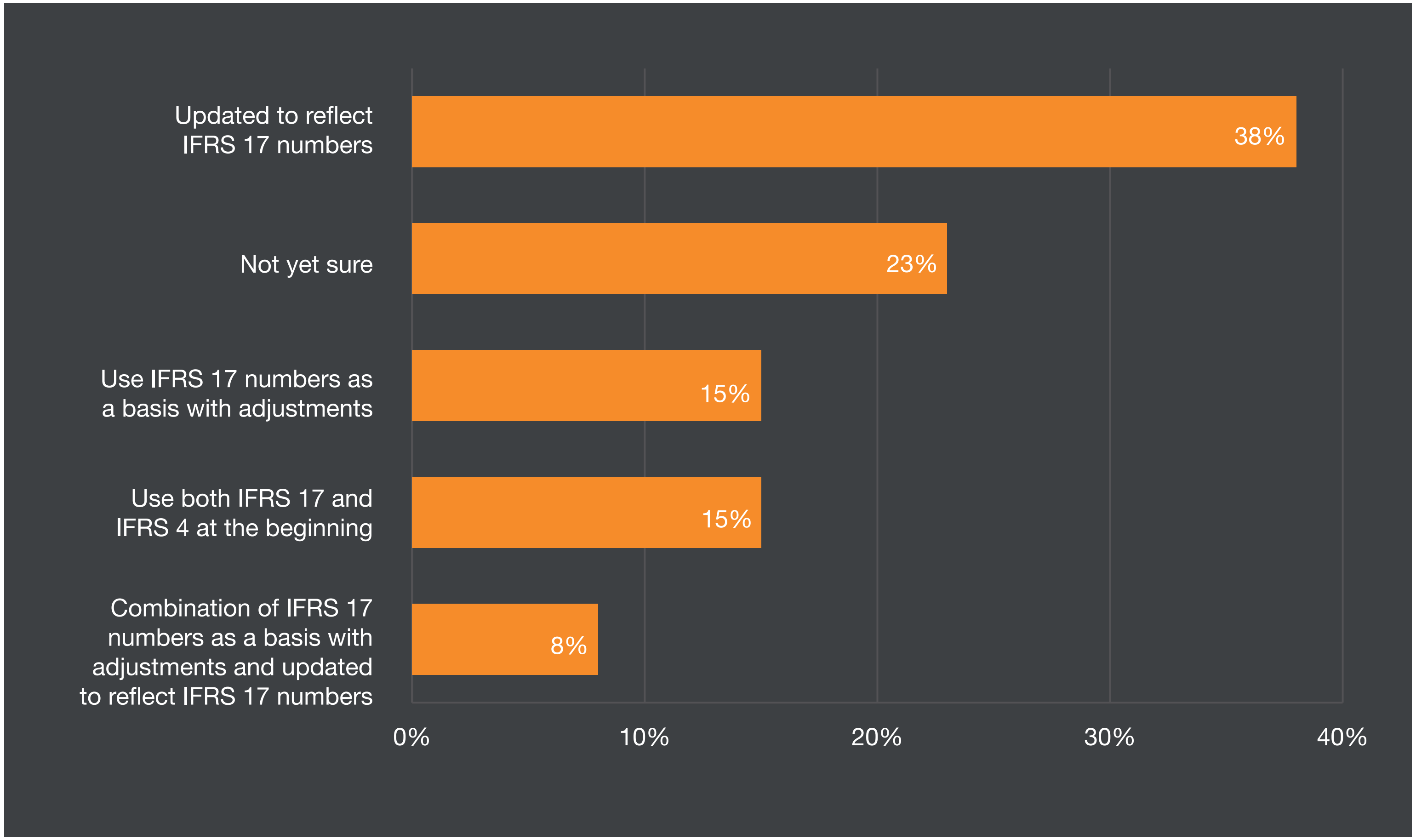
03 Compliance

04 Operational impact

05 IT impact
Management information/KPIs

Other areas of interest include the tax impact of IFRS 17 and change management.

Impact on management information



IFRS 17 will not change the amount of profit insurers make over the lifetime of their insurance business, but it has the potential to massively shift the trajectory of these profits. The impact will not just be felt in the financial statements, but also many of the key performance indicators (KPIs) that insurers use to run their business and which shape how their business is judged by analysts and investors. KPIs will also influence senior remuneration.

One of the big challenges is that, in some cases, there is no easy adjustment from the existing KPIs to KPIs derived from the new IFRS 17 reporting model. We might also see new KPIs emerge, for example, around the IFRS 17 contractual service margin (CSM) concept.

Refer to The impact of IFRS 17 on insurance performance and reporting* for further insights.

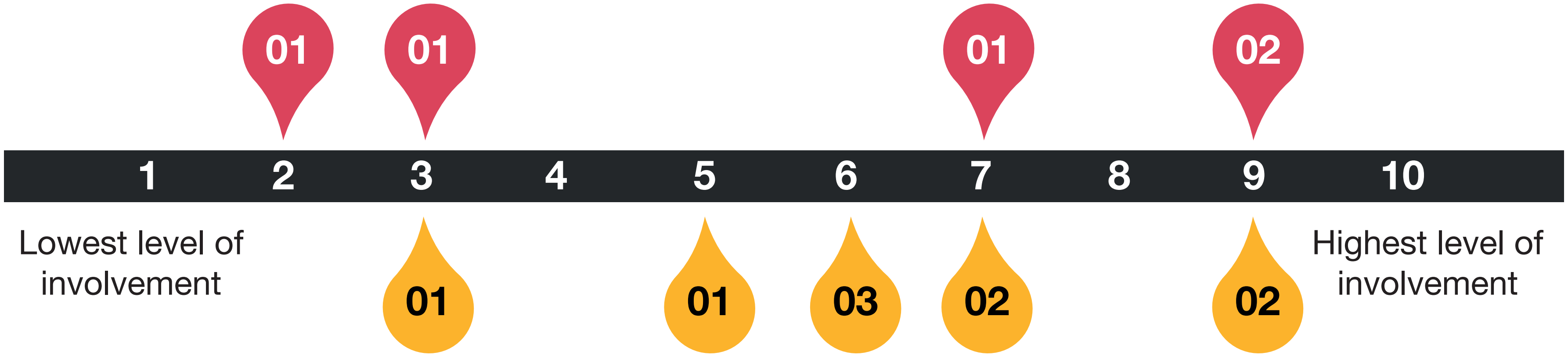
It appears to be practical for management information to be presented using IFRS 17 numbers (with some adjustments in certain cases). Insurers are changing their reporting systems not only for IFRS financial statements, but for management information as well. However, along with their management information, insurers need to start thinking on the impact of IFRS 17 on KPIs.

**https://www.pwc.co.uk/audit-assurance/assets/pdf/impact-of-ifrs-17-on-insurance-performance-reporting.pdf*

Auditors' involvement

Auditors’ involvement

How do insurers see the level of involvement of their external auditors in implementing IFRS 17?



No. of respondents – large companies

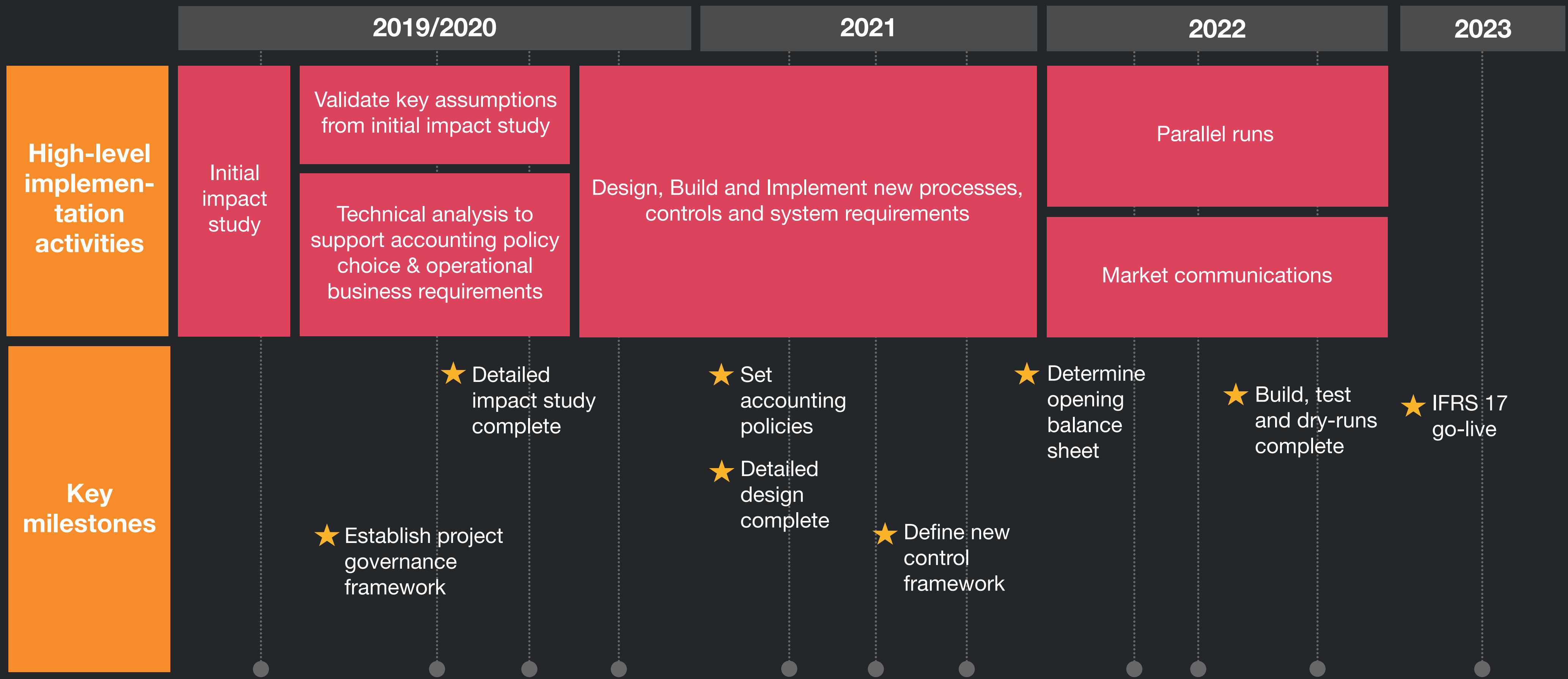
No. of respondents – rest of the survey participants

Has an audit plan and scope been agreed with the auditors?

Yes – 23%
In progress – 54%
No – 23%

PwC Observation: Overall, there seems to be a moderate level of external auditors’ involvement during the implementation process. There is a strong correlation between those insurers that have a high level of involvement by external auditors and when they considered them to promote/enhance their IFRS 17 implementation plans.

Timeline – Key milestones



PwC Observation: Insurers should consider their implementation plan and the key milestones to be achieved. Consider at which point in the process it would be appropriate to involve your auditor.

Impact of amendments to IFRS 17

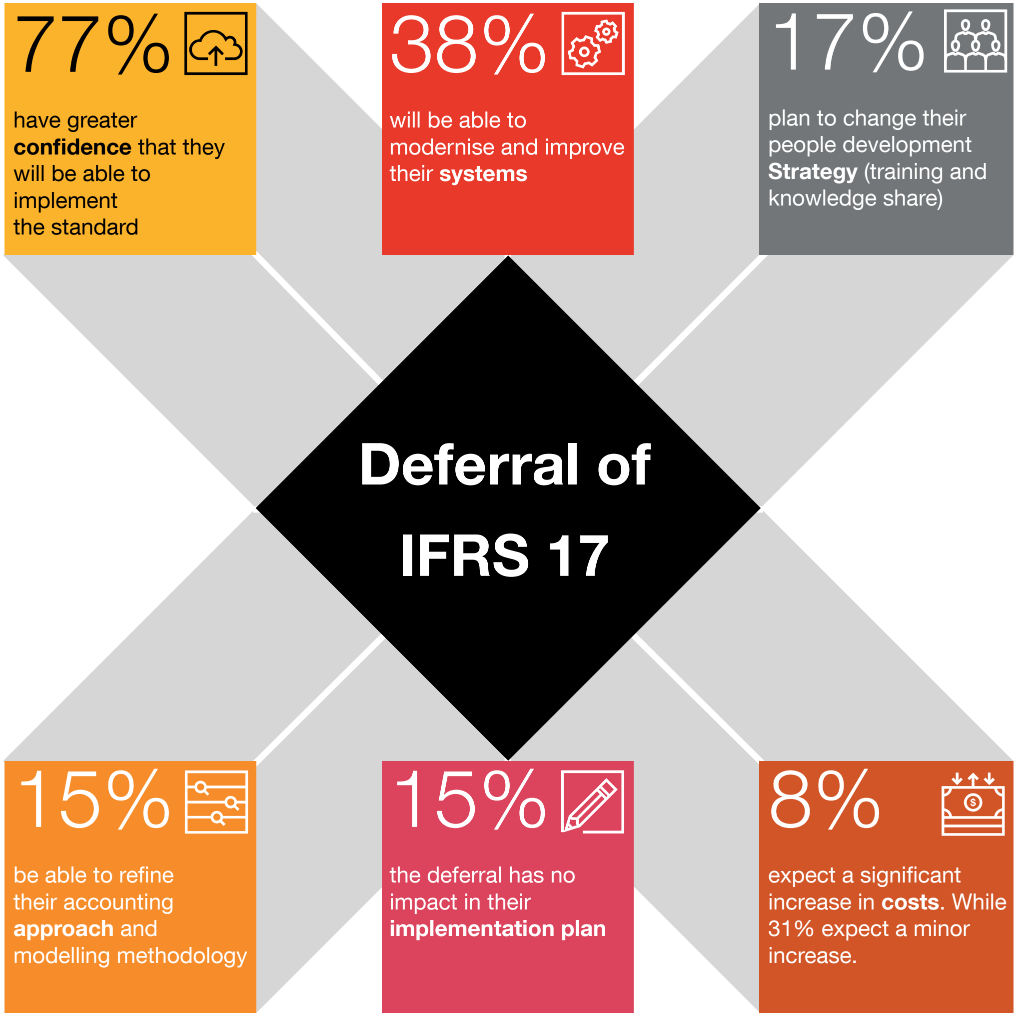
Amendments to IFRS 17

Ranking of the latest amendments that has the most impact on implementation

Rank	Amendment
1	Amendment to the date of application
2	Reinsurance contracts – recognising profits for underlying onerous insurance contracts
3	Presentation at a portfolio level in the balance sheet
4	Expected recovery of insurance acquisition cash flows
5	Transition
6	Including I-E tax in the fulfilment cash flows if directly chargeable to the policyholder
7	Changes to the scope
8	Risk mitigation option
9	Coverage units – incorporating coverage units for investment-return service and investment-related services
10	Clarification of investment expenses to be included in the fulfilment cash flows

Deferral of IFRS 17

What impact does the deferral to 1 January 2023 have on insurers?



Other impacts of the deferral include (1 respondent each):

- Deferral of spend budgeted for
- Stakeholders are unhappy with the deferral;
- Financial impact assessment can improve as well as engagement with stakeholders; and
- Different accounting policy choices in the standard can be tested in a better way.

Implementation challenges

Challenging implementation areas

The mix of the most challenging implementation areas varies among respondents. However, the integration of all technology solutions is by far the most common challenge being faced by insurers.

50% **of respondents**

1 Challenges

- Finance functions in insurance organisations are strained due to the **voluminous data flows**
- IFRS 17 may cause further disruption to their reporting calendar obligations as a result of new metrics
- Potential limitations to produce both management information and statutory reports from **unsophisticated finance reporting** systems and reliance on manual processes, whilst still maintaining a good control environment
- The **lack of an insurance subledger**, which is controlled by finance, places greater reliance on their policy administration vendors. Existing Service Level Agreements may limit timely changes to produce the appropriate level of data
- Current processes and handovers between actuarial and finance may pose challenges to cater for the **increase in dependencies** between these areas, especially if there is a wider geographical presence of that insurer to produce standardised consolidated reporting

2 Considerations

- Defining a **standardised data model and data architecture** to enable consistent understanding and management of data quality
- Defining a high level architecture and **landing key design decisions** with assumptions to accelerate implementation
- Designing a **Chart of Accounts** based on Group Wide Disclosures which caters not only for IFRS 17, but also management information and allowing for customisation without impacting the Group Disclosures
- Consider **central solution**s to service multiple business units such as an Insurance Subledger, thereby enabling granular contract and product accounting and “decoupling” accounting rules from the policy administration systems
- Defining a **target reporting calendar** across the delivery model and overlaying processes which identifies suppliers of information, customers of that information, control activities as well as the critical path. This will allow for insurers to flex timelines and assess the impact to downstream processes

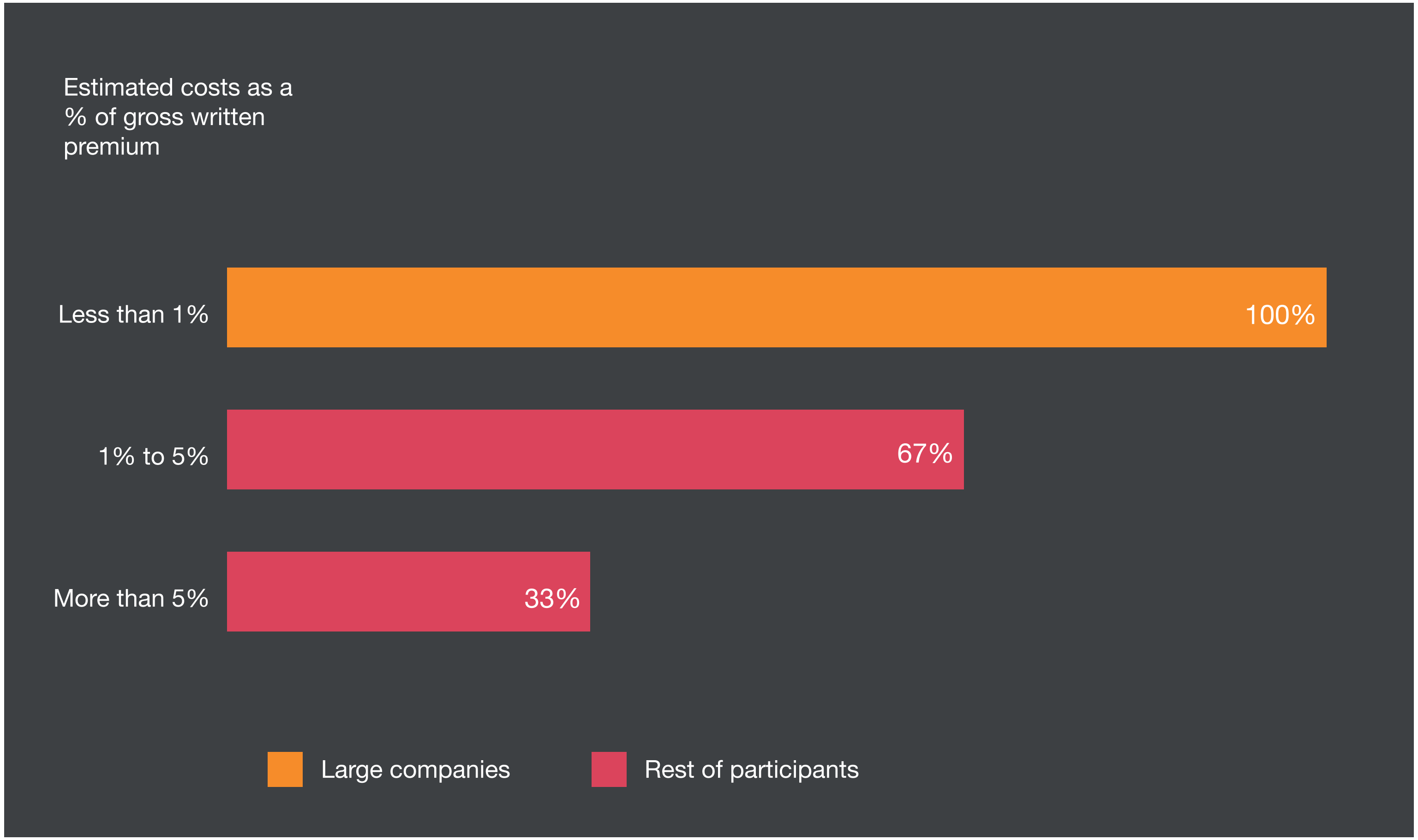
Implementation challenges

Top 3 areas (by type of insurance company)

	Aggregate	Detailed breakdown: Composite	Life	Short-term
Integration of all solutions	1st	1st		1st
Determining cash flows directly attributable to insurance contracts	2nd		1st	2nd
Ceded reinsurance	3rd		2nd	2nd
Intragroup implication on consolidation	3rd	2nd		3rd
Tax	3rd	2nd		3rd
Obtaining cash flow movements at the correct level	3rd	2nd	2nd	
Determining the risk adjustment	3rd	2nd	2nd	3rd
Aligning management information and IFRS 17 results			2nd	
Determining the contractual service margin	3rd	3rd	2nd	3rd

Implementation costs

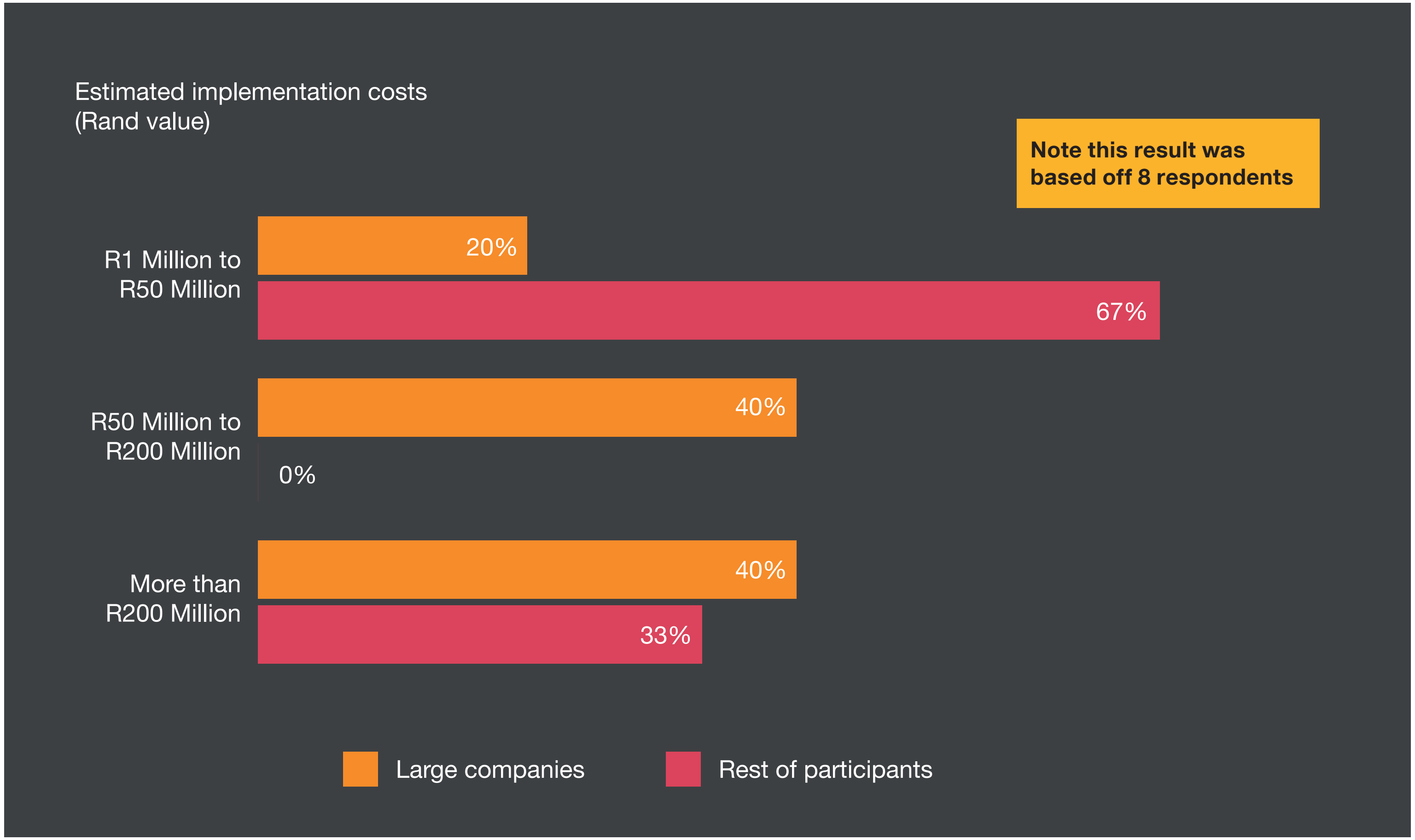
Estimated implementation costs



Costs include those relating to perform gap analyses, project management, change management, audit costs, training, cost of contractors or temporary staff as a percentage of Gross written premium

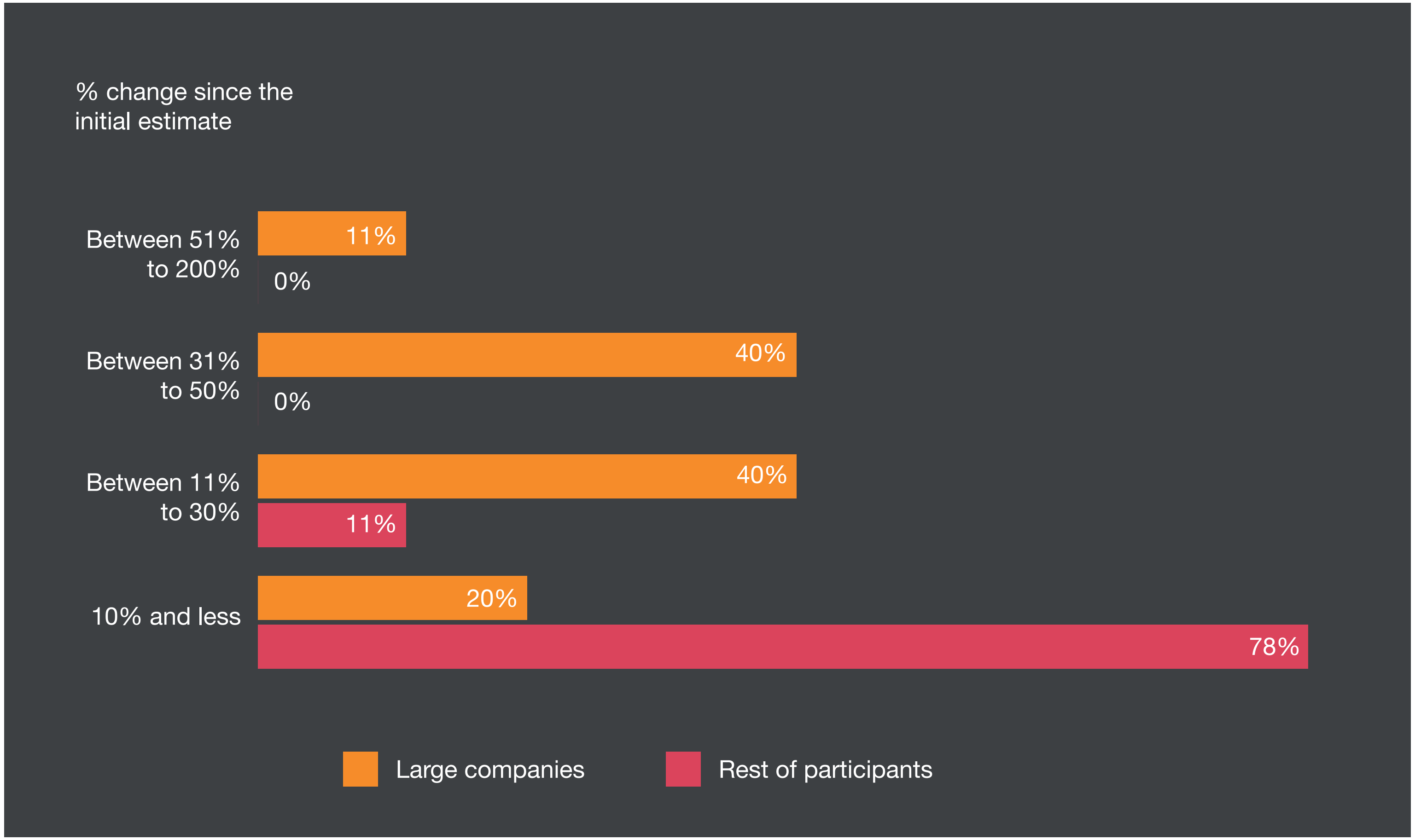
PwC Observation: For the Large companies, implementation costs are expected to be less than 1% of their gross written premium. On the other hand, the Rest of participants expect a higher relative implementation cost, mostly between 1% to 5% of their gross written premium. This could be linked to the higher reliance on vendor solutions as explored later in the survey.

Estimated implementation costs



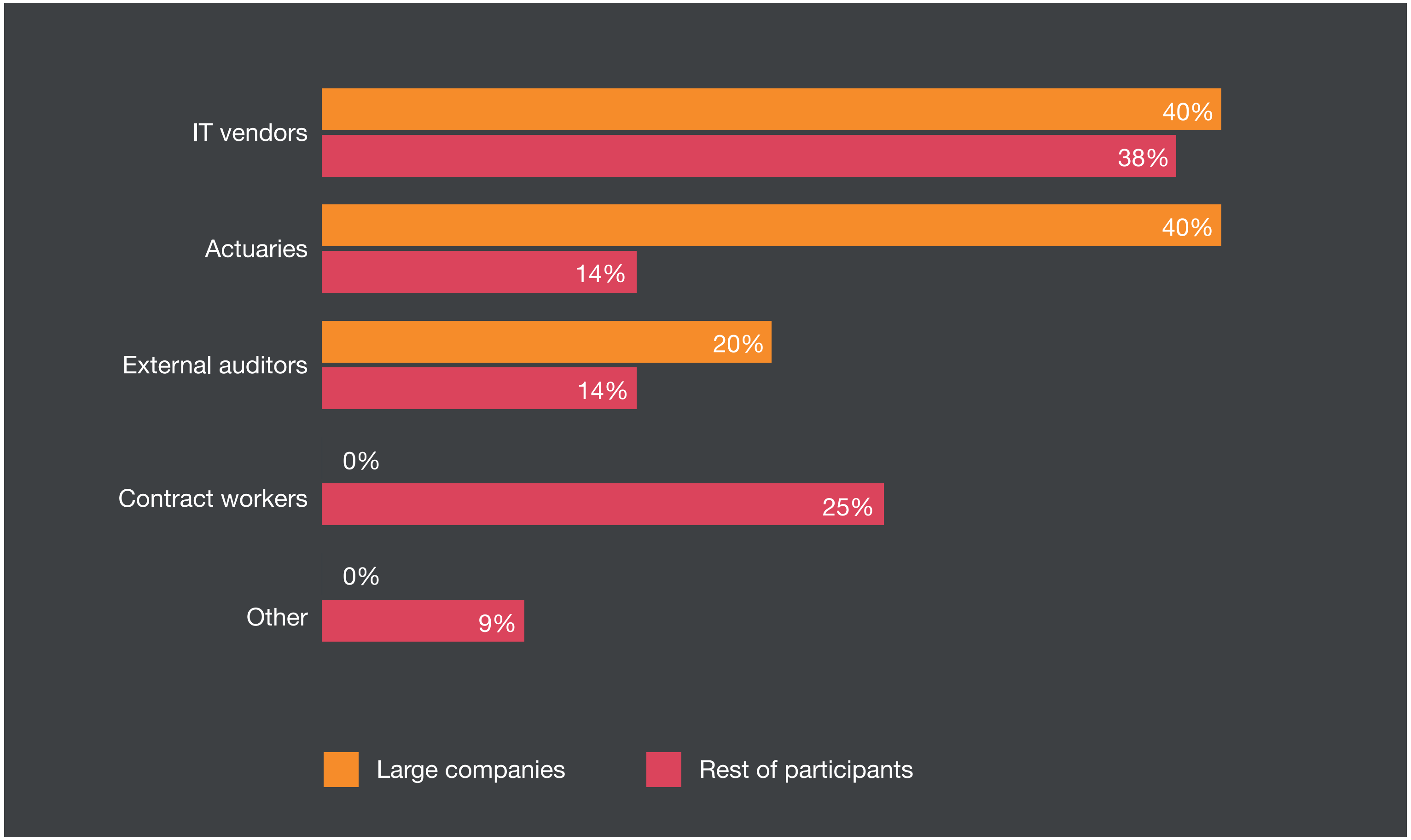
PwC Observation: The expected implementation costs for IFRS 17 are significant and budgets are under strain. Insurers should be cognisant of the required costs and resources.

Change in estimate of the total cost of implementation from initial cost estimate



PwC Observation: Most of the large companies have notable changes to their initial estimated implementation costs. As large companies are in further stage of the implementation process than the rest of survey participants, it seems that there may be a possibility that the initial implementation costs were underestimated by all companies. Therefore, the rest of the survey participants should continuously revise their initial estimate as they progress through the implementation process to avoid significant deviations between budget and actual costs.

Majority of the implementation costs are spent on the following areas:



PwC Observation: Large companies are spending mostly on actuaries and IT vendors. For the rest of the survey participants, spending is mostly on IT vendors and contract workers. The implementation process is technology driven which explains the spending on IT vendor solutions.

Implementation progress

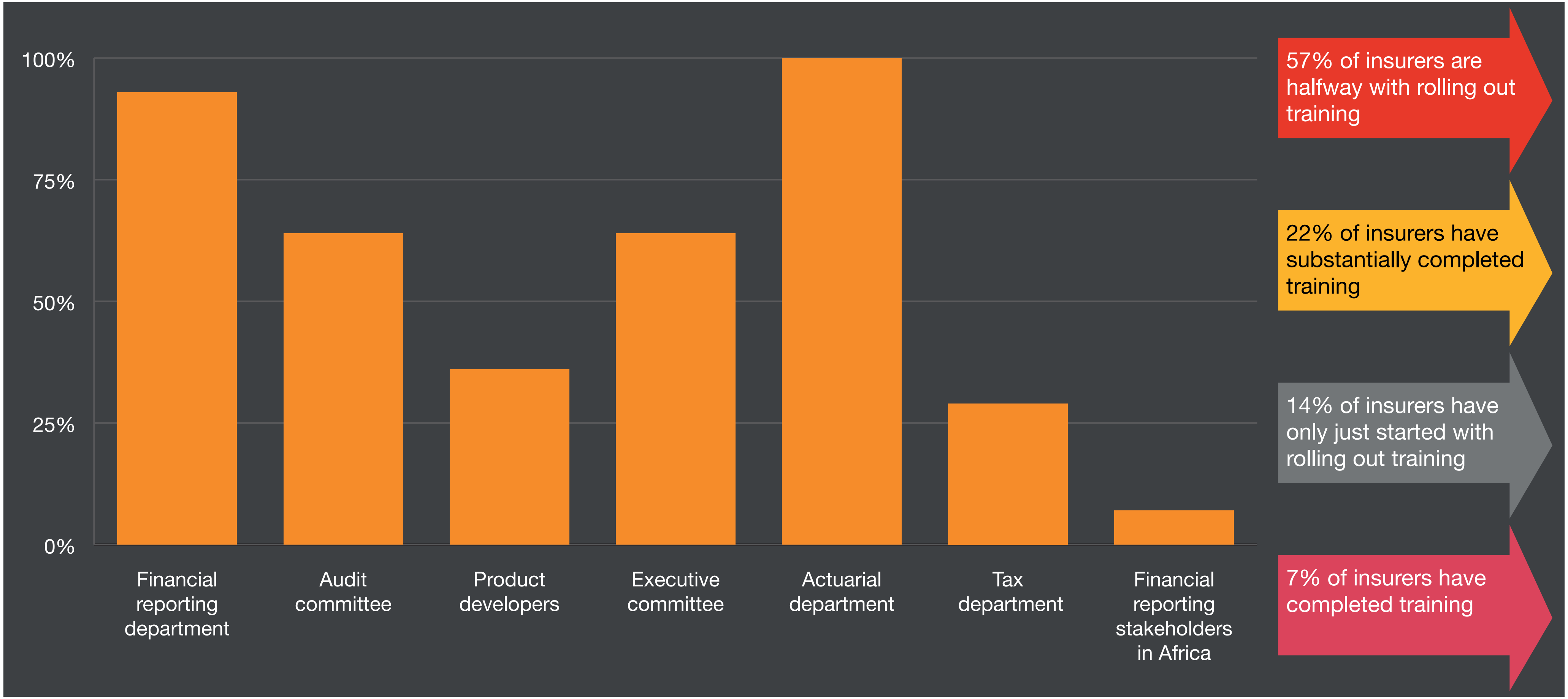
Implementation progress

Stage of completion at the various implementation phases

	Not yet started	Started	Half-way	Substantially completed	Completed	Implemented
High-level gap analysis						
Large companies	0%	0%	0%	0%	100%	0%
Rest of the survey participants	0%	34%	0%	22%	44%	0%
In-depth gap analysis						
Large companies	0%	0%	0%	20%	80%	0%
Rest of the survey participants	12%	33%	33%	11%	11%	0%
System impact assessment						
Large companies	0%	0%	0%	20%	80%	0%
Rest of the survey participants	12%	33%	22%	22%	11%	0%
Testing of new systems and processes						
Large companies	20%	40%	20%	20%	100%	0%
Rest of the survey participants	56%	44%	0%	22%	44%	0%

PwC Observation: The results for the various implementation phases noted that many participants still have a lot to do and cannot afford to press pause; this is particularly true for the Rest of the participants that may not have the amount of resources as the Large Companies.

Training of business areas



PwC Observation: So far only all of the survey participants' actuarial departments have been trained on IFRS 17. IFRS 17 is a collaborative standard between the actuarial department and the financial reporting department as well as others. We would have expected more training to be completed by this stage (for audit committee, executive committee and tax department). Insurers should also revamp and reconsider training based on the new released standard.

Technology approach for the various solution components

Large companies

	CSM	Cash flow Projection models	General ledger	Subledger	Disclosure Reporting tools	Database and ETL
New vendor solution	0%	0%	20%	25%	25%	20%
Re-use existing vendor solution	0%	80%	80%	25%	75%	0%
In-house development (full system overhaul)	40%	0%	0%	0%	0%	0%
In-house development (meeting minimum requirements)	60%	20%	0%	50%	0%	80%

PwC Observation: Large companies are mostly focussed on developing in-house solutions which meet the minimum requirements as well as the re-use of existing vendor solutions. For cash flow projection models, general ledger and disclosure reporting tools, most of the large companies are using existing vendor solutions, which may be due to the investment made on those technologies in the past for various reporting bases. For CSM, subledger and database & ETL technology solutions, most of the large companies are developing these internally.

Technology approach for the various solution components

Rest of survey participants

	CSM	Cash flow Projection models	General ledger	Subledger	Disclosure Reporting tools	Database and ETL
New vendor solution	71%	29%	14%	72%	38%	25%
Re-use existing vendor solution	29%	57%	43%	14%	38%	12%
In-house development (full system overhaul)	0%	0%	29%	14%	12%	25%
In-house development (meeting minimum requirements)	0%	14%	14%	0%	12%	38%

PwC Observation: Unlike the large companies, the rest of the survey participants are investing in new vendor solutions and in the re-use of existing ones. In-house development of technology solutions is limited among these participants, probably due to the lack of in-house resources.

Stage of progress for the various solution components

Large companies

	CSM	Cash flow Projection models	General ledger	Subledger	Disclosure Reporting tools	Database and ETL
Not started yet	0%	0%	0%	0%	20%	20%
Design phase	0%	0%	0%	20%	40%	0%
Detailed specifications agreed	0%	0%	0%	20%	40%	20%
Build phase	40%	20%	100%	60%	0%	40%
Testing phase	60%	20%	0%	0%	0%	20%
Operational	0%	60%	0%	0%	0%	0%

PwC Observation: Except for disclosure reporting tools, most of the large companies are already in the building phase. For 60% of the large companies, their Cash flow projection models are already operational. We also note that 60% of the large companies are in the testing phase for their CSM solution. Overall, large companies are making satisfactory progress in the implementation process.

Stage of progress for the various solution components

Rest of survey the participants

	CSM	Cash flow Projection models	General ledger	Subledger	Disclosure Reporting tools	Database and ETL
Not started yet	25%	25%	25%	25%	25%	38%
Design phase	63%	50%	38%	63%	50%	50%
Detailed specifications agreed	12%	12%	37%	12%	25%	0%
Build phase	0%	13%	0%	0%	0%	0%
Testing phase	0%	0%	0%	0%	0%	12%
Operational	0%	0%	0%	0%	0%	0%

PwC Observation: There is less progress from the rest of the survey participants compared to large companies. Most of these participants are at the design phase. Although the initial date of application of IFRS 17 has been deferred, companies should target to have their solutions in operation well before. There are significant implementation challenges and companies should avoid last minute surprises.

Transition readiness

Transition Readiness

46% have not yet assessed what transition method they intend to apply

Entities should not underestimate the effort required to comply with the transition requirements

Transition is a project on its own!

Entities should consider:

- Do they have sufficient historical data?
- Will they be able to accurately determine historical assumptions?
- Will they be able to replicate historical models where significant changes were made?
- Will they be able to calibrate the historical risk adjustment?

Will you be able to disclose the qualitative and quantitative impact on transition the year before adoption

(IAS 8 para 30).

Focus area of the JSE proactive monitoring report.

83% of those who have decided on their transition method will apply a combination of:

- Fully retrospective, and
- The fair value method.

Are the actuaries familiar with IFRS definition of fair value?

Are entities being liberal in the determination of FV?

There is a balance to be struck between having to source less historical data compared to possibly getting a smaller CSM with the fair value method compared to the other transition approaches.

To learn more about the requirements relating to transition, along with frequently asked questions ('FAQs') related to the topic, read the PwC IFRS 17 Transition Spotlight here

Tax impacts

Know your tax position under IFRS 17

79% of the participants have not yet started with their tax assessments

Only 29% of the participants have trained their tax departments.

For most of the participants who have started their assessments, tax was in the top 3 most complex areas of the standard.

Key tax considerations

1 Greater finance transformation project

- Tax functions in Insurance organisations are strained due to the voluminous data flows and complexity of the tax legislation
- IFRS 17 may cause further disruption in managing tax risk effectively
- IFRS 17 is a great opportunity for tax functions to make the changes
  - in their control environment,
  - to their systems,
  - to their data collection processes and
  - of course and most importantly alignment of tax data inputs to IFRS 17.

2 Transition to IFRS 17 and impact for tax

- Companies should be well positioned, following their impact assessments, to understand the following:
  - Impact of existing phase in transition rules under section 29A of the Income Tax Act when IFRS 17 is introduced.
  - Day 1 impact of transition on retained earnings and on policyholder liabilities and assets. Consideration as to whether any "phase in" would be necessary to alleviate any liquidity strain for the Insurer.
  - Ongoing impact on the cash flow, timing of tax payments and accounting profit recognition under an IFRS 17 position and an "adjusted" IFRS basis. Deferred tax considerations will also be key in this regard.

3 Engagement with National Treasury and SARS

- Consultation with the Industry, National Treasury and SARS is necessary to firm views and align the tax legislation and compliance forms with IFRS 17.
- Upgrading of the tax legislation for any transitional rules after consultative processes have been concluded will be necessary as well.

4 Interaction between different IFRS standards

- Many insurers would need to apply not only IFRS 17, but perhaps also IFRS 9 and IFRS 15.
- The interplay between these standards should be unpacked for tax purposes.

Contacts

Alsue du Preez
Africa Insurance Leader
Partner/Director
+27 (0) 11 797 5609
alsue.du.preez@pwc.com

Erik Booysen
Actuarial Services
Partner/Director
+27 (0) 21 529 4253
erik.booysen@pwc.com

Junaid Khan
Actuarial Services
Partner/Director
+27 (0) 11 797 5525
junaid.khan@pwc.com

Dewald van den Berg
IFRS 17 Technical Lead
Partner/Director
+27 (0) 11 797 5828
dewald.van-den-berg@pwc.com

Roeloff Botha
Africa IFRS 17 Lead
Partner/Director
+27 (0) 21 529 2558
roeloff.botha@pwc.com

Christiaan Nel
South Africa and IFRS 17 HVP Leader
Partner/Director
+27 (0) 21 529 2519
christiaan.nel@pwc.com

Hannelie Gilmour
Advisory IFRS 17 Lead
Partner/Director
+27 (0) 21 529 2000
hannelie.gilmour@pwc.com

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