

IFRS 17: Our reflections on 2021 Dry Runs and leveraging the lessons learnt for 2022

With the IFRS 17 go-live date around the corner, a number of our clients attempted their first end-to-end IFRS 17 Dry Run in 2021 and we have been witness to the challenges encountered. The themes that emerged are remarkably similar despite the variety of clients (regions, life, non-life, etc) and we heard three key overarching messages consistently:



“IFRS 17 is complex, even for the simplest of insurers - we **underestimated** the work we need to do moving from design into implementation phase!”







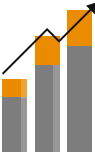



“We **overestimated** the “plug and play” readiness of third-party vendor solutions - there is still a lot of work for us to get relevant data into the solution as well as configure and run the solution.”



“Our **end to end processes** require **significant re-think** to meet the requirements of the Standard.”










What were the major pain points and are our considerations for the final stretch of implementation?

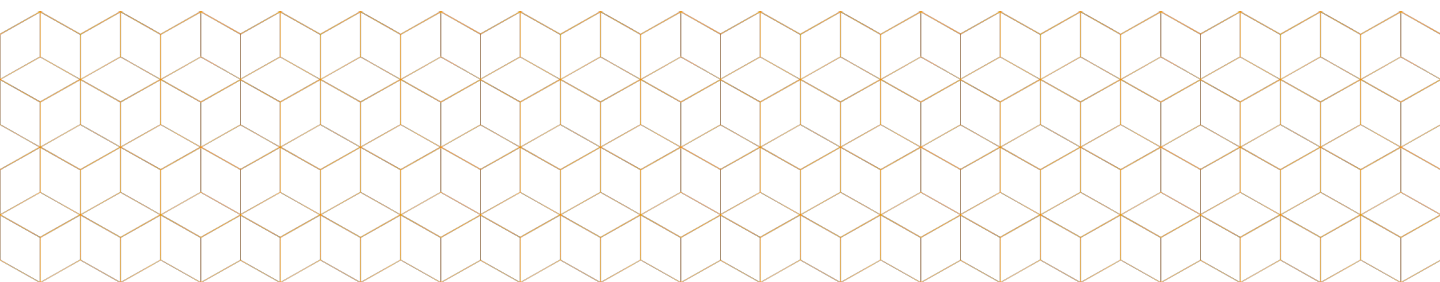
Implementation Area	Observations	Considerations for 2022
<p>Data availability and preparation</p>   	<p>Input data, of varying quality and granularity, from multiple sources, requires significant transformation. This is introducing significant complexity in the understanding and articulation of a data lineage and operationalisation of the end-to-end data journey, while also causing remediation delays late on in the implementation timeline.</p> <p>Poor data quality is also leading to tactical adjustments and simplifications being applied to data in the Dry Runs contributing to the challenges in understanding the efficacy of overall results produced.</p> <p>Limited support by vendors in the development, implementation, and testing of the required data Extract, Transform and Load (ETL) processes (both into and out of the IFRS 17 software solution), resulting in additional strain on in-house resources.</p> <p>Insufficient consideration given to the design of IT controls (e.g. reconciliations) to substantiate the completeness and accuracy of the data from cradle to grave.</p>	<p>Increase focus on finalising the end to end data lineage model and remediation efforts.</p> <p>Conclude development and testing of the ETL layer, transformation rules and processes.</p> <p>Iteratively test the data transfer processes including development of the required controls (e.g. reconciliations, access controls) to ensure the complete and accurate transmission of data from cradle to grave - successful testing of the data should be a key entry criteria for the next scheduled Dry Run.</p> <p>Employ tactical work-arounds to address nagging gaps/issues and prioritise review and sign-off of these with the relevant assurance providers.</p>
<p>Business processes and Controls</p>  	<p>End-to-end processes are not fully developed and are not at sufficient level of detail (i.e. at task level).</p> <p>Introduction of tactical work-arounds with a focus on meeting dry-run deadlines resulted in a reduced focus on execution of processes and controls i.e. inadequate consideration related to the simulation of "Day 1" processes and controls.</p> <p>Inadequate governance including who is authorised to approve tactical workarounds.</p> <p>Limited consideration of timing i.e. can the end-to-end process be completed within the financial close timelines applicable?</p>	<p>Deliberate efforts to finalise and test the "Day 1" operating model across people, process and technology to enable efficient and accurate reporting.</p> <p>Prioritise key implementation activities and plot the 'critical path' to de-risk achievement of minimum compliance</p> <p>Set objective criteria to measure the progress made on the execution of key processes and controls within the next Dry Run to refine the control environment for "Day 1" operations.</p>
<p>Actuarial function / Cash Flow models</p>  	<p>Significant dependency on the actuarial function - this placed huge strain on the function to update existing or build new actuarial models to generate the cash flows, perform Premium Allocation Approach (PAA) eligibility testing, transition calculations, etc. whilst managing existing Business As Usual (BAU) responsibilities.</p> <p>Many insurers reverted to manual work-arounds and/or simplifications due to time pressure and the complexity of issues.</p>	<p>Challenge the appropriateness and pragmatism of short term work-arounds i.e. are we just kicking the can down the road?</p> <p>Critically assess the "ask" of your actuarial function against the available capacity (considering BAU responsibilities) and capabilities.</p> <p>Identify opportunities for enhancing the maturity of the actuarial function across people, process and technology.</p>
<p>Operating Model</p> 	<p>Implementation efforts are still very siloed with limited collaboration and communication across actuarial, finance, and technology.</p> <p>The ownership and responsibility for key tasks across the programme to enable "Day 1" Readiness are not clearly defined and agreed, leading to key activities being delayed or only discovered late in the implementation journey.</p>	<p>Driving collaboration between the actuarial, finance and technology teams keeping in mind the need for a sustainable operating model post implementation.</p> <p>Target operating models - across people, process and technology - must be defined comprehensively and tested during Q2 and Q3 2022.</p>

The above issues ultimately impacted the quality of the Dry Run results - in many cases we noted large, and sometimes inconsistent, deviations from IFRS 4. This led to frustration among CFOs and other key stakeholders when attempting to understand the results and reconcile these with IFRS 4. This was driven by a multitude of factors, including errors in the calculation(s) not identified, data quality challenges, lack of sufficient audit trails and knowledge of IFRS 17.

The issues experienced during the Dry Runs should be clearly articulated and remediation plans established to achieve successful IFRS 17 outcomes. However, if the valuable lessons gleaned from the Dry Runs are not taken on board, your IFRS 17 programme risk will only amplify, with less than a year left to go-live.

How can PwC support you in mitigating your IFRS 17 program risk?

Service offering	Description of offering	Key benefit / advantage
<p>PwC Managed Services (MS)</p> 	<p>PwC MS is a service run by our global IFRS 17 experts on a cloud-based IT solution that is pre-built, fully configured, fully compliant and independently tested i.e. you use our people and our solution to produce, interrogate and understand your IFRS financial statements and disclosures.</p>	<p>PwC MS is cost-effective, easy-to-implement and integrates with your current systems.</p> <p>MS can be considered a “Plan B” that seeks to de-risk IFRS 17 programmes and give you time to continue modernising your finance and actuarial functions whilst also allowing time and space required to consider more strategic solutions such as an in-house build.</p>
<p>Data and Control Environment</p>  	<p>Early identification and remediation of data and integration challenges, as well as a healthy control environment, underpin the success of an IFRS 17 implementation. We offer assessment, advice/recommendations, and independent testing of the data ETL approach and overall data lineage to drive completeness at the input and output of the IFRS 17 calculation process.</p>	<p>Our assessments also include a review of the design of key controls within the environment and identification of key automation opportunities to deliver a robust and repeatable process.</p> <p>We keep you safe by providing an independent perspective, reducing the risk of inaccurate and incomplete data through the end-to-end process.</p>
<p>Actuarial Function Modernisation</p>  	<p>In addition to the demands placed by IFRS 17 on the actuarial function, there is also increased demand from other key stakeholders for automation as well as relevant and useful insights. PwC can support you to meet these demands. We have:</p> <ul style="list-style-type: none">Developed a cloud based reserving app to modernise your short-term insurance actuarial valuations.A track record of assisting insurers with a wide range of actuarial needs such as reserving, capital management, model risk management, reinsurance optimisation, and pricing.An experienced interdisciplinary team of subject matter specialists (i.e. actuarial, IT, finance) that work together to provide holistic and practical solutions.	<ul style="list-style-type: none">Simplify and automate your reserving process with our human-led, tech-powered platform.Generating data driven business insights.Improve efficiency.Obtain independent perspectives and insights on global good practices.Knowledge transfer and upskill your in-house actuarial team.
<p>Operating Model</p>  	<p>We leverage our extensive IFRS 17 experience as well as broad capabilities (IT, actuarial, finance) to share independent perspectives and assist you in defining your IFRS 17 operating model across people, process and technology. This typically includes assisting in the design and/or assessment of the following key areas:</p> <ul style="list-style-type: none">Source data systems and integration/ETL into calculation engine.IFRS 17 cash-flow calculation engine and transition.IFRS 17 software solution.Financial reporting and transition.	<ul style="list-style-type: none">A collaborative approach between actuarial, finance and technology to IFRS 17 compliance.Clear ownership and responsibilities within the end-to-end process.Robust governance and control environment for BAU operations.



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