



Episode 22: IFRS 17 and the principles for Life

TERESA MURPHY: For me, IFRS 17 is a bit like a marathon. But it's also going to need a sprint finish. A recent survey with about 300 participants showed us that people are just over halfway there with quite a lot of work to do and still only now 18 months to the effective date.

SPEAKER 2: You're listening to "Rethinking Insurance," a podcast series from Willis Towers Watson where we discuss the issues facing PNC, life, and composite insurers around the globe as well as exploring the latest tools, techniques, and innovations that will help you to rethink insurance.

VITTORIO MAGATTI: Hello and welcome to "Rethinking Insurance." I'm your host, Vittorio Magatti. And today, I'm delighted to be joined by my guest, Teresa Murphy, director and UK life IFRS 17 lead, and Andreas Schroeder, global life IFRS 17 life technology leader. Welcome, Teresa and Andreas.

TERESA MURPHY: Thanks very much, Vittorio. Lovely to be talking to you.

ANDREAS SCHROEDER: Hello, everybody.

VITTORIO MAGATTI: In today's episode, we are going to explore the IFRS 17 principle for life insurers. But first, let's find out a little bit more about our guest. Teresa, Googling you, it looks like you are also a professor in the Colombian College of Arts and Science. Any thoughts and feedback on this?

TERESA MURPHY: I Google too. I wanted to be the teacher of the year from Miami.

VITTORIO MAGATTI: That's good. Andreas, are you instead a Canadian author, right?

ANDREAS SCHROEDER: Yeah, not really. So my name is pretty common, particularly in Germany. So Andreas Schroeder, so I think it's also well-used around the globe. So probably that's not me, but I also found an actor, which I prefer.

VITTORIO MAGATTI: That's perfect. So going through the podcast stuff today, so IFRS 17 principle for life insurers, I would like to start with the first question for you. So with an effective date of IFRS 17, incorporating the amendments to unreporting periods beginning on after first January, 2023, and surely life insurers should have all the people, process, and technology chosen, trained, and embedded with just some testing and fine-tuning to go. But let me know in many cases does not seem to be the case. What are you seeing and why.

TERESA MURPHY: Great question, Vittorio. And ideally, that's where it would be. It would be close to being done.

But for me, IFRS 17 is a bit like a marathon, but it's also going to need a sprint finish. Our

recent survey with about 300 participants showed us that people are just over halfway there with quite a lot of work to do and still only now 18 months to the effective date. I think there are quite a lot of reasons here. But for me, IFRS 17 is the widest ranging change that we've seen in our industry so far.

I think Solvency II felt big, but we owned it, really, within actuarial, whereas IFRS 17 is acquiring data, finance, and actuarial systems to really talk and integrate and touching all sorts of processes. Firms have called out many of their own challenges. Methodology and systems are still top there, and I'll probably leave Andreas to talk a bit about systems. But methodology is challenging.

IFRS 17 is set up as a principles-based approach, and so fitting principles to your own business can be tough. A standard isn't going to tell you everything you need to do. But you need to make decisions, and those decisions impact the data you have and the processes that you need to build. Particularly in the area I work in the UK, we're seeing a lot of frustration with methodology not being able to get sort of review and sign off from the auditors.

And so we can have differences between globe and group and local teams. And it's very difficult for programs to progress with that. Data and systems all are having to change for IFRS 17, and that's a big undertaking, and it's going to take a lot of time.

Internal processes are quite tricky here too. You need to get the right people, the right skilled people and resources that keep them on your projects. It's a very long project, and it's hard to maintain those resources and morale for those teams over long, complicated projects. Taking really good decisions and not getting lost in technical accuracy are often the stumbling blocks for people as well.

VITTORIO MAGATTI: Many thanks, Teresa. So it looks like there are some open issues on systems and processes. I don't want to say so many open issues, but probably there are some of those. What impact does that have on insurance technology solution for IFRS 17?

ANDREAS SCHROEDER: Yeah, thank you, Vittorio, and as Teresa already mentioned, so it is a wide-- let's say many, many systems are impacted, many processes. And it's starting with, let's say, the older, the old age policy admin systems the companies have at the hand.

Some have one. Some have more serious than we have-- they need actuarial cash flow modeling systems. In the mature markets like Europe, these are already existing, but we have also clients which are starting with actuarial cash flow modeling. From the beginning, they have nothing. Then they really starting from scratch here. And these systems need to be properly built.

And then we have the obvious gap for everybody, which are the IFRS 17 calculations typically done in an IFRS engine. So this is the first gap which needs to be filled which the companies have been searching for. Many have done their decisions already because of the timeline, of course.

But some are still deciding. And basically, these are the last ones deciding on that. And then we have the accounting and financial reporting systems which are fed by these. So there's a huge range of systems involved. For existing actuarial cash flow systems, they need to become-- get IFRS 17 ready. So you need to tweak certain cash flows, add certain cash flows to the system.

So this is, let's say, the minimum task there, which almost have been done in the majority of the cases, I would say. Then the IFRS engine calculations, of course, need to be compliant but also need to have a rich output to be able to fill all the disclosure requirements, which are very, very big. And then, yeah, then the overall systems must be able-- yeah, to need to be able to integrate into existing infrastructure.

It needs to be able to automate. So you need to have some automation capabilities in your infrastructure to make everything happen in time. So every company basically has its own

gaps.

So we at Willis Towers Watson, we have a modular software concept in general where we could apply help in any of these gaps. So we provide you with engines or with an automation software or with a whole end to end have IFRS 17 enterprise solution. So we can help their many clients, and we do help our clients in various components and various projects around the world.

VITTORIO MAGATTI: Great. I see that there is an exchange of opinion between actuaries and accountants for life insurance related to where the calculation engine should be located-- so if near the actuarial or as a sub ledger close to the general ledger. What have we actually seen happen in the last couple of years, and what are the main implication of each of those options?

ANDREAS SCHROEDER: Yeah, Vittorio, this is, again, a key decision. We have to place it, and a key decision has been made. And we as an actuarial software provider, this is our, let's say, starting point, have built our engine or engines in the actuarial software we have been producing, serving the client basis since a long time.

And this has been required by our clients, which are typically the actuaries, the chief actuaries, the risk managers. And this has advantages because the cash flows, which are the basis of IFRS 17, are typically produced in our software and our systems. And therefore, the IFRS 17 numbers, the new numbers, should be explained with this in mind or very close to this. So this has advantages in analyzing numbers analysis of change, which the actors have been doing a long time. So this has huge advantages in analyzing figures, also in terms of flexibility. Other clients or other, let's say, IFRS 17 projects, I would say, have started on the right hand side as you say, on the accounting side, from typically a CFO maybe with accounting background or chief accountant has decided we want to buy a sub ledger, which is driven basically from the background, and then the developments have been basically from right to the left starting with accounting figures, starting with reporting figures.

But then at some point also, the actuaries needs to be involved, and in both cases, the actuarial, let's say, modeling world has to be mapped to the accounting world and this needs to be done in any cases. And depending where you have started the journey, this is also what we see in our survey. Each type of clients has gaps in different areas, and this is now the task to get these closed and to particularly, yeah, to work very closely together-- the actuaries, accountants-- to get a common understanding of their dedicated, particular of world and get the numbers right and document it in a seamless way, compliant and understandable. I think this is now the big challenge.

VITTORIO MAGATTI: Thanks, Andreas. And jumping on the timing, probably the insurers, or there are different insurance in a different timing. And taking consideration the current moment, some of those are testing the numbers and probably also think about the impact on the planning activities in the future. Other clients and other insurers probably are also investing in the IFRS 17 process as in systems, as we discussed before. Teresa, is it too late?

TERESA MURPHY: Oh, that's a tough one. It's definitely not too late, but I think people need to really assess their situation realistically and consider where they want to be-- where they need to be tactical rather than strategic. Projects like these, the big transformational ones, they're never easy, and they're never going to be a smooth path. And in our experience, where we actually implementing it and we are doing this with our clients because we implement our software but we also help people as their actuarial team and doing the work for them, getting to that testing and dry run point can show a lot of issues and sort of maybe need to rethink your plans and do a lot of rework.

And then for smaller firms, where they don't have the team size, they don't have the budget of the larger firms, there's going to be huge challenges for those in meeting BAU and IFRS 17 demands. And we've seen from the survey that people are in very different places. Asia-Pacific is probably lagging behind a bit relative to [? AMIR, ?] and obviously the large, sort of multinational companies tend to be further ahead than the smaller, sort of standalone companies.

But it's definitely not too late. For me, I think there's a couple of things that I would get people to think about. So as Andreas mentioned, sort of decide how and what you're going to do with your actually-- your IFRS 17, your CSM calculations, making that technology decision which is right for you, and maybe outsourcing it. Or maybe it's doing it yourself but also thinking in that automation.

We've seen that automation can be a really key success factor in implementations. And while it's hard to do and it takes up more of your implementation project, in our experience, trying to automate things when you're in real BAU with working day timetables to meet just doesn't happen. So if you're going to automate, now is a real good opportunity to consider that and trying to take advantage of it.

Being decisive and pragmatic, there's a lot of decisions to take. But having that view as to where you need to end up and working back to identify the gaps and then being proactive about how you can really close off these gaps is really key at this time when the time window is closing. And what we've seen is really beneficial is to do mini sprints.

So work out what your critical blockers are and then, without getting caught up in the wider issues, have a few really short sprints to actually drive through progress in your program to keep it moving forward. And maybe that's actually reallocating your internal team, getting some external support because you're missing some skills gap, but really doing what you can to actually accelerate your program in this time. And we have seen through our survey that we are seeing an increase in external support for firms over the last year because there is just so much work to do and firms can't do it all themselves. And the other big thing for me is because IFRS 17 touches so many people, you need to communicate and really collaborate well. You need to be sharing it across your department so that you're actually working together because otherwise, if you don't, it's going to be a very difficult program to get over the line.

VITTORIO MAGATTI: Many, many thanks. Last question for both starting with Teresa. If you were to give every listener just one piece of key advice to be IFRS 17 ready, so something that they should take away from this podcast into this week, what it would be?

TERESA MURPHY: I was hoping you would take me a second because I have two, and I was like-- but I've already talked about decision making. So I'm not going to talk about that although I do see that as key.

But for me, get some results out. Get some numbers from working on these projects. Actually, when you're talking theory all the time and methodology, it's very hard to stay they focused, and as soon as you have numbers and you're actually looking at real results, you get better engagement from your teams, better engagement from stakeholders, and you're starting to build that understanding of IFRS 17, which is really complicated and is going to take some time. So I would look at some numbers if you can.

ANDREAS SCHROEDER: Yeah, my turn would be to set the approvals in the automation projects, which are currently ongoing. So if the project is, let's say, driven by the actuarial team, involve the accountants and vice versa. So who will approve which point of the process, which step, and get the other, let's say, team involved to set the scene for your operating model in the future and to get the sign off from the important stakeholders.

TERESA MURPHY: I would really thank you again to be here as guest. Thanks, Andreas.

ANDREAS SCHROEDER: Thank you, Vittorio.

VITTORIO MAGATTI: And as well Teresa.

TERESA MURPHY: Lovely talking to you.

VITTORIO MAGATTI: Thanks for listening to "Rethinking Insurance" podcast.

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