



Ready or not,  
here it comes

IFRS 17 Transition Survey – 3 August 2021

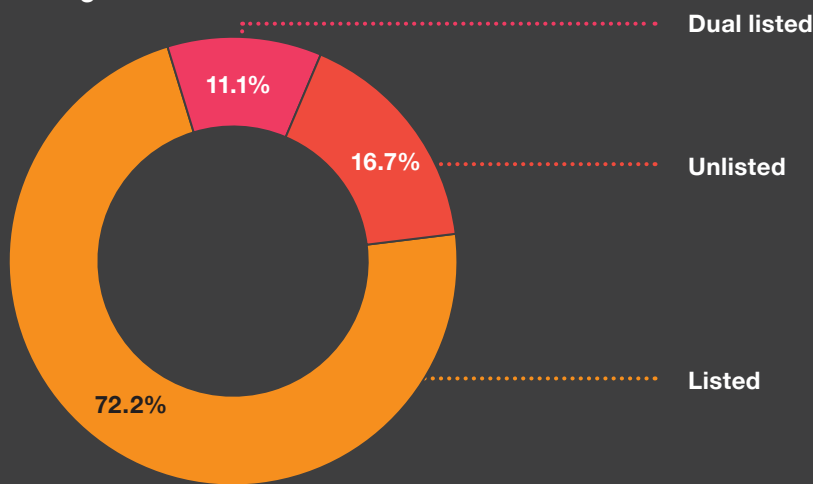


All insurance companies reporting under the International Financial Reporting Standards (IFRS) will be impacted by the new IFRS 17 standard which comes into force in January 2023. IFRS 17 represents a fundamental change in the valuation of insurance obligations and will have major implications for existing financial reporting and operations.

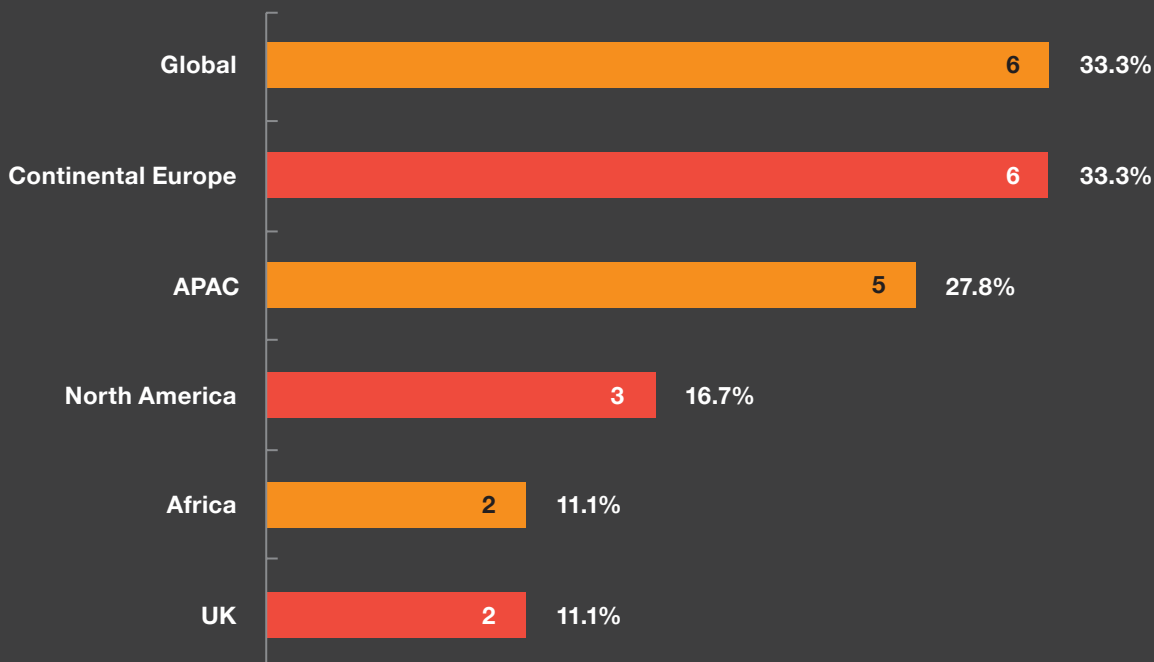
In order to gain further insight into the current status in implementing IFRS 17, PwC reached out to insurers with a survey on their transition efforts. The focus was on technical accounting, financial impact, overall programme management and the effect on data and systems. Eighteen insurance companies participated in this survey from the end of April to the beginning of June 2021, including some of the largest insurers in the world.

## Information on survey respondents

### Listing status:



### Primary geographical area\*:



\* Some of the 18 respondents participating in the survey operate in multiple regions and therefore selected either 'global' or more than one region as their primary market focus.

## Key results

The survey results may help insurers and other stakeholders gain insight into the current status of the industry as it transitions to IFRS 17 as well as the market view on the specific requirements of IFRS 17, and support more meaningful dialogue on the implementation of IFRS 17.

The information and analysis included in this survey are based on responses provided by participants in the survey as well as PwC's commentary based on those responses.

This document should not be used as a substitute for consultation with professional advisors. Information received from respondents has not been verified by PwC.



# 1

## Transition approaches



### Status

A majority of respondents indicated that they are either close to finalising their transition approach (44%) or have already done so (28%). The relevant transition approach (whether full retrospective, modified retrospective or fair value) to be followed by insurers in transitioning to IFRS 17 is likely to be a key audit focus area.

### Full retrospective approach

83% of respondents indicated that they are applying the full retrospective approach to some extent, whereas 17% indicated that the full retrospective approach will be applied to all groups of contracts. At the same time, 17% of respondents indicated that they have no clear view regarding which year they could apply the full retrospective approach.

Of the respondents with a view (83%) on when they could start applying the full retrospective approach, 20% indicated up to and including 2016 for the majority of their portfolios. In contrast, 40% of respondents do not expect to apply the full retrospective approach before 2020 for the majority of their portfolios. In cases where the planned approach is to apply the full retrospective approach for only two years, insurers may wish to consider discussing this at an early stage with their professional advisors and auditors.

27% of respondents indicated that they will be applying the full retrospective approach from inception. For instance, since they mainly use the premium allocation approach (PAA).

The most common reason(s) respondents indicated they would not be able to apply the full retrospective approach for certain portfolios are:

- lack of data or the impracticability of recreating the information;
- inability to apply the full retrospective approach without the use of hindsight; and
- inability to distinguish objectively from other estimates available at the time.

The evidence provided by insurers to support their assertion that it was impracticable to recreate information could be an area of audit focus.

### Modified retrospective approach

28% of respondents indicated they are not using the modified retrospective approach.

The most popular modifications expected to be used under the modified retrospective approach are:

- determining groups of contracts at the transition date;
- including contracts more than one year apart in the same group; and
- estimating the risk adjustment and future cash flows at the date of initial recognition.

Most respondents (82%) noted that once they are unable to apply the full retrospective approach, they expect to apply the modified retrospective approach for a further ten years before having to use the fair value approach. This may indicate that the permitted modifications make it possible to apply this approach for periods quite far back in the past. Furthermore, in some cases, insurers may conclude that the financial impact related to the use of the modified retrospective approach (the impact on future profits or the IFRS 17 equity position) justifies the related cost and burden of applying it as compared to the fair value approach.

### Fair value approach

A third of respondents indicated that they will not be using the fair value approach.

The availability of data, and the cost and effort related to the use of the modified retrospective approach were the main reasons cited for choosing the fair value approach over the modified retrospective approach. In general, the fair value approach does not present the challenges of the modified retrospective approach related to the collection and cleansing of data and performing a retrospective calculation.

Almost all respondents (92%) applying the fair value approach indicated that they expect to generate a contractual service margin (CSM) for groups of contracts. About 50% indicated that they expect this will be a 'sizable' amount with about 42% indicating that they expect the CSM will be a 'marginal' amount.

44% of the respondents applying the fair value approach and that have a view, indicated that an explicit profit margin will be the main driver in differences between the fair value and fulfilment cash flows. Market participants are likely to demand an amount higher than the IFRS 17 fulfilment cash flows as they are expected to charge a profit margin when taking on insurance contracts (i.e. when they will need to fulfil the liability of another insurer). A CSM is therefore expected to exist at transition under the fair value approach.

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### Strategic decisions



Both future profits and the IFRS 17 equity position appear to be equally important metrics on the transition date. It appears that respondents are of the view that future profits should be the focus at transition date as long as they do not have an adverse impact on the organisation's IFRS equity position and, as a result, possibly their dividend paying capacity.

Two thirds of respondents indicated that they do not plan to revisit their transition approach.

The decision on which transition approach to select was in most cases made at a business unit reporting level rather than group reporting level.

47% of the respondents applying the modified retrospective or fair value approach will choose a bespoke approach for different groups of contracts/portfolios. Equally, 47% of respondents will opt for a single transition approach that is applied to all groups of contracts. This latter group will need to take into account various factors such as data availability, which means the approaches are likely to differ between groups of contracts.

There is a notable diversity with regards to deriving a discount rate for measuring insurance contract liabilities – respondents indicated that they plan to determine a curve per group of contracts, per portfolio, per currency or a single curve per business unit.

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### Impact on numbers



Respondents were asked whether they have prepared an impact assessment. All respondents indicated that they have done so and most plan to revisit their impact assessment. Failure to revisit/reassess the impact assessment on a regular basis runs the risk of the analysis being outdated and/or incomplete.

Survey respondents indicated that most impact assessments performed cover most or all of the respondent's portfolios.

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### Testing/ opening balance



Two thirds of respondents indicated that:

- they have performed at least one test run, which is a positive indication of their progress on implementing IFRS 17. Of these, half have performed two to three test runs, none of which covered all aspects of IFRS 17; and
- the majority of the output from the test runs consisted of the balance sheet (92%), income statement (83%) and disclosures on the key elements of IFRS 17 (58%). This indicates that these respondents are already fairly far along on their transition journey, making it more likely that they will have the time needed to analyse results and make further adjustments to their systems (if necessary), consider and make accounting policy decisions (where possible) and perform further test runs. 42% of respondents who have performed test runs indicated that they produced consolidated financial statements as part of the test run.

About 33% of respondents indicated that they have yet to perform their test runs.

Of all the respondents, the majority indicated that they plan to perform test runs in 2021 (56%) and/or 2022 (67%).

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### Disclosing impact



More than half of respondents (56%) indicated that they have a plan regarding when to start disclosing the effects of their transition to IFRS 17 (IAS 8 type disclosures). Of those planning to disclose, a majority (70%) plan to provide these disclosures in their 2022 financial statements. Since information will be available in 2022, analysts will have an opportunity to study and understand the impact of the standard prior to the effective date.

More than half of respondents (56%) indicated that they have a clear view on when, after the transition date, they will disclose information about the opening balance sheet and when, after the effective date, they will disclose information about the comparative income statement. The majority of those respondents (50%) planning to disclose opening balance sheet information indicated that they will do so between 12 to 15 months after the transition date (i.e. in Q4 2022 or Q1 2023 for a calendar year-end preparer). The majority of those respondents (60%) planning to disclose comparative income statement information indicated that they will do so between 3 to 6 months after the effective date (i.e. in Q1 or Q2 of 2023, for a calendar year-end preparer).

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## Knowledge sharing



72% of respondents indicated that they are taking part in external technical forums to discuss key issues and share progress.

A third of respondents indicated that they are part of specialised workstreams created among insurers to work on new KPIs and/or investor messages. Some 28% are not part of any such group or effort and do not intend to join, while 39% are interested in joining.

Being part of a technical forum is one way to align with peers and increase comparability between insurers. Furthermore, participation in such a group can help inform key management decisions and provide a forum to establish whether decisions are in line with what peers are considering.

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## Readiness



No respondents indicated that they had completed their IFRS 17 and IFRS 9 implementation journey. Most are in the 'system build and testing' phase. Two thirds of respondents indicated that they have partially completed the activities in implementing IFRS 17, and 22% believe they have completed a majority of the activities needed to implement IFRS 17. A minority of respondents (11%) indicated that they are still at the 'planning and design' phase.

All respondents indicated that with some level of incremental effort they expect to be able to meet the effective date. A majority of respondents (56%) indicated a 'substantial incremental effort' was still required, with the remaining respondents indicating a 'moderate effort' was still required to complete their implementation. Incremental efforts may involve, among others, activities related to resources and data availability, as well as preparing the relevant systems to meet the effective date.

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## Programme management



Overall, it appears that COVID-19 will have an impact on IFRS 17 implementation for most respondents (83%), including delays and extra costs.

83% of respondents indicated that they are concerned about employee fatigue among individuals working on the IFRS 17 implementation programme. The remainder do not have a clear view on this issue although they are monitoring the situation. Concerns mainly relate to understaffing, costs incurred for implementation (including budget constraints), stringent timelines, overall well-being and, more recently, the impacts of the COVID-19 pandemic including the effects of remote working and health.

39% of respondents indicated that they have involved their executive board members in periodic meetings (monthly/quarterly) regarding their IFRS 17 programme, with 56% involving board members on an ad-hoc basis.

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## Data collection



A minority of respondents (11%) indicated that they have completed their data collection and cleansing activities. Of those still needing to do so and that have a view, 73% indicated they require less than one year to collect and cleanse the required data and 27% indicated they still need one to two years.

Data relating to expenses, cash flows and risk adjustment were cited as the most difficult types of data to obtain in order to apply the full retrospective approach. This is to be expected as such information is either new or partially new to IFRS 17 (e.g. any differences between estimated and actual cash flows and more granular data requirements such as the group of contract level).

Data relating to cash flows and expenses were cited as the most difficult to obtain in order to apply the modified retrospective approach.

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## IT/Systems



A third of respondents indicated that they will be using future live systems\* to assess the accounting impact of implementing IFRS 17 whereas 56% will deploy outside systems (e.g. Excel).

A majority of respondents (78%) indicated that they plan to prepare opening balances and comparative information in their general ledger – of these, 71% will maintain one general ledger and the remainder, two ledgers.

\*'Future live systems' are those systems that will be used in a 'business as usual' state after IFRS 17 has been fully implemented – i.e. systems other than 'temporary solutions' and 'workarounds'.

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## Internal controls



Of the respondents that have a view, some 46% indicated that they plan to start testing key controls in 2021 and 31% in 2022. 28% indicated that they are not sure when they will be performing such tests.

The process of designing, implementing and testing controls can be time consuming and complex and, as such, should be considered as early as possible.

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## Auditor involvement



Half of the respondents indicated they have already shared all of their technical accounting papers with their external auditors, although discussions have not been finalised. It is a positive development that technical accounting papers are being shared and technical discussions are taking place.

Half of the respondents indicated that they have not involved their auditors in areas other than technical accounting to date. Some have involved their auditor in various other topics relevant to the audit related to the post-effective date financial statements.

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## Impact on organisation



A majority of respondents that have a view (53%) indicated that a start had already been made with transitioning the IFRS 17 implementation programme to the wider organisation in 2020, for instance by already onboarding individuals who will be calculating IFRS 17 numbers in a 'business as usual' situation. Some indicated they do not know when this will happen.

It is important to consider any upskilling that may be needed for individuals whose roles and responsibilities might be impacted by the introduction of IFRS 17 as part of the transition plan.

33% of the respondents indicated that they do not yet know how long it will take for IFRS 17 to fully stabilise in their business after the effective date. Of those that have a view, 8% indicated that it could be within one year, 50% within two years, and 42% within three years following the effective date.

## Detailed report

Please reach out to your PwC contact for the detailed report including the results and commentary for each topic area and the 44 questions posed in the survey.

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