Transformation

IFRS 17 Post-implementation and Finance Transformation survey

May 2024

Index

1

Introduction

IFRS 17 Post-implementation and Finance Transformation survey

To gain a deeper understanding of the key themes emerging from the IFRS 17 post implementation process and broader finance transformation, PwC surveyed seventeen insurers from across the globe.

The detailed analysis for each of the 37 questions asked, of which extracts are shown in this publication, as well as other key observations, is available by reaching out to your PwC contact.

The survey, which was conducted from the end of December 2023 to February 2024, covered People (Finance and Actuarial), IFRS 17 implementation (timetable, data, accounting, calculations and controls) and finance transformation (including the use of artificial intelligence).

Based on the underlying results, we are sharing the insights through two lenses:

1. The challenges associated with (post-)implementation of IFRS 17.
2. The need to invest in the transformation of the finance and actuarial functions with a clear strategy around automation and AI.

Our observations reveal the opportunity for finance and actuarial functions to evolve from their traditional roles into strategic business partners. By increasing reporting efficiencies, streamlining operations, and embracing automation, the finance and actuarial function will become more insight led. It will be able to support the business to understand what drives value, influence better decision-making and contribute to the overall strategy.

Notes:

1. 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.
2. This document should not be used as a substitute for consultation with professional advisors. Information received from respondents has not been verified by PwC.

2

Executive summary

IFRS 17 Post-implementation and Finance Transformation survey

Our survey shows that, while the IFRS 17 implementation projects had a positive impact, insurers are still facing some challenges. Insurers are seeing improved interaction between finance and actuarial departments and increased comparability between results.

- The majority of participants are satisfied with their control environment, but there is a focus on improving data quality.
- Challenges include resource constraints, manual processes, and operational/technical difficulties.

Concerns centre around project fatigue, lack of resources, and difficulties with regional business unit engagement. People and skills development are also of particular interest with many looking to develop capability in areas such as advanced data analysis, business intelligence, and automation of financial reporting for the finance department, while artificial intelligence is a focus for the actuarial department.

There is a significant appetite to invest in modernization over the next five years with the majority of respondents considering changing their finance or actuarial software within a five-year time horizon. Artificial intelligence adoption is expected, primarily for management reporting, on-the-fly analytics, and query and search. However, organizations face blockers such as data and IT risks, costs, capability, and data confidentiality.

Survey highlights

75%

indicated that the greatest risk of key person dependency is actuarial expertise (69% technical understanding of IFRS 17)

80%

have seen improved interaction between the finance and actuarial departments

56%

faced challenges with internal decision making around processes due to complexity of the Standard

65%

indicated that they are contemplating a change in their software landscape within the next 5 years

41%

found their data sufficient to prepare comprehensive management information with insights of the required level

94%

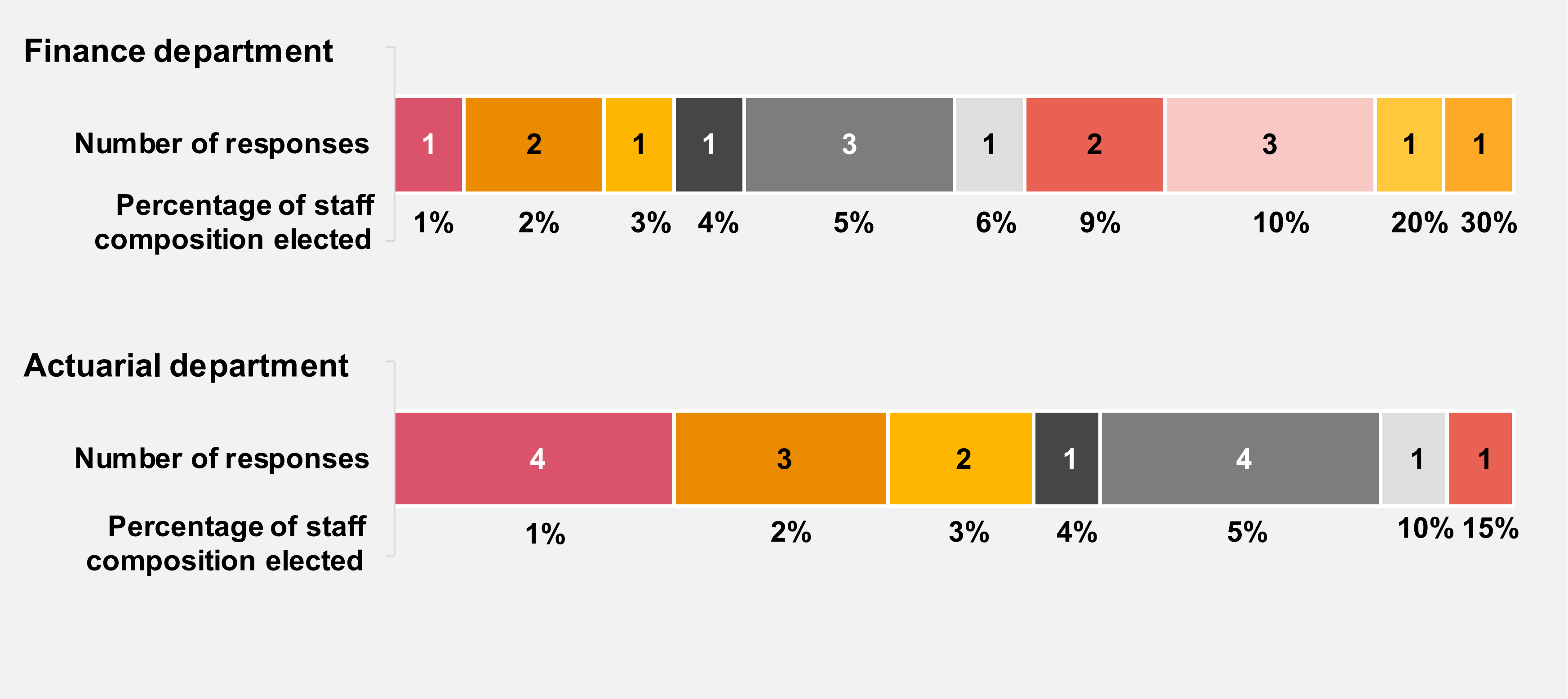
are intending to deploy some form of artificial intelligence in the future

3

Key observations

Department structure (finance and actuarial)

What is your total annual departmental staff (finance and actuarial) composition as a percentage of your total staff?

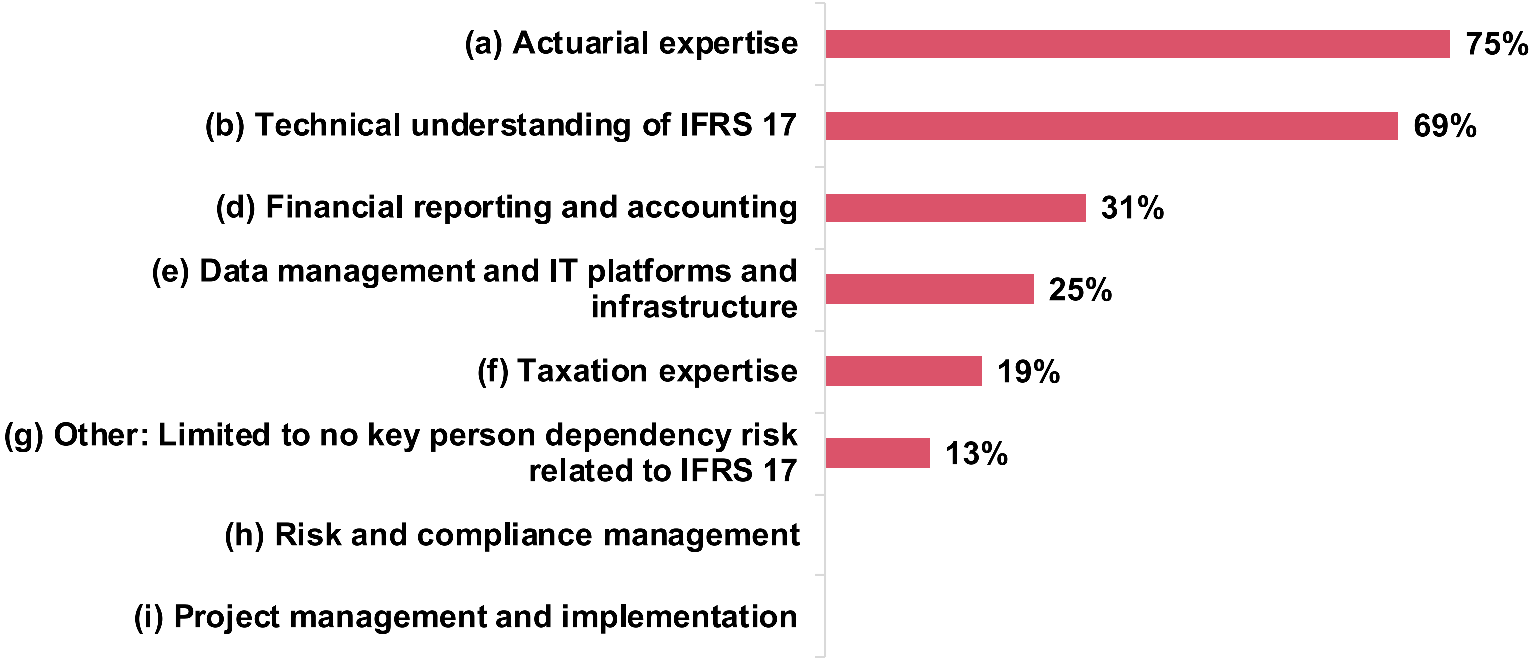


Almost 90% of the participants indicated that their finance departments consists of 10% or less of their total staff, and the actuarial department of 5% or less of their total staff.

A majority of participants are not expecting to use outsourced services. This is surprising, given that use of these resources could provide an opportunity to free capacity for existing staff, gain access to expertise and technologies that are readily available, potential cost savings, etc.

People (finance and actuarial)

In which areas of expertise would you consider a key person dependency[1] to be the greatest risk?



[1] Key person dependency describes when a situation arises where an organisation relies too heavily on the knowledge or ability of one person.

The majority of participants have indicated that the greatest risk of key person dependency is actuarial expertise and a technical understanding of IFRS 17. We believe this suggests that in depth knowledge of the standard is not yet widespread within the broader finance and actuarial departments.

IFRS 17 implementation process

The three main challenges faced by participants as part of the IFRS 17 implementation process were as follows:

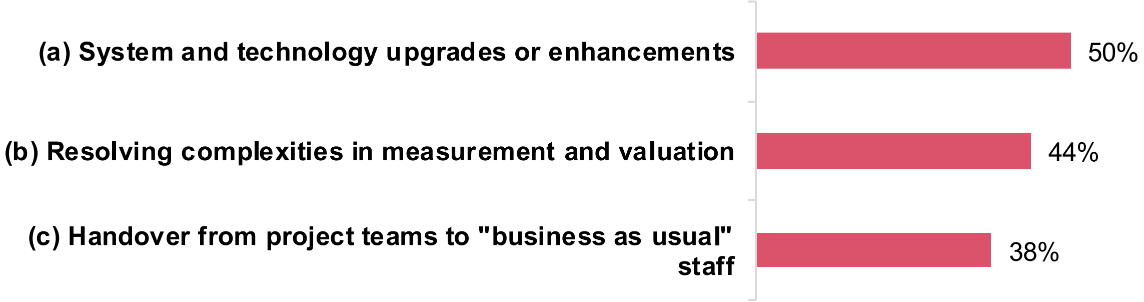
- Resource constraints
- Workarounds being required due to implementation issues
- Manual processes / lack of automation

We believe these three aspects indicate that some insurers are still facing operational and technical challenges in fully adapting to IFRS 17.

Performing sophisticated calculations (such as creating models to calculate the contractual service margin) appears to be an area of particular success throughout the IFRS 17 journey. Furthermore, the survey has revealed that IFRS 17 has improved capabilities across the insurance market in integration of IT systems and managing large scale transitions, with some healthy lessons learned along the way.

Participants provided the following responses with regards to the status of the IFRS 17 implementation process:

Which aspects have not yet been completed or finalised after the implementation of IFRS 17[1, 2]?



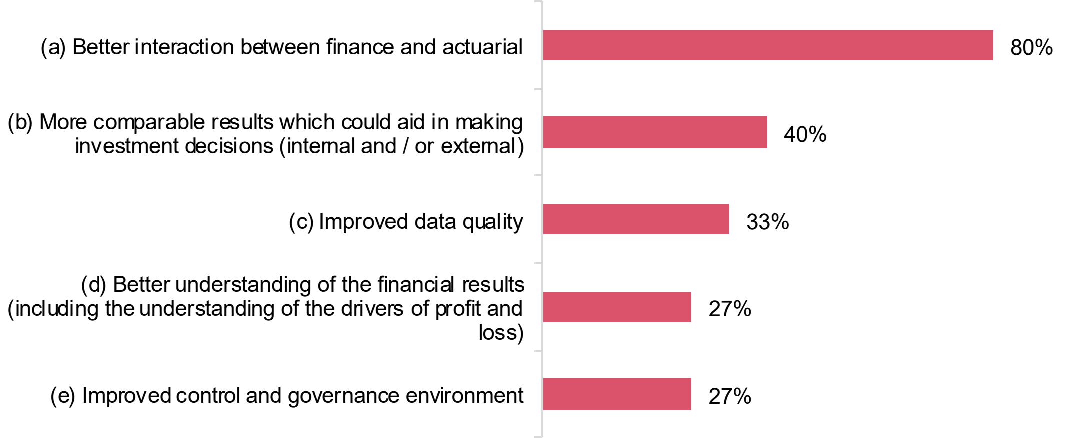
[1] Only a portion of the full graph is shown. The full graph, including the detailed analysis, can be obtained by reaching out to your PwC contact.

[2] The percentage indicates the number of participants who selected the option.

Accounting, calculations and controls

Post implementation of IFRS 17, the key benefits per the survey results in day-to-day operations is the improved interaction between the finance and actuarial departments. We believe it is encouraging to see as IFRS 17 requires considerable input from both functions on a number of overlapping activities. Furthermore, certain participants (over a third) are expecting for there to be increased comparability between results.

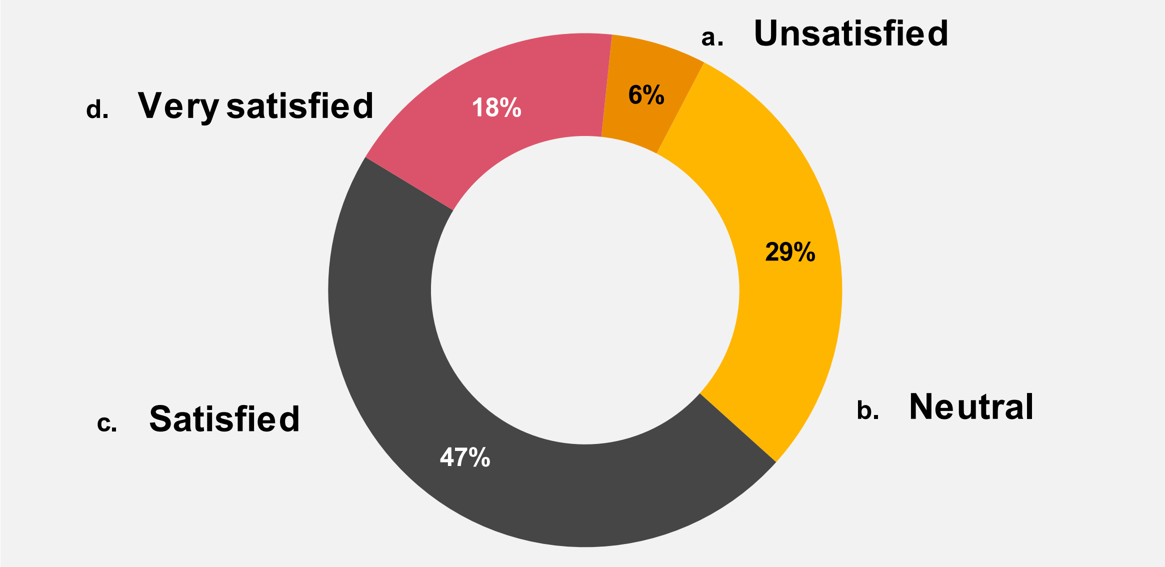
Post implementation of IFRS 17, what are the key benefits that you see in your day-to-day operations[1]?



[1] Only a portion of the full graph is shown. The full graph, including the detailed analysis, can be obtained by reaching out to your PwC contact.

The majority of participants are at least neutral or satisfied with their control environment, when compared to the previous control environment. There is an overwhelming need amongst respondents (94%) for increased automation of controls.

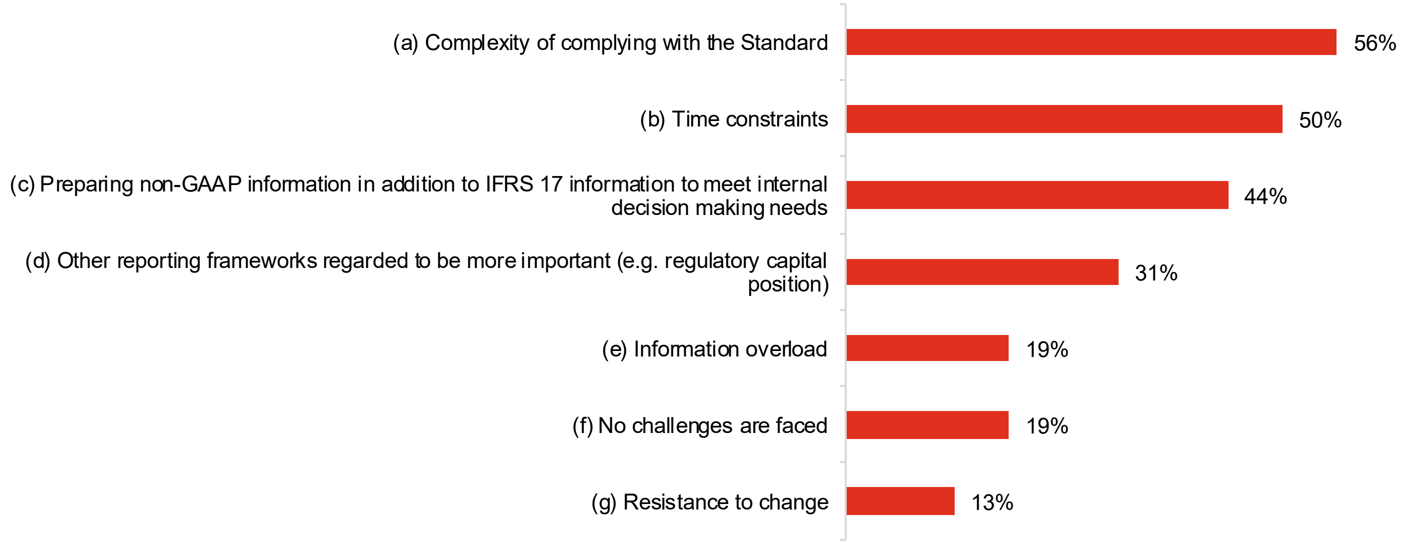
Post IFRS 17 implementation, please rate how satisfied you are with the robustness of your organisation's financial control environment, when compared to the previous control environment?



Accounting, calculations and controls

Almost all of the participants indicated that they will not be making any amendments to their accounting policies or have not yet considered it. All participants have implemented at least some form of action to lessen the impact of volatility of results thereby showing a recognition of the importance of managing volatility in Profit and Loss. Specifically, the most commonly adopted measures include utilising the OCI-option for reporting insurance finance expenses and employing asset liability matching strategies.

Since adopting IFRS 17 reporting, what are the challenges you face as part of your internal decision making process[1]?



Some participants seem to continue struggling with the complexity of preparing information that complies with the Standard. Time constraints, related to the calculation and reporting of results, is proving to be another stumbling block for participants.

More than seventy percent of the participants are making unmodelled adjustments (i.e., topside / manual calculations outside of the model) in some way or form.

For the majority of these participants, it is 5% or less of their insurance contract liabilities. This indicates that there is already a large level of automation within the reporting and valuation processes. For those participants that do have unmodelled adjustments, cash flow estimation is the most common.

[1] Only a portion of the full graph is shown. The full graph, including the detailed analysis, can be obtained by reaching out to your PwC contact.

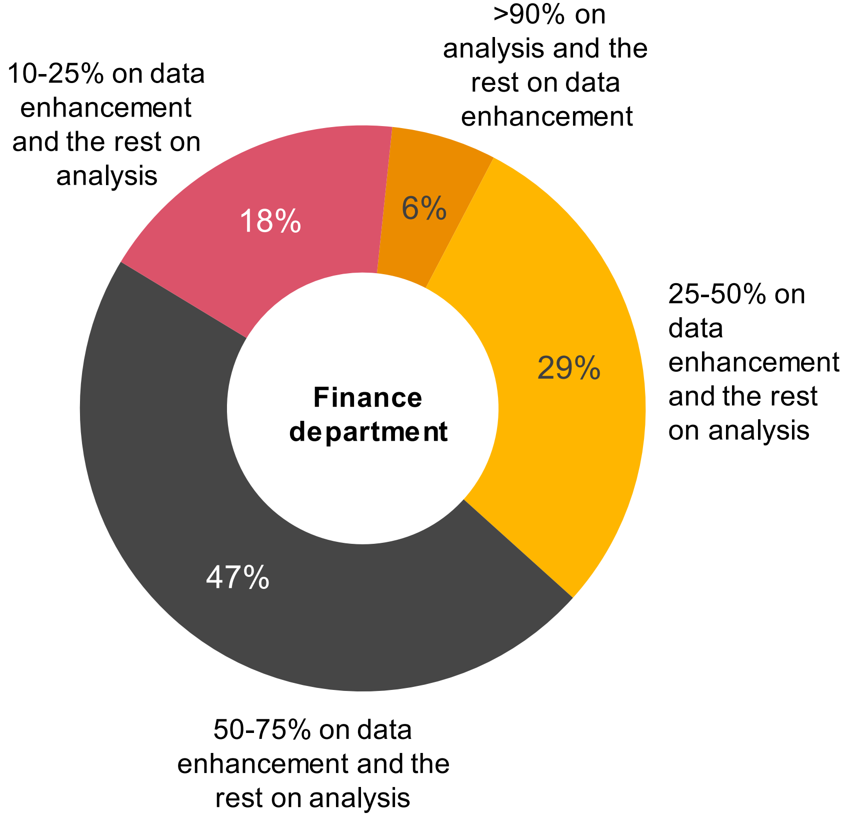
Data and systems

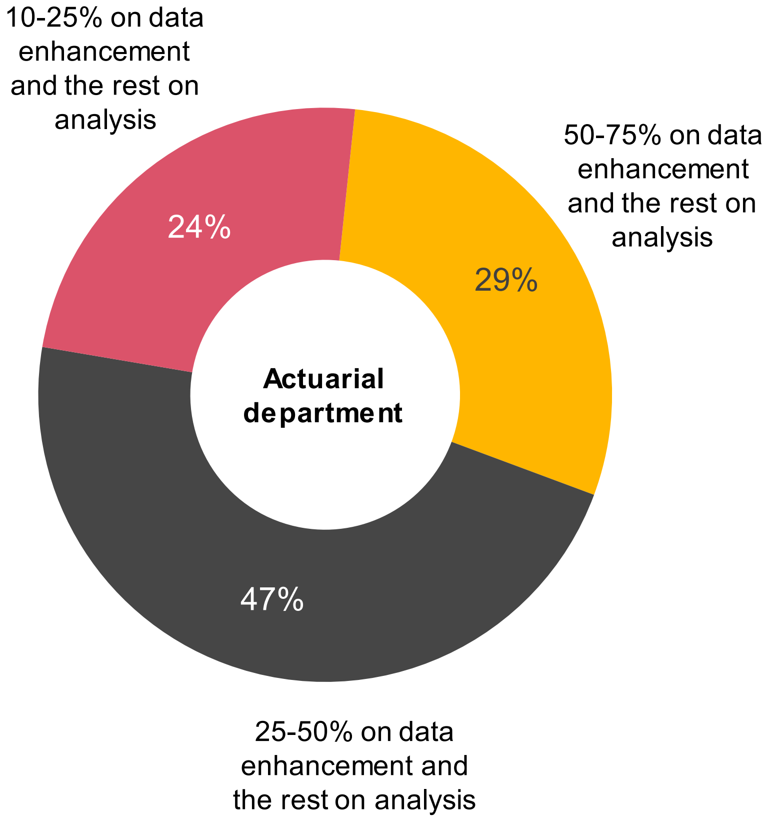
65% of respondents are considering changing their finance or actuarial software within the next five years, suggesting that insurers are seeking software solutions to meet their evolving needs and help them stay competitive[1].

The majority of respondents have already adopted cloud storage or have plans to do so in the future[1].

Respondents were also asked how much time is spent on data enhancement versus analysis and reporting, as presented in the graphs.

What is the current percentage of time spent on data enhancement versus analysis and reporting (best estimate)?





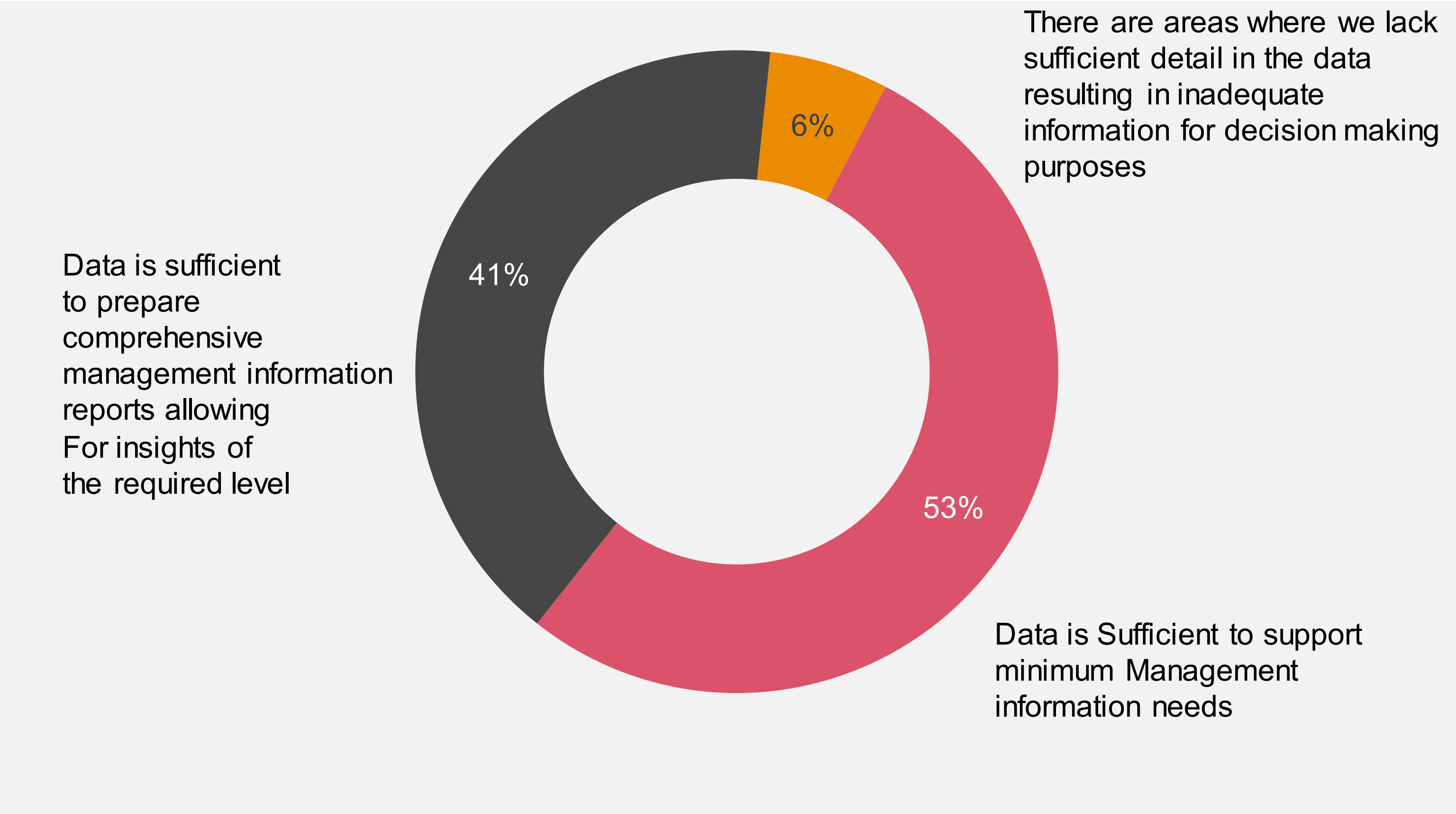
[1] This information was obtained from the detailed analysis of survey responses. This can be obtained by reaching out to your PwC contact.

Data and systems

53%

have sufficient data to support minimum management information reports. This is positive; however, it also suggests that there is still room for improvement in terms of data quality and granularity. This is supported by only 41% of participants' saying their data is sufficient to prepare comprehensive management information reports allowing for insights of the required level.

Do you have data available at the required level of granularity to support the preparation of management information reports?



Reporting timelines

If your current financial reporting timeline under IFRS 17 is longer than under IFRS 4, how do you plan on shortening your current annual IFRS 17 reporting timelines (if deemed necessary)[1]?

Companies are planning to shorten their annual IFRS 17 reporting timelines by, amongst others, streamlining internal processes, enhancing data collection, and implementing automated reporting tools. Some companies are also considering a 'roll-forward' solution to reduce workload closer to the reporting date. Overall, based on the survey results, companies are prioritising internal solutions over external options like hiring additional staff or outsourcing reporting activities.

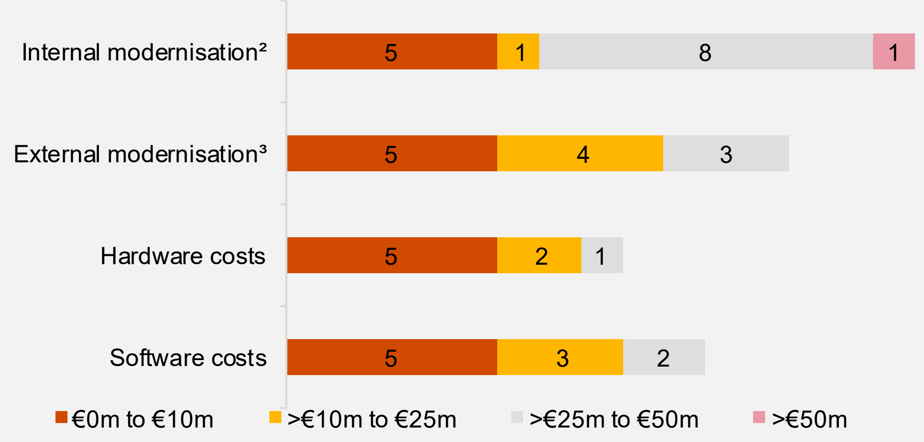
[1] Only a portion of the full graph is shown. The full graph, including the detailed analysis, can be obtained by reaching out to your PwC contact.

Transformation / modernisation

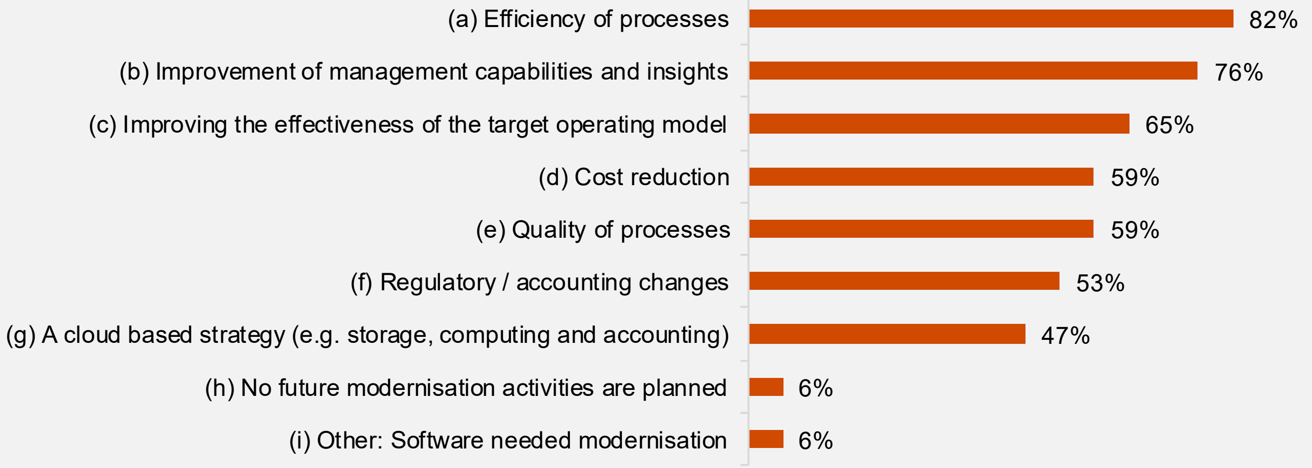
The majority of the participants (53%) have started a post-implementation modernisation roadmap. This again demonstrates that in the majority of cases a post-implementation modernisation agenda is a priority.

The survey's findings indicate that insurers are prepared to invest significantly in modernisation over the next five years, with an anticipated collective expenditure of approximately €1.1 billion [4] for 15 participants that provided an answer. This considerable financial commitment arguably highlights the importance that insurers place on updating and improving their operations.

In terms of the four categories listed below, how much do you expect your modernisation initiative(s) to cost in total over the next 5 years (best estimate will suffice)[1]?



What has been, or is, the main driver for initiating modernisation initiatives in your company[5]?



[1] Participants were asked to indicate on a slider, denominated in €'million, how much they expect to spend on each of the four categories listed on the graph. The total of the estimates amounted to €1,051.5m, rounded to €1.1bn.
[2] Internal modernisation means using digitalisation actively and strategically to improve business processes. This typically arises as a result of the organisation's own initiatives.
[3] External modernisation is a regulatory reaction to primarily economic demands. This typically arises due to a legislative or regulatory requirement.
[4] The total of the estimates amounted to €1,051.5m, rounded to €1.1bn.
[5] Only a portion of the full graph is shown. The full graph, including the detailed analysis, can be obtained by reaching out to your PwC contact.

Artificial intelligence

The survey results indicate that the majority of respondents (94%) are intending to deploy some form of artificial intelligence in the future.

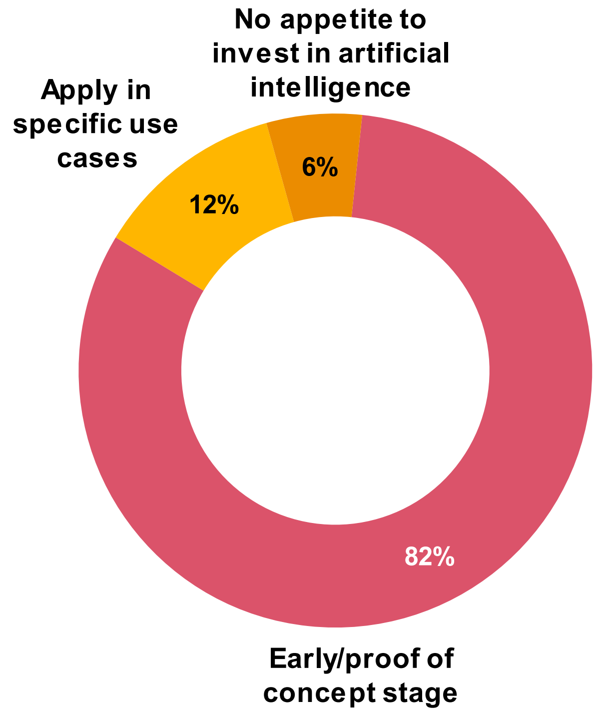
Looking ahead, we believe it can be expected that the level of maturity in deploying artificial intelligence in finance and actuarial functions will increase because of the benefits, such as:

1. Improved accuracy in calculations.
2. Enhanced risk management through advanced analytics.
3. Automation of repetitive tasks allowing more time for analysis activities for employees.
4. Identification of patterns that may not be easily detectable through traditional methods.

The main uses the respondents anticipate for artificial intelligence are management reporting, on-the-fly analytics and query and search. Based on our industry knowledge this is understandable as it automates data collection, analysis and visualisation, leading to more efficient and accurate reports. This will free up time for further analysis and provide real-time insights for decision-making.

Data and IT risks, costs, capability and confidentiality of data were the 'key blockers' for organisations considering the adoption of artificial intelligence. To overcome these barriers, we believe that organisations should prioritise implementing robust data governance practices; exploring cost-effective artificial intelligence solutions and developing strong data protection and privacy policies.

What is the level of readiness of deploying artificial intelligence (including generative artificial intelligence) in your finance and actuarial functions[1]?



[1] The percentage indicates the number of participants who selected the option.

4

So what?

So what?

Insurers are prepared to invest significantly in modernisation over the next five years. This investment is expected to provide value to the finance and actuarial functions on key core value propositions such as Trust, Efficiency, Insight and People.

Core value proposition

How

Trust

A strong and reliable control framework is at the heart of the trust agenda for the finance and actuarial functions. While great progress has been made in this space, there is still an increased focus on improving control documentation and automation.

Efficiency

In order to reduce the pressure associated with the work-day timetable requirements, the roadmap to increase efficiencies is fundamental and includes technology upgrades, improved workflow orchestration and streamlined processes.

Insights

As a business partner, the finance and actuarial functions are expected to deliver reliable and timely insights. There is a clear trend to invest in reporting and analytics technology, upskill people in Advanced Financial Analytics and automate data processing to allow for more time to analyse results.

People

People strategy is a core component to sustainable and well-performing Finance and Actuarial Functions. This is even more important given the change/project fatigue and key man dependency introduced by IFRS 17.

How PwC can help?

From finance target operating model to data platform and AI, PwC is focused on bringing the best to your people and organisation. PwC's insurance and finance transformation experts have extensive market and technology experience focusing on value delivery and meeting the business' needs.

Key contacts

Alex Bertolotti
Partner, Global IFRS 17 lead and UK Insurance lead, PwC UK

alex.bertolotti@pwc.com

Leslie Vermaak
Director, Accounting & Insurance Finance Transformation, PwC NL

leslie.vermaak@pwc.com

Julie Tabourot
Director, Insurance Finance Transformation, PwC UK

julie.p.tabourot@pwc.com

5

Appendix – Methodology

Elements of the survey and presentation of data

Focus of the survey

The survey covers various aspects of the IFRS 17 (post-) implementation process and finance transformation. The main areas covered by the survey are as follows:

- People (finance and actuarial).
- IFRS 17 implementation (timetable, data, accounting, calculations and controls).
- Transformation / modernisation (including the use artificial intelligence).

Presentation of data

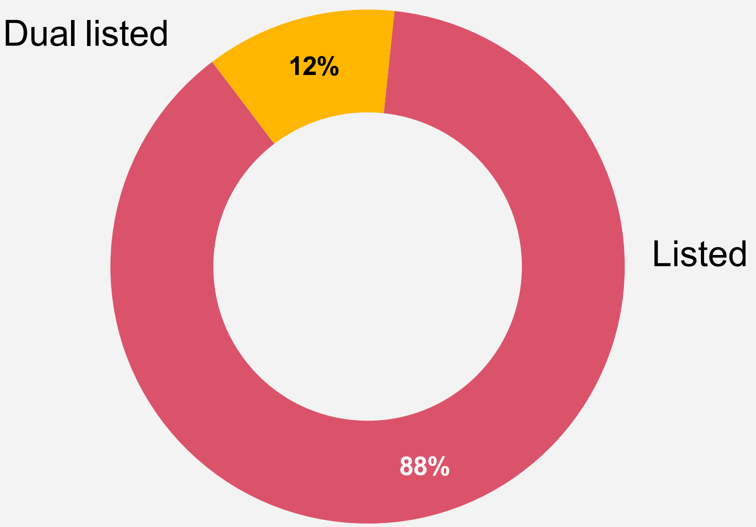
The responses obtained are presented in the following way:

- Unless otherwise stated, percentages are shown. All percentages are the percent of the total population (17) that selected the option. In some instances, answers were not obtained from the total population. In all instances, percentages shown are calculated based on the number of responses received per question. Details of how percentages were calculated can be found in the detailed analysis (which is available on request from your PwC contact).
- Participants had the ability to input their own response if the options provided did not fully reflect their situation by using the 'other' option. All pie charts and bar graphs will indicate whether the 'other' option was selected by stating the response as ‘Other:____'
- For ease of reference, survey results are presented for each question in descending order (i.e., ranked from highest to lowest). Therefore, survey results are not shown in line with the order in which options were provided in the survey questionnaire.
- For some of the graphs included in this presentation, only a portion of the full graph is shown. If this is the case, it is denoted as such in a footnote. Full graphs can be found in the detailed analysis (which is available on request from your PwC contact).

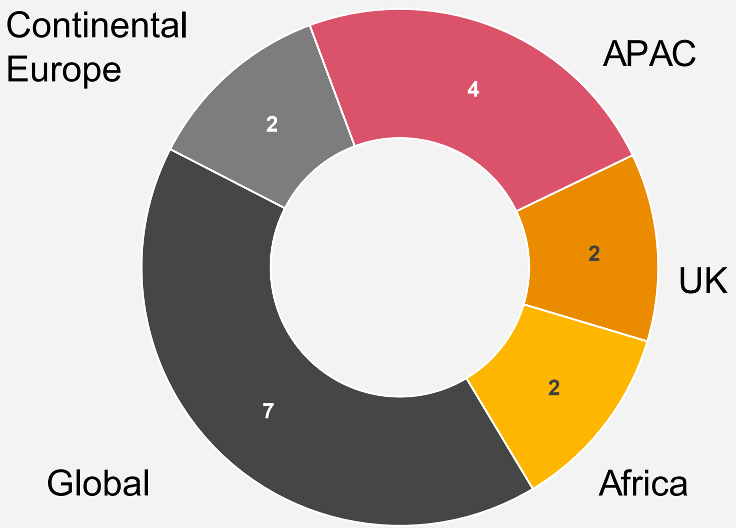
Information on survey respondents

Below is a breakdown of survey participants by their listing status and the geographical areas respondents indicated as their 'primary market focus'.

Listing status:



Primary geographical area[1]:

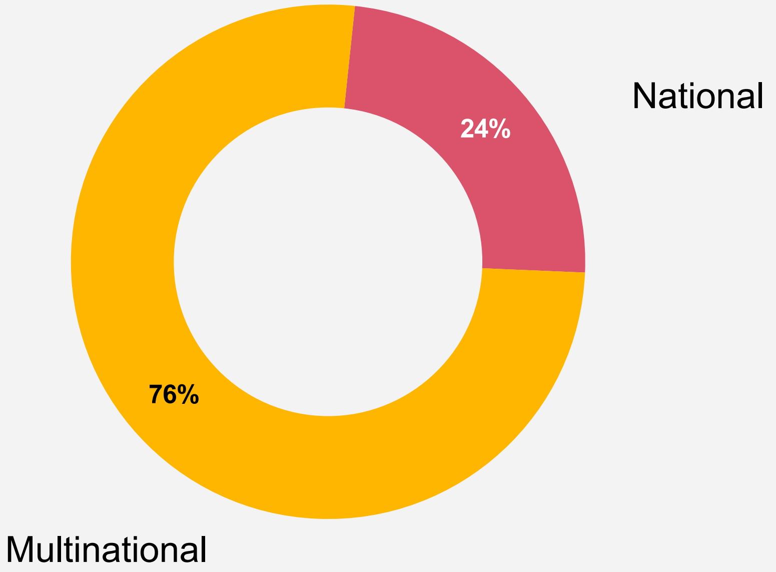


[1] Some of the 17 respondents participating in the survey operate in multiple regions and therefore selected either "global" or more than one region as their primary market focus.

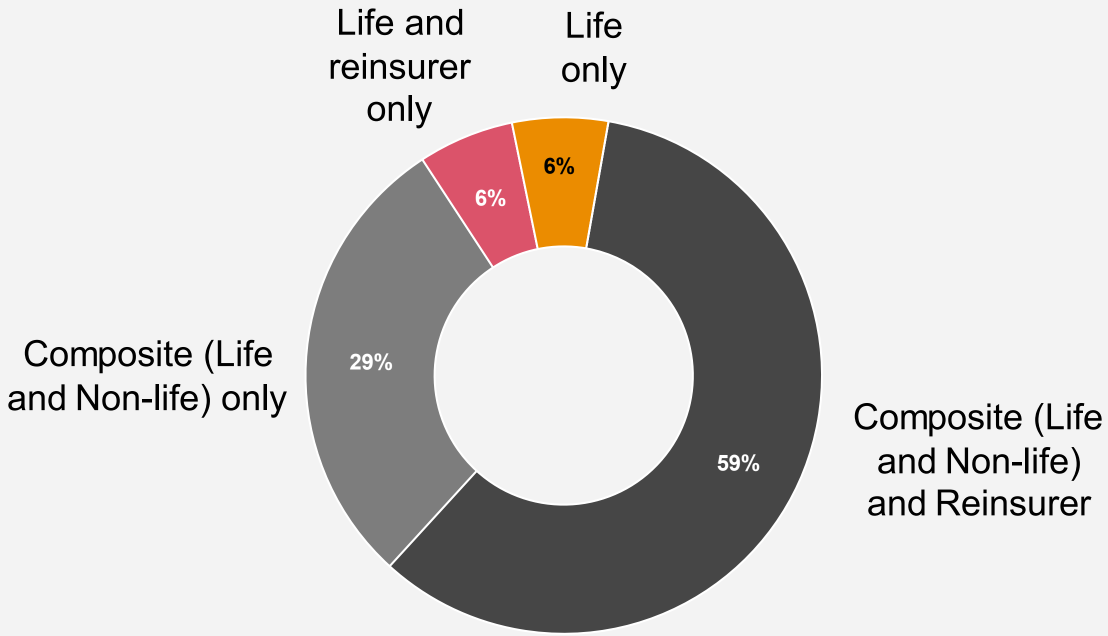
Information on survey respondents (continued)

Below is a breakdown of the survey participants by the primary market focus and the type of insurance business that is being underwritten.

Primary market focus:



Type of insurance business underwritten:



Thank you

www.pwc.com

At PwC, our purpose is to build trust in society and solve important problems. We’re a network of firms in 155 countries with over 284,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com.

This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.