



## Episode 4: Middle East Special – IFRS17

**BASTIAN KURTH:** We need to be reminded that everything needs to be in a certain governance environment. So the question is how to embed the appointed actuary into the governance environment in the future so that at the very end when it comes to closing off the results, everybody is fine and happy to sign off all the results with the corresponding governance structure, including the appointed actuary.

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

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**MATT FACEY:** Well, hello, everyone, and welcome to the special Middle East edition of Rethinking Insurance, our latest podcast. I'm your host, Matt Facey, and today I'm delighted to be joined by my guests Susie Roeske, director in our insurance consulting and technology Cologne office, and Bastian Kurth, our senior director and IFRS 17 leader in the Middle East. Susie and Bastian are Black belt experts in the impact of IFRS 17 not only in the Middle East but across the globe. So welcome to you both.

**SUSIE:** Hi.

**BASTIAN KURTH:** Hello.

**SUSIE:** Good to be here.

**MATT FACEY:** In today's episode, we're going to explore what the implementation of IFRS 17 means for insurers operating in the Middle East. IFRS 17, as we all know, is a complex and has wide reaching implications for insurers' processes, systems, and data. At the same time, it represents unparalleled opportunities to drive automation and innovation that will deliver systems and processes with proper levels of oversight and governance. It will deliver better decision making. It should free up people from mundane tasks, allowing them to focus on more value-add opportunities, and help underpin the long term success of the business.

But before we go into that discussion, we normally like to kick it off with learning a bit more about our guests. So Susie and Bastian, I'm going to try and dig into a little bit more about yourselves. And a question I like to ask is Susie, can you give me your top three favorite films or your favorite book so I understand a little bit more about you.

**SUSIE:** Probably there would be many, but I can say hardly any of these in English. So I have to lie a little bit. I would say my preferred movie is The Lord of the Rings. And luckily there are

three of it. So I can say 1, 2, 3. So I finished that first task.

And I honestly never have read a book in English outside of school. And in school I was like 11 years old. So I don't know if this is appropriate to today, but it was something like Holes. I don't know. There was a young man who had to dig holes to-- Yeah. I didn't know why I forgot. I was 11 years old. So that's me.

MATT FACEY: My daughters have just read that book at school. I know exactly the book you're talking about. It's a good book.

SUSIE: Really?

MATT FACEY: Yeah. Yeah. Honestly.

SUSIE: So she can tell what it is about. We can ask her.

MATT FACEY: Yeah. We can bring it all back to being 11-year-old again. All right. So same question to you, Bastian. What are your top favorite three films or books.

BASTIAN KURTH: Well, that's a good question, and I could also take the answer from Susie with regard to the films. Really three very, very good films. But let me name three different films. What definitely I appreciate a lot is the film La La Land, which especially I like the finish, that they don't mess it up and they did it correctly, because they don't make it at the very end. Yeah. So it was perfectly done.

Furthermore, as a mathematician, I'm in love with A Beautiful Mind. I think it's not just a really, really good film, it's also a perfect performance of Russell Crowe as leading actor. And then for sure Vicky Cristina Barcelona is also a very nice film and I appreciated it a lot. The whole atmosphere and how this film is produced is fantastic. So these are definitely my most favorite three films.

And when it comes to books, I'm really passionate about books, but unfortunately, I don't have really time to read. But there is one book which is definitely the book which had the biggest influence on my reading career. And this is The Name of the Rose, which I read when I was like 16. And it was definitely the book which brought me into reading and digesting books and appreciating books, and I just can say it's a fantastic book. And besides, maybe the book I know best maybe in-between is the IFRS 17 Standard, unfortunately. But I promise to improve in other books in the future.

MATT FACEY: Yeah. If you're trouble getting to sleep, then definitely read the IFRS 17 full legislation It'll get you there. Well, I guess we should have a disclaimer and a spoiler alert in La La Land there, shouldn't we. In case anyone hasn't seen it. But going from one la la land to another la la land and talking about IFRS 17, it'd be interesting to understand what you perceive or what you think are the biggest challenges that we're all seeing in the market in the GCC and in the Kingdom of Saudi Arabia with regards to implementation on IFRS 17.

BASTIAN KURTH: Well, I think it's a very fair question. And I think the biggest challenge that we see is that companies are starting in a worldwide comparison really, really late. So companies started typically around 2018, 2017 with their IFRS 17 implementations or really in the hard project phase. Whilst in the Middle East, we saw this a significant later. So companies started in 2019, 2020 with their real implementation stuff.

I think we see a difference between the Kingdom of Saudi Arabia and other countries because Kingdom of Saudi Arabia had based on the regulator a lot of pressure on different phases and deliverables towards the regulator, which makes companies in the Kingdom of Saudi Arabia to be much better equipped than in other countries in the GCC region.

And this is what we see here. There are some companies which have still not yet calculated any kind of numbers with their systems, or some even haven't selected their systems. And this is definitely something where we need to understand that this is basically too late.

It will take a lot of time to install systems, to get data, to make some kind of dry runs, and stuff like this. And this will be really, really a big challenge to get all this done until end of the year. Because transition date is 1st of January, 2022, already. So it's in the past. And the first reporting starts in 2023, which is close ahead in thinking of implementing such a complex standard as IFRS 17.

SUSIE: Yeah. And additionally, to this day, they now see-- So the ones that finally started, they now see how challenging it is to get the right data and speak to their vendors and get everything basically right, and they even don't know what the end piece is. So once you have processed all this data, you are not finished. It is that there is a result. And in the first try, this result will be corrupt, basically. And they haven't seen this.

And we have to put so much effort in to then get reasonable results out of it and to make it explainable. And in the end, it's not enough that the actuary understands what's standing there on the paper, it is mainly that the financial board and the controllers that need to understand what these numbers are about and how they develop and that they have a link to their real business. It's not just a number. You know?

And so they are speaking actuaries to other people. You can't believe actuaries have to speak to other people. That's probably the most challenge. And they need to understand each other. And these things are not so well known already in the Middle Eastern projects that we are helping with. That it's not just getting the data ready, it is understanding the results.

MATT FACEY: I think one of the things I found in the Middle East is that people are more concerned about methodological documents and getting documentation in place rather than finding the raw data, finding the assumptions and running it through a system, whatever system that may be, to understand the results at the end. Do you see that quite a lot out there?

SUSIE: Yeah. I do. But I have seen the same thing in the German market in the beginning. But this was around 2017. So at this stage, it was fine that people were producing long, long documents of just what does the standard say, what do we understand out of it before data and actually started the implementation. But they had the time to do that and in Middle East, we do not have the time.

BASTIAN KURTH: Let me maybe add another piece on Middle Eastern specifics. As per regulation, companies working with appointed actuaries, pretty a lot down there, which is something which we don't have in every other market in the world. So this is something which is really specific for the Middle East. And here the question is how to embed the appointed actuary into the future process.

So whilst in earlier times, it was rather easy to provide some results which are then booked into the ledger, here we have now complex systems which the appointed actuary needs to understand to sign off the results. However, systems are lying with the companies, not with the appointed actuary. So the interaction of the appointed actuary with the company will change significantly.

It's not just about preparing some results. Results are more complex. There is a much bigger involvement required of the appointed actuary into the overall target process, which can end up in very simple issues like appointed actuary is not able to access the systems of the insurance company. So might not even able to review any kind of results. And we need to bear in mind that everything needs to be in a certain governance environment.

So the question is how to embed the appointed actuary into the governance environment in the future so that at the very end when it comes to closing off the results, everybody is fine and happy to sign off all the results with the corresponding governance structure, including the appointed actuary.

SUSIE: Yeah. But I guess that this is really not only true for the appointed actuary, also other people need to speak together that usually were not speaking. And while in the past maybe planning or financial steering was easier possible, the CFO could just go ahead and say I want

to have a combined ratio of 95% and it was somehow doable, this is not doable anymore. But still the CFO will have an opinion on what the result will look like or has to look like and the CFO also wants to have this opinion before the year is closed basically.

So also this communication, not only to externals, not only to the appointed actuary, it's really as IFRS 17 is so complex and is focused on so many different areas of a company, it is also especially complex that everybody is on board. But Bastian basically said this already.

MATT FACEY: Yeah. I think you're both absolutely right. The companies have to let IFRS 4 go as well. They have to get into the IFRS 17 mode of thought. You can have them both side by side, but it's a new world, it's a new regime, it's a new standard, that they have to get on top of.

And from my point of view, the sooner they get data into the system, the sooner they get the IFRS 17 disclosures out, the sooner they understand what they actually mean and the impact on their business, and try and do an IFRS 4 to 17 comparison. But the sooner they do that, the sooner they will have an easier life.

And it kind of goes into my next question for you both really. Because I've seen like Bastian mentioned, some have been amazing in driving forward that market and the understanding and putting a mild amount of pressure on the companies to get the first dry run done by the end of November last year and the second dry run around the end of May, 2022. But why should other companies in the other countries in the GCC be worried if they haven't started their IFRS 17 journey yet? Apart from the complete obvious.

SUSIE: Yeah. The complete obvious is probably that they otherwise don't make it. So they need to start. And the later they start, the more simplifications they will need to do. But the system may be not in line with the standard anymore, and this will cause troubles in the long run. So they can't leave it as it is and they have to have a friendly auditor and a friendly summer. Yet this is obvious that if you haven't started with such a complex topic, then it can crush in the end.

But taking this aside, I think we see in the projects that getting the right data in the granularity that IFRS 17 wants to have it is challenging, and if they haven't started with it, then they need to be really quick to gather this data and to have also some quality assurance around it. And putting this data into a process is challenging as well. But maybe this is something where they can get a bit more help from external vendors, as Willis Towers Watson is, so we can provide the right systems. And we do have some standard processes already so that the work that we have been doing with other regions are then as a benefit, so to say, for the Middle Eastern regions that we can adopt.

But therefore, of course, the projects can't be done internally. They need to be done with external vendors. But I guess this is anyways true. I can't imagine that there's any company trying to put IFRS 17 in place without any external help. Therefore, the stress for the employees would be too high. They have to do their business as usual and have to come up with a completely new standard. No one can basically do this alone. So yeah, the process side is something to worry about, but maybe not as much as other topics.

And what we also said before, when you haven't started yet, then you haven't seen any of the result. And these results are really negotiable. You have to discuss about these results.

[LAUGHTER]

And this also takes time. And it is also often surprising what the result is. So if you haven't ever seen an IFRS 17 result, you can be worried about this.

MATT FACEY: I liked your analogy that you gave before in the various conversations we had about your house build.

SUSIE: Yeah. If you haven't started yet you can't move into it in summer, then that's obvious.  
[LAUGHS]

MATT FACEY: Yeah. We need a nice little IFRS 17 summer house to move into.

SUSIE: Yeah. [CHUCKLES]

BASTIAN KURTH: I basically fully agree with you. And what I typically tell all the companies, just do it. Don't think too long about it. At a certain point, you just need to start doing it. You will fail. Everybody will fail at a certain position, and find out this was the wrong way that I selected, this was the wrong decision we took. Yeah. But there is just one thing, and to say it with the words of Marlene Dietrich, who said, "If I would live my life once again, I would make the same errors, just faster, so I can learn more out of them." It's exactly what it is about IFRS 17.

Yeah. Just do it. Just make your errors, and learn out of the errors, and make them better in the next dry run. Run and try and you will get the feeling of how decisions you are taking from an accounting and an actuarial point of view are influencing your results. You will start understanding the results you need to go and you need to calculate.

You will see that everybody who is working IFRS 17, with the best engine in the world that you can acquire, someone will have an Excel beneath and try to recalculate some things, try to do some side calculations, and just justifying how the inputs that you're putting into your engine will lead to a result. And for sure, the better the engine allows you to go into the results, to see the results on a detailed level, on a unit of account level. For sure, this will help you.

But this understanding, you just can get if you do it. You need to do it once. You need to do it twice. And you need to do it as long as it takes to understand the results, to get the feeling of the mechanism of IFRS 17. And this is something because of the complexity, companies are developing long time and investing huge amounts of just setting up such an engine.

So it is not easy. It cannot be done on a piece of paper and someone says, Yeah, it's working like this, and that's all. Well, for sure, there are big mechanisms that are easy to explain, but if it comes to the details, then you definitely need to just take your time, and play around with your engine, and like I just said at the beginning, make your error fast, learn out of the error and make it best better when you're into it in the next time.

MATT FACEY: A wonderful phrase, isn't it. Like fail fast, and then you learn very quickly. And it's that iterative process. I'm not a CFO. And I have to go back and do many more accountancy exams to become a CFO. But I'm pretty sure and I know that the CFOs have a WhatsApp group in the GCC and talk about IFRS 17 and the problems. And I think if we were to delve into that WhatsApp group, we'd probably find the five major things that they are talking about constantly.

And without paraphrasing them, I think they're probably going to be data, data, data. I think they're going to be the connections between the individual teams, that they have to talk with each other now. There's no silos between IT, actuarial, and finance. I think, 3, the connecting systems between all of the departments. The technology has got to be seamless and it's got to connect with their core systems. I think fourthly, it's going to be around reinsurance. And then last but not least, it's about understanding the results and actually making some headway into them.

So I just want to talk very briefly about each of those five headaches that a CFO whose ultimate responsibility it is with IFRS 17 and go through them and see how we can help and unpick them. So Susie, if I go to number 1 first and talk about data. So it's data, data, data. So the availability of the data. You're going to make some assumptions and the understanding of what is needed.

SUSIE: Yeah. Yeah. So definitely the CFO is maybe not the first one that you could think of are being worried about data, because this is something really operational, that there are others that have to deal with them, have to find this data or invent this even. But as the CFO, in the end, has the responsibility and the employees are certainly very sure worried about all this data that they have to find. The CFO needs to be worried as well.

Because I don't know if I can say this in the postcard-- [LAUGHS] podcast-- in the podcast, but shit in, shit out. So when you do not have the right data, then the CFO won't be happy with the results in the end. So I definitely agree, if there is this mysterious WhatsApp group and the CFO is speaking about data, he or she definitely has a point.

MATT FACEY: Yeah. I think it's a strain throughout this podcast about data and just starting that journey and getting the data into a system and understanding what is needed for the overall IFRS 17 disclosures. But it kind of leads into the second part where we're talking about the connection between each of the individual departments. In IFRS 4 world, it used to be the actuaries come up with the [INAUDIBLE] and reserves and they handed it over to finance, and they put a management load on it, and then that went to the general ledger.

But I think what I'm seeing, certainly in a lot of these implementations, maybe it'd be good to get your view in it, Susie and Bastian, about the links between IT, between actuarial, and between finance and accounting, that it's got to be stronger than ever now, and they have to work seamlessly together? Go on, Bastian.

BASTIAN KURTH: I fully agree with you, Matt. This is a big, big issue at all companies, this interaction. And I can give you one example, and this is maybe one of the most popular examples under IFRS 17. You just need to ask anybody about the premium received. The Actuaries Act says I need the premium received for my system to make the calculation. So they can go to IT and say, ask for premium received, and they will give you something which they call premium received. But the question is, is this the premium received which is required under IFRS 17. And the accountant will also have a very strong opinion on what from his point of view is the premium received.

What needs to happen is people need to sit together and need to understand each other. Because the actuary knows practically what it is what he needs, the accountant has a very specific view, and the colleagues from IT or from data can tell you what they have. And this might not match. And then they need to sit together and need to discuss how they can get something which fulfills the requirements.

And if they don't sit in the same room and discuss this and just sending around emails, Can you give me, Yes, here you go, and then you will do some kind of work and you will find out at the very end that your balance sheet is a big mess. And it doesn't help anybody because the numbers are simply spoken wrong. This is because people didn't speak about this. People don't understand what they need. They are asking for words, but behind the words, there is a very complex definition and there is a new definition.

And premium received is just one very good example where you will need a lot of time until everybody understood what they really want from each other. And as you just rightly pointed out, Matt, they need to sit together, they need to talk to each other, they need to get a common understanding and see this journey as a common goal.

SUSIE: And here you were even not speaking about real tremendous changes, like at different cost allocation or something like this or behavior of acquisition costs and its amortization. So new things that come with IFRS 17 that were maybe not doing under local GAAP or IFRS 4. So even with this basic example of just premium-- Tell anyone you want to have a total return premium, what you get will be five different things of what they have, and probably not the total premium cash flow that you were asking for.

MATT FACEY: Yeah. I completely agree. You ask one thing for one client and then they'll give you a set of data, and then you go to another client-- 30 minutes later and it's a completely different understanding. But we would say there's been a technology provider and one that's technology globally, but I do genuinely believe the connecting systems, the technology has to be seamless and linking into the core system, needs to be connected to the new actuarial and the new accounting system. So do you have any thoughts about that and what you've seen in the market, Susie, about technology and how that can make people's lives a hell of a lot easier?

SUSIE: Yeah. So what we also have seen when we were speaking about Solvency II, of course not in the Middle Eastern market, but we have seen it in Europe, that the companies realized that they can't really do everything in the old fashioned manner, and employees will run processes and they will click some macros and-- I don't know. But we do have some IT-based process behind. That's not flexible enough and they can't-- So the macros are of course very flexible, but they are not watered down, basically, and IT processes, they are not flexible or it will just take IT resources and they are never available, basically.

So this is already something that came with Solvency II. And I think with IFRS 17, it's even stronger. That you have to be ready in time. So you do not have so much wriggle room to then steer the results and play with your data. You need really optimized processes where one engine links to the other when you do half steps in between where you really need some human brain to work with it. Yet you definitely need to know how to link this human knowledge into your IT process, basically.

And this is something that even in the more IFRS 17 mature markets, this is not fully set yet and we see a lot of implementation work just to think of a clever process and then put this clever process into an IT environment and orchestrate this IT environment. So definitely a big topic that hasn't really started, or has maybe started but it's definitely not finished. And in Middle East, I would say we do the first baby steps to reach that line.

MATT FACEY: I completely agree. The other thing to add on to that is that IFRS 17 shouldn't be seen as a headache. It should be seen as an opportunity to make your systems-- have a look at your systems again and make sure that you have the right system for the right purpose going forward, and for it to be as future proof as possible. And there's an example I always give.

Basically, you need a system that will allow the actuaries to do more actuarying and the accountants to do more accounting. Because everyone's already time poor anyway with their business as usual work. So you need a system that's going to help you get numbers out quickly and then you're allowed to do the deep dive into the portfolio analysis and to understand certain segments of your business better to write more profitable business.

I think we should move on to the fourth headache and one that Bastian I know is very dear to his heart, and that is reinsurance. So Bastian, can you just give a bit of insight into the reinsurance headache that a CFO or the actuaries are going to have.

SUSIE: You should unmute first.

BASTIAN KURTH: Thanks. But yeah, I agree. Reinsurance is one of the big headaches and I would say it's one of the latest headaches you will get. Yeah? At the beginning, you don't think that reinsurance will cause this much, this kind of headache. But you will find out that this will happen.

Reinsurance is extremely more complex under IFRS 17 than under IFRS 4. Companies need to have a fully different database under IFRS 4 and IFRS 17 in comparison to IFRS 4. And everybody who tries to do it typically starts at one point with a sentence, I don't have this data available. I can't do it.

And then you go in and say, OK, there is no alternative to do it. We might need to find a way to approximate things to find out, to go into the depth. And everybody ends with the sentence, Yeah, we need to update our systems with regard to reinsurance data to make it available in the future.

Therefore, I think everybody should worry about reinsurance. Because you need to understand that it is working in a different way. It's this explicit modeling of cash flows seeded from a reinsurance contract and not just seen as a netting down effect of your gross business. And this is what causes a lot of trouble. Because it's a fully new way of understanding and thinking reinsurance held under IFRS 17.

MATT FACEY: But again, [INAUDIBLE] and surprise me because this is our podcast, I completely agree. What I've seen in the market and the reinsurance is something quite complex and people can't get their head around it, because they just think it is that simple neck and down process, but it's something they need to see the results and understand it. Which is our fifth and final headache, I think, from a CFO, is understanding the results. I've been in so many steering groups and meetings where the accountants take the numbers away and then really don't quite understand them as of yet. But what have you seen, Bastian, in the GCC about understanding the results and getting to grips with them?

BASTIAN KURTH: Yeah. I think it's one of the topics which is part of this podcast over all the time. We're all talking about the results. You need to understand the results. And maybe let me go back to Solvency II. I think a lot of companies and most companies who started Solvency II did some results and they found out what they have submitted was not correct. They need to do adjustments, they need to correct, they do need to do it better in the next time. It takes a lot of time to understand the results and to make them perfect. Because you just can start with the big worries and then you need to go down to the smaller worries. So it's about understanding the results.

And here we have a common very good project experience, Susie and myself. We worked with a lot of clients in Middle East, supporting them and understanding the results based on the dry run in the KSA. And it took us a long time to, first of all, understand the results, to explain the results, to walk through the results, and to go back step by step and get an explanation of the results in a lot of detail. And this is definitely a very, very big challenge. Maybe Susie, you can add from our experience that we gathered.

SUSIE: Yeah. I hope I can. So what I realized is that because the accountants and also sometimes the actuaries, they know the IFRS 4 values, and then the first question always is why is this number different than under IFRS 4. So when they, for example, speak about premium provisions or about the LRC. So it is different because it is not the same method behind. And we wouldn't do this whole exercise of having the new methods implemented and using the new data if the result would be just exactly the same, then it would make any sense.

So this question, why is it not the same number, it makes sense because this is the number that they know, but they also have to understand that it will not be the same number and that there are reasons behind. And these reasons don't need to be explained and this is what we take our time for, to explain why this does not look the same.

And then there of course also comes that these numbers are calculated on new systems, so there's always a little bit of doubt if the system is doing the correct thing. And we as a service provider, we always have a little bit of the doubt if the data makes sense, these are the correct ones. Again, data, data, data.

And so there are a lot of doubts going into different directions from different stakeholders that makes the result analyses additionally difficult. Because it can't just compare it to IFRS 4. You even have to check if it makes sense or if there are any errors in your process.

MATT FACEY: Yeah. At the end, I think we covered it all off, the 5 real headaches that we have seen in all of our implementations globally. It is about data. It's about the teams interacting a lot more seamlessly. It's about having a future proof technology system that's going to allow you to do your BAU work as well as the IFRS 17. It's the reinsurance aspect of the results and the data that you have to really get to grips with. And it's fundamentally getting that result at the end and understanding that as quickly as possible.

I just wanted to thank you both so much for taking the time to talk about IFRS 17 and making it so enjoyable.

SUSIE: You're welcome.

MATT FACEY: It's a very difficult topic to discuss. It's a very difficult topic to implement. But I think we've seen many of our implementations across the Middle East and the GCC. It's gone



smoothly with us and our clients are very happy and confident that they can hit the targets of IFRS 17 implementation. So taking your favorite books and your favorite films, so we're going to try and get out of la la land and not fall into any of the holes from Susie's favorite book, and we're going to have some seamless IFRS 17 implementations with our help.

So thank you both. Have a lovely day. And I will speak to you very soon.

SUSIE: Thanks for having us here. And speak to you soon.

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