



# In it to win it

**Feedback from insurers on the journey  
to IFRS 17 and IFRS 9 implementation  
one year in**

Helping make the best insurers better

[kpmg.com/insurancechange](https://kpmg.com/insurancechange)



# Foreword

It is a little over a year since the IFRS 17 standard on insurance contracts was published and the clock began ticking towards implementation, alongside IFRS 9 in many cases, in 2021. At the time of publication, that implementation date may have felt distant to many insurance companies — but now, as they begin to embark in earnest on the journey towards making the new standards operational, there is a growing realization that there is a huge amount of work to do and not actually very much time. A quarter of the period for preparation has already slipped away. The changes that need to be made are truly significant. Indeed, for most insurers adopting IFRS 17 for the first time will have a bigger impact and be a greater challenge than adopting IFRS accounting in the first place.

Implementing the two standards brings the need to make a myriad of technical and operational decisions along the way. Every insurance company will be in new territory. There is no previously written guide book to what to do. It is for that reason that we decided to track closely the industry's progress in working towards implementation, so that we can share insights and cast some light on common challenges and anticipated approaches.

The survey conducted in Q2 of this year was the second in the series. The first survey, carried out 6 months earlier in Q3 2017, was large enough: taking in 82 insurers from more than 20 countries. The second research exercise has been even more comprehensive: 160 insurers from over 30 countries — including a number of insurers from the Forbes Global 500 that report using IFRS.

This provides a powerful base from which to analyze the trends across the sector. Several key themes have become apparent:

- time pressure is already becoming acute — there is a vast amount to do
- the organizations that are furthest along with their projects (generally, larger insurers) are the ones feeling the time challenge the most — the more they do, the more they realize how hard the task is and how much work is involved
- while working on implementation, the leading insurers are seeking to optimize systems and processes at the same time in order to reap longer-term, enterprise-wide benefits too — though recognizing that this may take longer than 2021
- smaller insurers have done the least to date — many of them urgently need to engage and get started.

I hope that this report will help management teams in insurance companies across the world to benchmark their progress against their peers and crystallize their thinking on what the key challenges and priorities are for their individual organizations.



**Mary Trussell**  
Global Insurance Accounting  
Change Lead Partner  
KPMG International

# I Table of contents

<b>Key findings</b>	04
<b>Where are insurers on the journey to implement IFRS 17 and IFRS 9?</b>	06
<b>People, training and resources</b>	10
<b>Systems and data</b>	14
<b>Processes and business impacts</b>	18
<b>Conceptual challenges</b>	20
<b>In conclusion — You have to be in it to win it</b>	25
<b>How KPMG member firms can help you</b>	27

# Key findings

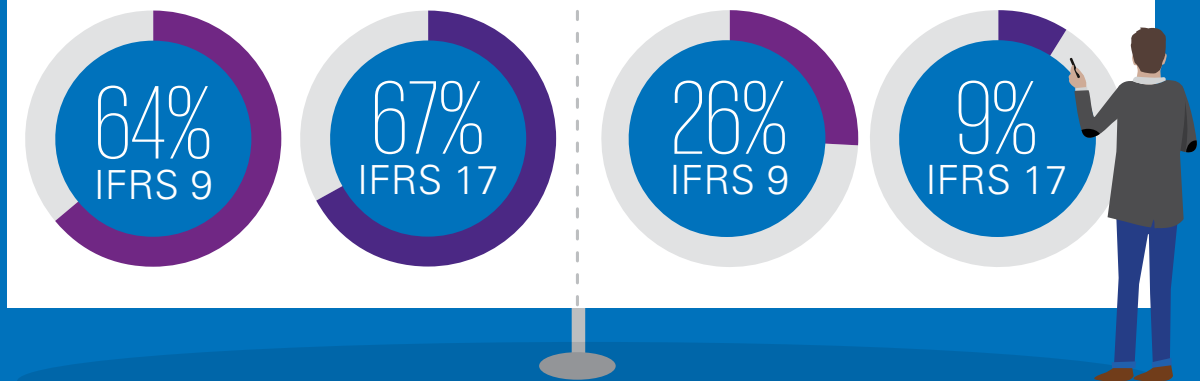
In it to win it — leading companies pull ahead in tackling IFRS 17 and 9 implementation



## Design and implementation

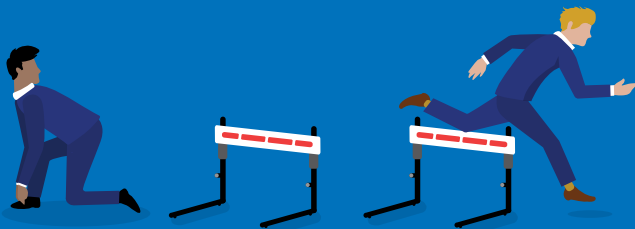
Large insurers\*

Smaller insurers\*\*



24% of respondents haven't started an IFRS 17 project yet or are still following developments.

Larger companies are significantly more likely to be further along on both IFRS 17 and IFRS 9.



The majority of respondents are targeting 1 year of parallel running to get ready for 'go live'.

160 respondents from over 30 countries.

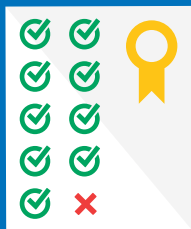


8% plan to implement after 2021, because of later local adoption, or because they are investigating the voluntary adoption of IFRS to increase comparability with global peers.

\* Large insurers — premiums > US\$10 billion per annum  
 \*\* Smaller insurers — premiums < US\$1 billion per annum

9/10

respondents foresee difficulties in securing sufficient skilled people to do the job.



VS



5/10

respondents are worried about securing the necessary budget.

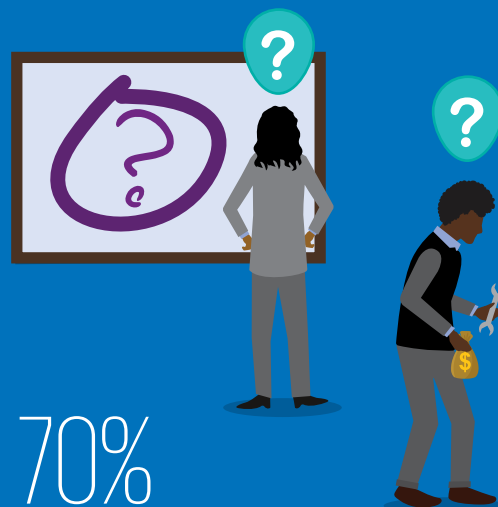
## The pressure is on



35%

report that it will be challenging or highly challenging to meet their planned implementation date. **Late starters face multiple jeopardies** — more ground to make up and a smaller talent pool on which to draw.

## CSM calculator



70%

of respondents who plan to buy a solution have not yet selected a vendor.

## Top opportunities — in it to win it

Despite the scale of the challenges,

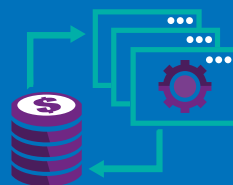
97% of the largest companies are keen to seize the opportunity to transform their business, identifying the following key opportunities:

77%



process optimization

65%



actuarial process

58%



system modernization

Source: All information contained in this document is based on the *In it to win it, Feedback from insurers on the journey to IFRS 17 and IFRS 9 implementation one year in survey* conducted by KPMG professionals during May 2018.

# Where are insurers on the journey to implement IFRS 17 and IFRS 9?

## The pressure is starting to build

- only just over a quarter have reached the design or implementation phase for IFRS 17
- nearly half of smaller insurers have not started at all or are only 'following developments'
- nine in 10 insurers say that meeting the implementation date will be challenging and for over a third of these respondents, it is a high or extremely high challenge; 8 percent expect to implement later than 2021
- insurers are further along with IFRS 9 — 39 percent are in the design or implementation phase and this rises to almost two-thirds of the largest insurers.

## The more you know, the more there is to know

Direct comparisons to our first wave of research 6 months ago should be treated with caution due to the different composition of respondents. However, as a general trend, the proportion of insurers that have begun work in earnest on the standards has increased and more of them have reached at least the design phase. However, it is concerning that typically only the largest insurers have reached this phase.



The scale of what needs to be done to comply with IFRS 17 is only now becoming apparent to the companies that have delved most deeply into the details of IFRS 17. So if you haven't started your transition project yet, you should do so now.



— **Briallen Cummings**

IFRS 17 Actuarial Lead Partner  
KPMG Australia

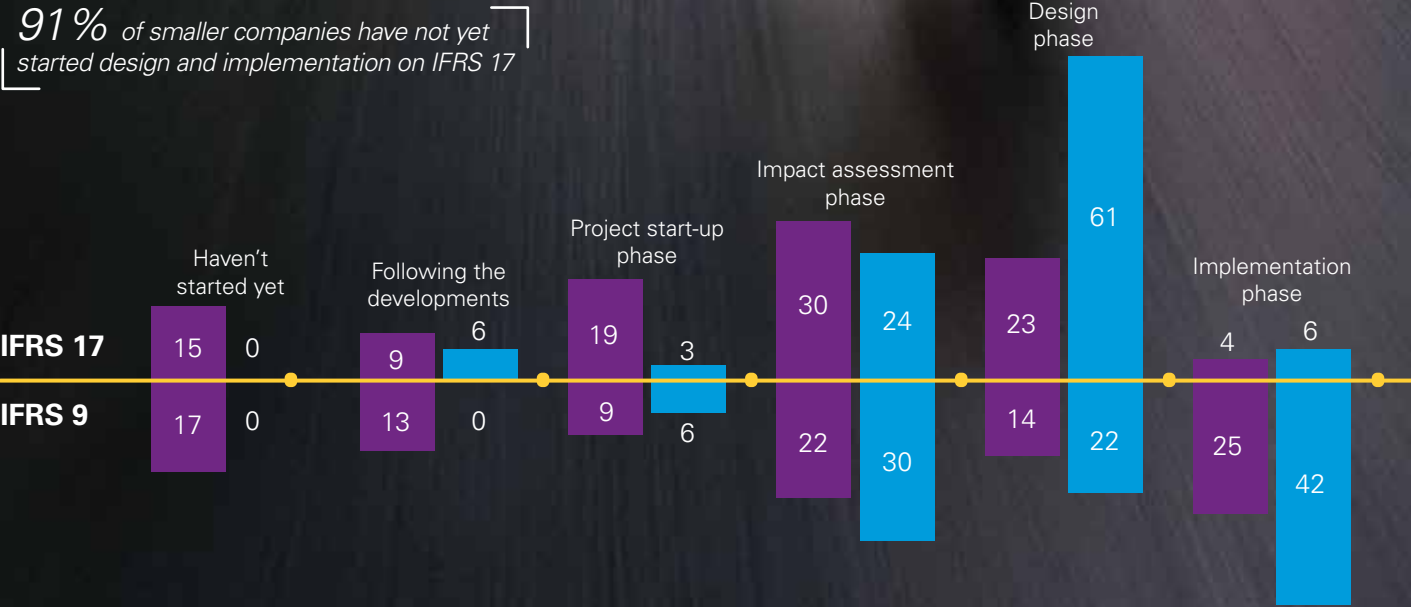


Readiness varies significantly by size — larger companies are much further advanced.

**Current project phase**

All respondents (n=160), large companies (n=34)

91% of smaller companies have not yet started design and implementation on IFRS 17



74% of smaller companies have not yet started design and implementation on IFRS 9

Legend: Total for all respondents (purple), Largest companies (blue)

Source: In it to win it, Feedback from insurers on the journey to IFRS 17 and IFRS 9 implementation one year in, KPMG International, September 2018.

It is also worrying that so many smaller insurers are yet to even reach the project start-up phase. They are likely to face very significant challenges indeed if they do not begin to come to grips with the task in the coming few months. For many, this should be their wake-up call.

The reality of this is laid bare when analyzing the outlook of those insurers who are most advanced — the largest insurers (premiums of over US\$10 billion). Of these, nearly half rate the challenge of meeting the 2021 implementation deadline as high or extremely high, where high is defined as ‘not sure if compliance by the deadline can be achieved’ and extremely high is ‘lobbying for an extension’. It is these insurers that are most ‘in the know’ — so other insurers that have not progressed as far should certainly sit up and take notice.

It seems that smaller insurers have lulled themselves into a false sense of security if they believe that they can make up lost ground from a standing start leaving the largest insurers to tackle and solve the conceptual and operational challenges that IFRS 17 poses.

The risk for insurers that leave their projects too late is that they are forced to rely on interim processes and manual controls when they go live, delaying the introduction of new systems or other automated processes until sometime after the effective date. As reliance on manual processes increases, these companies may be faced with heightened operational risks, increased costs and less efficient operations.

In summary, those companies that delay may have no choice but to reduce their implementation efforts to an accounting and actuarial ‘compliance’ exercise, foregoing the opportunity to be strategic in how they operationalize the new standards, and missing the chance to achieve greater efficiency and become fluent in the new reporting language. KPMG professionals have advised insurers around the world and found that there are no magic bullets and no ‘one size fits all’ solutions.

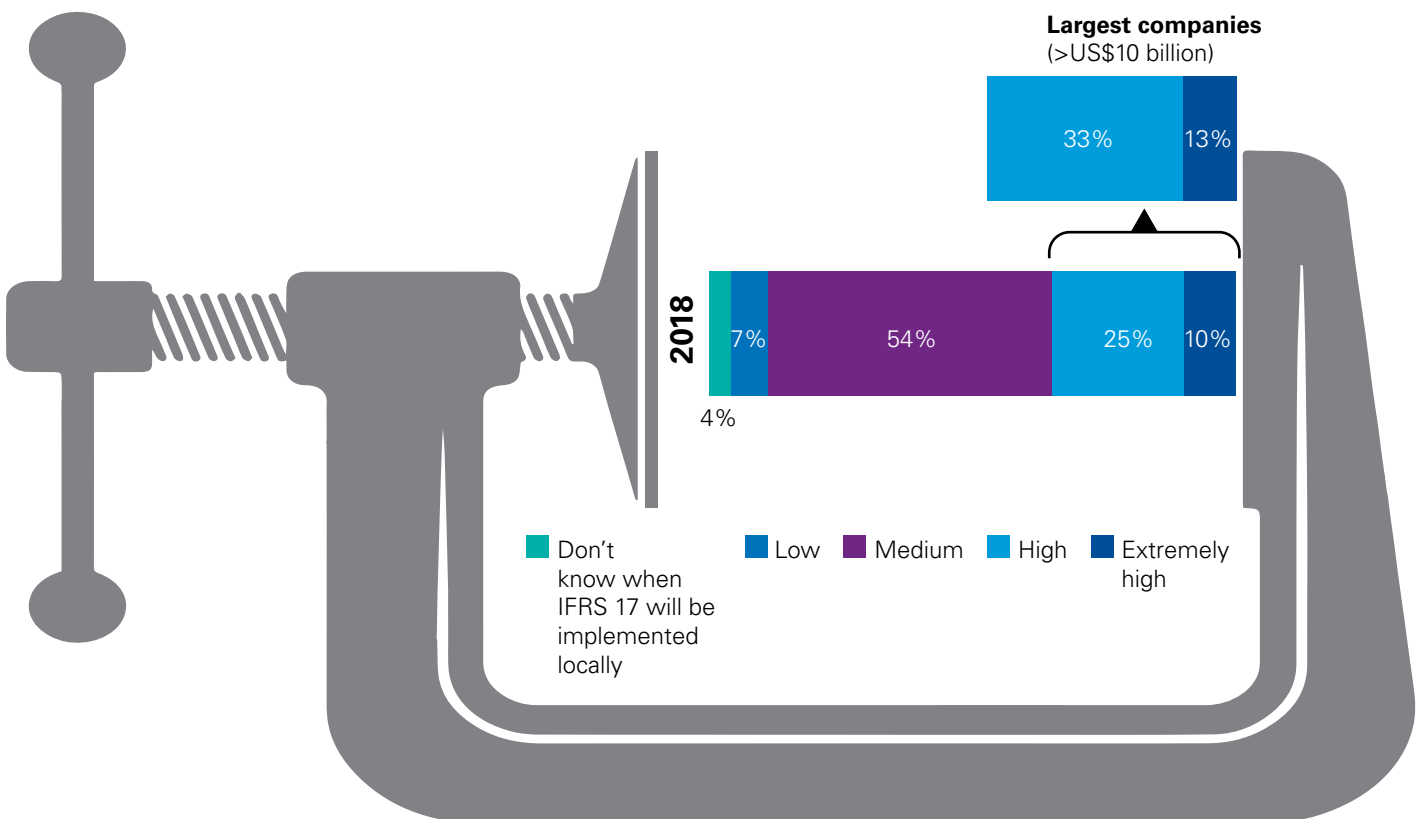


There are still interpretations and clarifications to come, and even the application date of 2021 may be at risk, but there are no excuses for not starting transition projects ASAP for those that haven’t done so yet.

— **Joachim Kölschbach**  
Global IFRS Insurance Lead Partner  
KPMG in Germany

### Challenge of meeting planned implementation date

(% of all respondents)



Source: In it to win it, Feedback from insurers on the journey to IFRS 17 and IFRS 9 implementation one year in, KPMG International, September 2018.



## Test runs ahead of time

As the full scale of the operational challenge becomes more apparent, many insurers are focusing on parallel running before IFRS 17 and IFRS 9 go live. Only 7 percent expect to be ready in time for 2 years of parallel running, with 56 percent envisioning 1 year of parallel running before going live.

Even 1 year will be a challenge, given that this leaves less than 2 years in which to assess the impacts of the standards, and to design, build and test new systems or amendments to existing systems, as well as build new processes and controls for those who have not yet started.

Many insurers are between a rock and a hard place — they want to maximize the opportunities to dry run the new bases of reporting, but are finding it challenging to have designed, configured and tested the systems that they need in order to achieve this.

## Expected years of parallel running prior to going live with IFRS 17 and IFRS 9

The journey to IFRS 17 will require a dialog with investors — and before that can take place a dialog with management on what results will look like on the new basis and how they will respond as business drivers change. Preparing for this will require multiple iterations, using simulations and models to take both internal and external users on the journey.

As we have seen, insurers are generally further along with their IFRS 9 implementation plans. Roughly three-quarters are planning to defer IFRS 9 implementation so that it matches IFRS 17. However, only half of the largest insurers are managing their IFRS 9 and 17 projects as part of a single program, and only around a quarter of smaller insurers are. If running the projects separately, it will be crucial to ensure that the outputs of both are connected so that the impacts on the financial statements can be understood and explained to users.



# People, training and resources

## The people challenges are becoming acute

- securing sufficient skilled people is seen as a challenge for nearly nine in 10 insurers
- this is nearly double the proportion that say securing budget is a significant issue
- a growing number of insurance companies are expecting to make significant use of external resources, in particular to steer their program as its complexity becomes apparent or to try and make up lost time.

Organizations across sectors often say that people are their greatest asset. This sentiment seems especially true for insurers and their implementation of the new standards, where securing sufficient skilled people has become an urgent and pressing need.

We are likely to see a full-blown war for talent as insurers grapple with the demands of the technical and systems requirements. Appreciation of the extent of the people requirement appears to grow the further into their projects insurers get, while earlier on the focus is more on budget.

An illustration of this is that securing adequate budget is expected to be a greater resource challenge for insurers in the early phases of IFRS 17 implementation compared to those in the impact assessment, design and implementation phases. The emphasis switches to resourcing for insurers at the design and implementation phases, reflecting the complexity of the tasks being encountered as well as their scale. The challenge is finding the *right* people with the right skills, including detailed knowledge of current systems and processes, not simply finding *enough* people.

As highlighted in *Navigating Change*, this creates a double jeopardy for late starters who both have more ground to make up and run the risk that the leading players will have scooped the talent pool before them.

Significant numbers of full-time equivalents (FTEs) are being allocated to the projects. Nearly half (45 percent) of the largest insurers have teams of 50 or more. Half of mid-size companies have up to 25 people assigned. But the size of the project team doesn't solely correlate with the size of the insurer — outliers among the smaller respondents also report teams greater than 26, where the resource stretch must be significant.

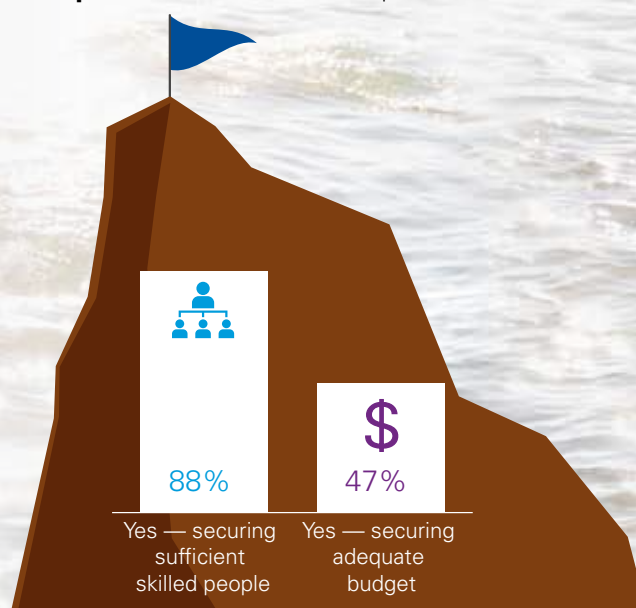


Concerns about securing enough skilled people are becoming more acute. In contrast, concerns about the absolute cost are abating, as the companies that have progressed further towards implementation have seen that they can optimize finance and actuarial processes as they transition to IFRS 17.

— **Briallen Cummings**

IFRS 17 Actuarial Lead Partner  
KPMG Australia

## Expectations of significant resource challenges in implementation (% of all respondents, select all that apply)

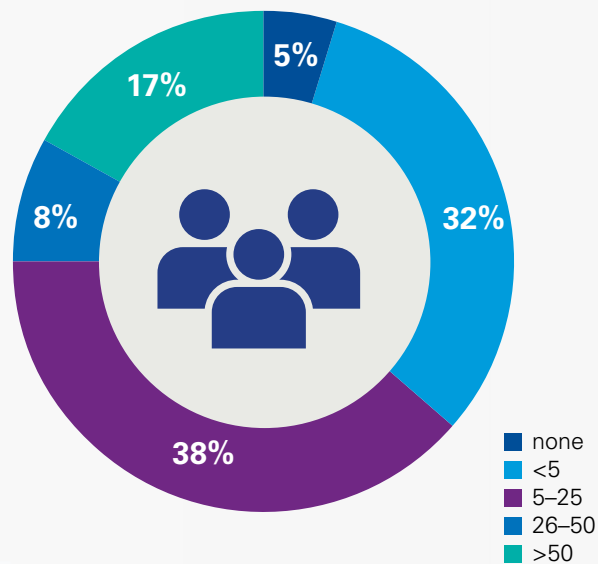


Source: In it to win it, Feedback from insurers on the journey to IFRS 17 and IFRS 9 implementation one year in, KPMG International, September 2018.

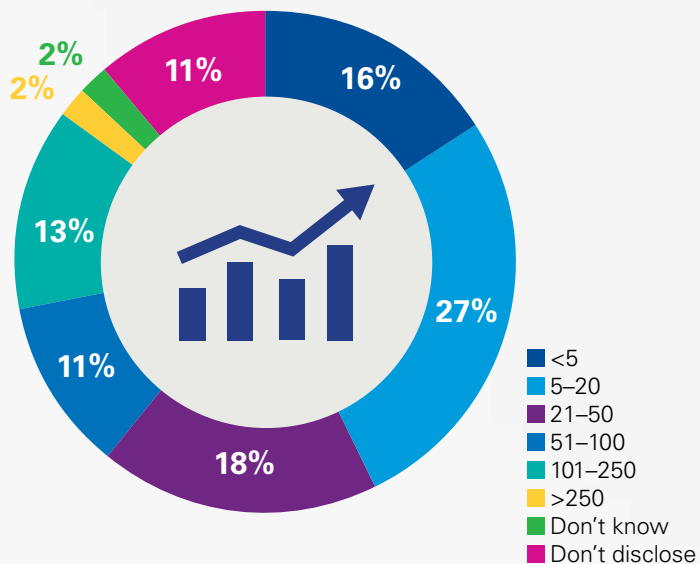
## A significant undertaking

(% of all respondents)

### Project team size in FTEs



### Project size in US\$(millions)



Source: In it to win it, Feedback from insurers on the journey to IFRS 17 and IFRS 9 implementation one year in, KPMG International, September 2018.



## Resourcing models

In recognition of the resourcing challenges, the anticipated use of external assistance appears to be increasing. Almost every respondent expects to use outside support to some extent. Nearly one in five insurers (18 percent) expects to make ‘extensive’ use of external support. The most widely anticipated need is for content subject matter experts — although the fastest growth is in those expecting to look for external guidance on steering the project.

However, nearly four in 10 insurers also say that they plan to use external support to backfill existing roles, i.e. they are freeing up people internally to work on the project and using external resources to cover their old roles.

Whatever approach insurers take, it will clearly be important that they maximize the use of their existing resources in order to leverage knowledge of their business and its current systems and processes so as to contain costs and drive efficiency.

## Training is on the increase — but will need to spread further

Leading organizations address training in multiple dimensions — not only providing training for those charged with implementing the project itself but, equally importantly, raising awareness in other key individuals throughout the business of the impact of the new standards on reported results and metrics.

Unsurprisingly, more individuals appear to have had some training on the new standards now than in the first wave of research 6 months ago. Only 3 percent of organizations are yet to start any training on both IFRS 17 and IFRS 9. However, the majority of insurers have so far delivered training only for members of the actual implementation teams, and only 39 percent have initiated training for the board. It is important that they don’t underestimate the need to deliver training much more widely.

## Planned use of external resources

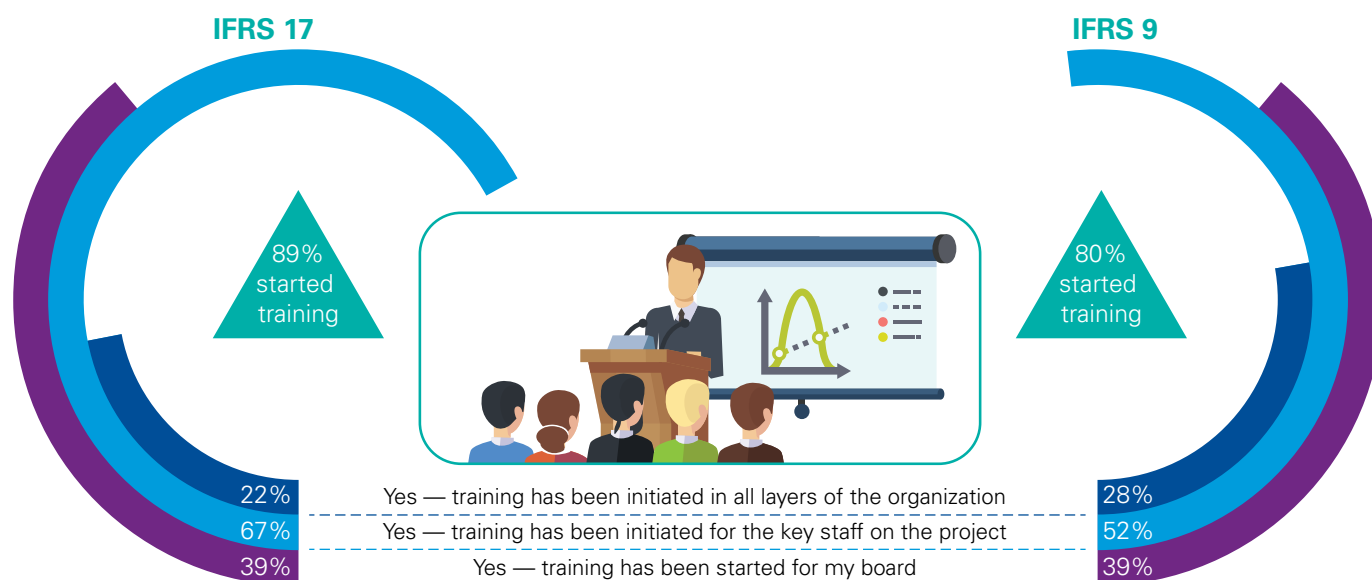
(% of all respondents, select all that apply)



Source: In it to win it, Feedback from insurers on the journey to IFRS 17 and IFRS 9 implementation one year in, KPMG International, September 2018.

## Initiation of IFRS 17 and 9 among staff and board

(% of all respondents)



Source: In it to win it, Feedback from insurers on the journey to IFRS 17 and IFRS 9 implementation one year in, KPMG International, September 2018.

Training for senior management, board members and lines of business will need to be progressively rolled out as impacts become clearer and metrics and KPIs are re-designed. It will be important to raise awareness and understanding of the fact that, for many organizations, both sides of the balance sheet will be changing. Organizations will also need to ensure that the interaction of IFRS 17 and IFRS 9 is widely understood.



Use IFRS 17 as an opportunity to grow your leaders of the future.

—Erik Bleekrode  
Asia Pacific Insurance  
Accounting Change  
Lead Partner  
KPMG China

### Expected costs are rising though many have not yet secured their full budget

The costs of implementing IFRS 17 and 9 are very significant. Unsurprisingly, as with many other major projects, the size of the planned budget broadly correlates with the size of the organization. Cost management is key and insurers are striving to deliver this in different ways. A significant proportion of insurers across each different size band has not secured a budget for the entire project but rather is securing budget in blocks as it progresses. This is less marked among larger insurers, although nevertheless over a third are securing their budget in blocks. This approach can allow a rapid start and avoid lengthy debates around what is an inherently uncertain range at the outset, allowing cost estimates to be refined as key decisions are made and uncertainties reduced. Others favor a more traditional approach of budgeting to completion.

# Systems and data

## Big decisions looming over CSM engines

- systems change is most focused on finance systems and, within that, actuarial systems
- progress towards where to position the contractual service margin (CSM) engines is slow
- ‘buy or build’ decisions need to be taken soon to get ready for dry runs.

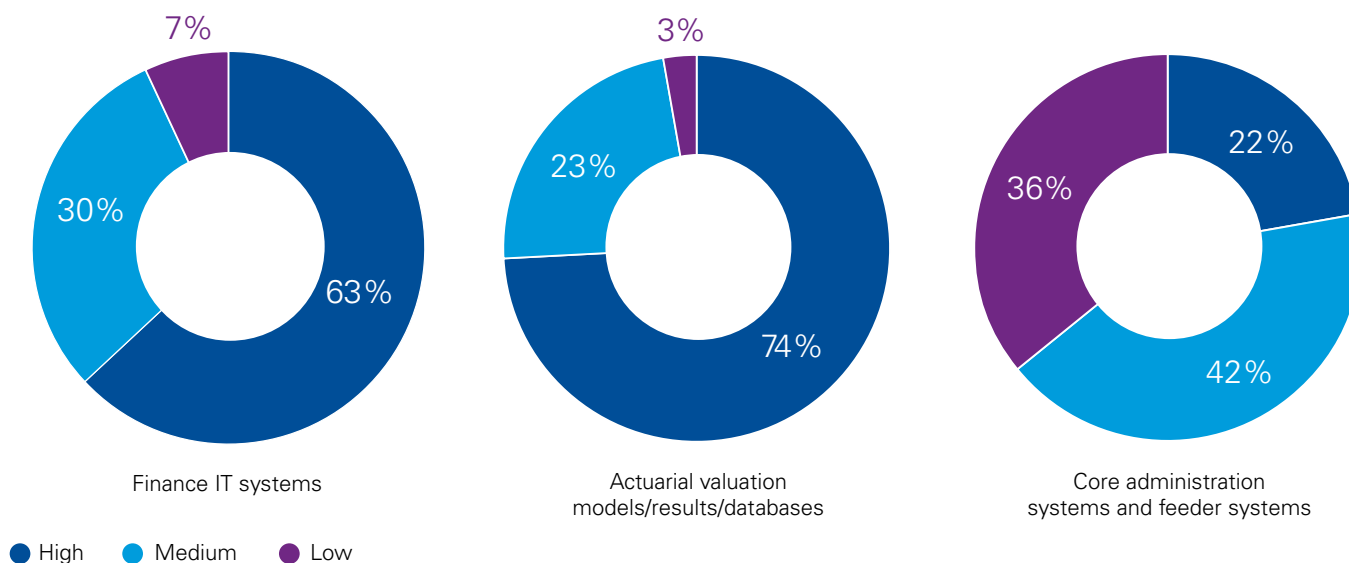
Implementing the new standards will require targeted changes to systems. Finance IT systems will need to be upgraded and nearly two-thirds of insurers are expecting the degree of change to be ‘high’. In particular, it is actuarial

systems that are now beginning to receive the most significant attention, with nearly three-quarters of insurers expecting a high degree of impact from the new standards.

Just over a third of respondents have identified the disclosure gaps created by the new standards, and the majority of these judge the effort required to address the gaps to be significant. This is an important step in evaluating the extent of the impact on systems and data sources and hence on planning and systems design. For those that are further advanced through, the anticipated degree of change to core administration and feeder systems has moderated since the first survey, with more insurers now rating the impact as low or moderate. So the extent of change is slowly becoming clearer.

## Level of change expected

(% of all respondents)



Source: In it to win it, Feedback from insurers on the journey to IFRS 17 and IFRS 9 implementation one year in, KPMG International, September 2018.

## Identified gaps created by the new disclosure requirement

(% of all respondents)



Source: In it to win it, Feedback from insurers on the journey to IFRS 17 and IFRS 9 implementation one year in, KPMG International, September 2018.

## Operationalizing the CSM calculation

One of the biggest systems changes brought about by IFRS 17 is the need for a CSM engine or generator. This is an important component of target systems architecture since the need to calculate the CSM is entirely new. Even though many property casualty insurers expect to be able to demonstrate that their business qualifies for the premium allocation approach, many will want to make sure they have the capability to generate a CSM calculation in case their products increase in complexity and they can no longer be demonstrated.

As the release of the CSM will be a key source of earnings in the future and the CSM itself an important measure of value creation, it raises interesting questions about the ownership within an insurance organization of those numbers. However, progress in deciding where to position the CSM generator appears slow. Nearly four in 10 insurers are undecided whether to position it within their actuarial systems or within their finance sub-ledger systems. Of those that have decided, the most favored option (49 percent) is to place it within actuarial systems — almost twice as many as will position it within their accounting systems. Wherever it is positioned, maintaining appropriate internal control over the calculation will be key.



As companies progress further in solidifying their plans for IFRS 17 implementation, the opportunities to enhance efficiency become more apparent. But many recognize that optimization will take several more years beyond 2021 to realize.

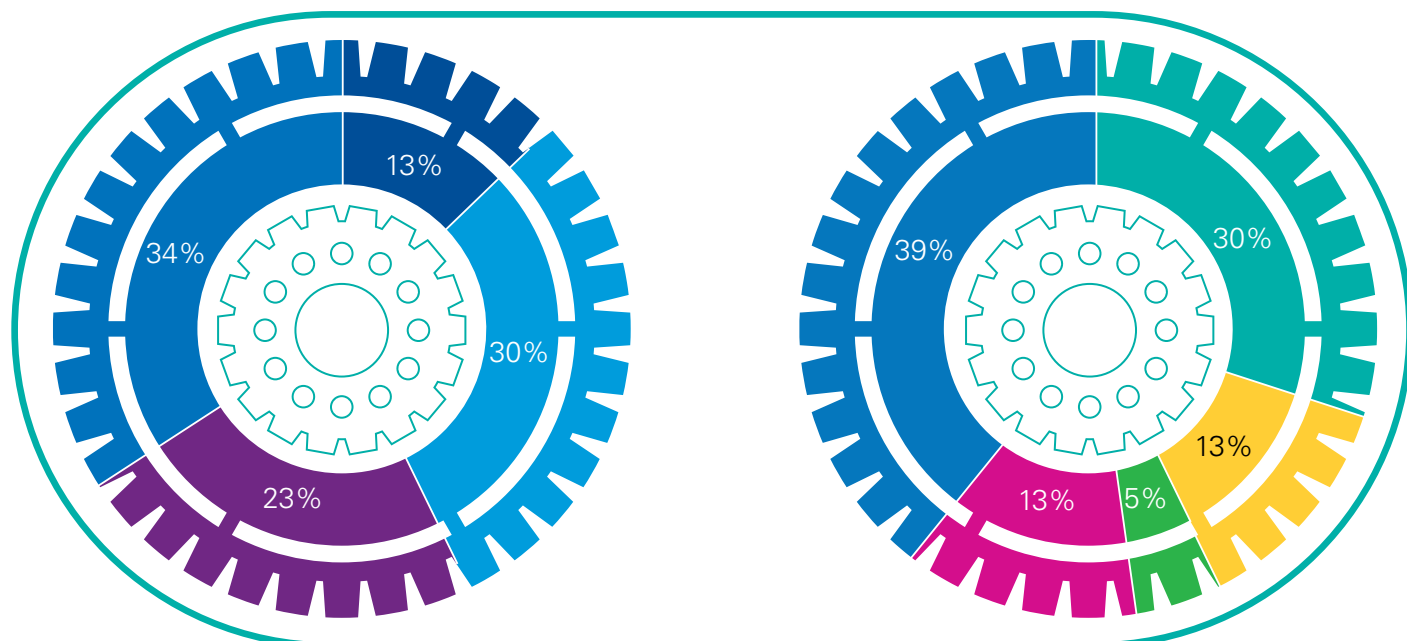


—**Erik Bleekrode**  
Asia Pacific Insurance Accounting  
Change Lead Partner  
KPMG China

## Plans for the CSM engine

Current plan to source CSM calculation module (% of all respondents)

Current plan for location of the CSM calculation module (% of all respondents)



- Buy a CSM calculator (and have chosen supplier)
- Build a CSM calculator
- Actuarial systems only
- Independent of both
- Buy a CSM calculator (and have NOT yet chosen supplier)
- Don't know yet
- Accounting systems only
- Don't know yet
- Both actuarial and accounting systems

Source: In it to win it, Feedback from insurers on the journey to IFRS 17 and IFRS 9 implementation one year in, KPMG International, September 2018.

Wherever the calculator is positioned, it will be important to bring actuarial and accounting teams closer together to combine their perspectives and expertise — and exercise appropriate governance and control.

There is also the critical decision to be taken over whether to buy or build the calculator. Over a third of insurers still don't know which they will do — and among smaller insurers it is even higher at 61 percent. Among those who have decided, the most popular approach is to buy a calculator (43 percent). But only 13 percent of insurers have actually chosen a supplier. Clearly, time is ticking down if they are to get the calculator built and working in time for dry runs.


About a quarter of insurers are planning to build the calculator themselves. This is surprisingly high, given the complexity of the task, the need for extensive testing and ongoing controls

and oversight — and as more external solutions have become available on the market. The respondents in this category tend to be those that have started earlier when fewer proprietary solutions were available: over three-quarters of them plan to have their CSM engine built and tested before 31 December 2019. This cohort also includes a number of Australian insurers where their existing Margin on Services methodology gives them a conceptual head start.

Whatever decisions are taken, they need to be taken soon. As one of the centerpieces of the new systems configuration, getting a CSM engine in place and then configured and tested in good time for dry runs is a priority — but the signs are that many insurers are yet to seriously come to grips with the question.





IFRS 17 shines a new light on the business decisions and strategies of the insurers that it relates to as well as into their finance and actuarial processes — use the transition as a catalyst for innovation and to develop your emerging leaders. 

— **Laura Hay**  
Global Head of Insurance  
KPMG International



# Processes and business impacts

## Insurers looking to reap wider business benefits

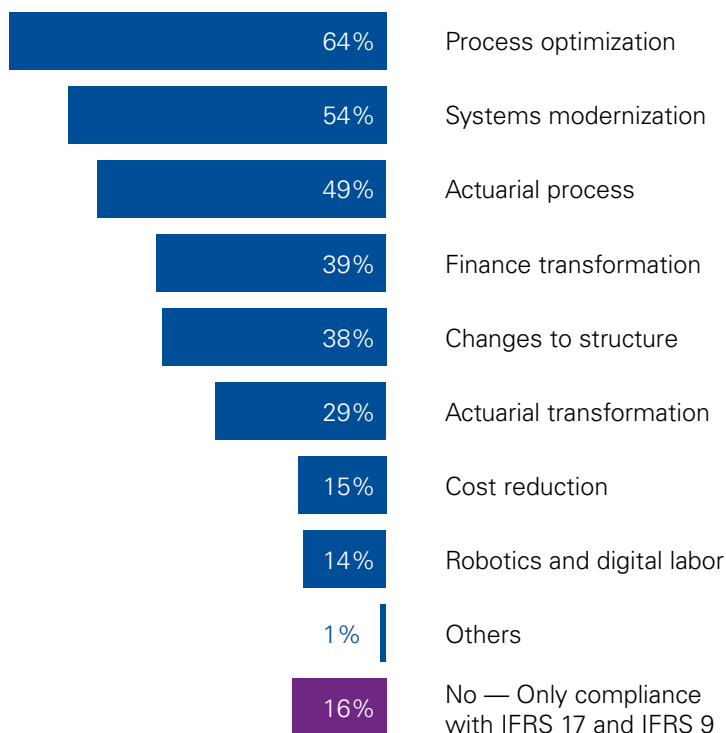
- many insurers have identified the opportunity to optimize processes and modernize systems through their implementation projects — particularly the largest and potentially most complex insurers
- there are significant regional variations in expectations
- but the reality is that these improvements will not happen in one go — it is a longer-term game than the 2021 deadline.

Encouragingly, and perhaps surprisingly, the proportion of companies looking to take the opportunity to transform their businesses through their IFRS 17 and 9 implementation projects is growing. Compared to 6 months ago, noticeably more insurers are now planning to optimize processes (64 percent) and modernize systems (54 percent).

This propensity is strongest among the largest insurers who are both further progressed and can see how deep-seated change will be — and who arguably have the most complex legacy systems. Of these largest companies, fully 97 percent are keen to seize this opportunity to modernize their businesses. Top opportunities for these largest companies

## Related opportunities explored while implementing the new standard

(% of all respondents, select all that apply)



Source: In it to win it, Feedback from insurers on the journey to IFRS 17 and IFRS 9 implementation one year in, KPMG International, September 2018.

include: process optimization (77 percent), actuarial process enhancement (65 percent) and systems modernization (58 percent). These respondents are, of course, likely to have the largest budgets that they will need to justify. In contrast, only 21 percent of other companies<sup>1</sup> are seeking transformation opportunities.

However, there are some interesting regional variations. While approximately seven in 10 insurers in Europe, Middle East and Africa (EMA) and Asia Pacific are expecting to optimize systems and processes, this is true of only 40 percent of respondents in the Americas (comprising Bermuda, Canada, US and Latin American respondents among others). Over 40 percent of insurers in EMA and Asia are planning to make changes to structures within their organization — but only 15 percent in the Americas.

Indeed, over a third of insurers in the Americas seem to be taking a narrower approach — saying that they are focusing only on compliance with the new standards rather than achieving wider business improvements. This is not primarily attributable to subsidiaries of US groups where US generally accepted accounting principles (GAAP) will remain their home GAAP, but rather seems to reflect a large number of subsidiaries of IFRS reporting groups among respondents in these territories. This suggests that size is a factor in the appetite for change — and reinforces the sense that smaller insurers risk overlooking opportunities for strategic improvements.

Nevertheless, even among those expecting to make wider transformational improvements, there is a widespread realization that this will take time: 69 percent of respondents

are expecting to optimize systems and processes later than the planned implementation date. Change is a long-term game — and improvement takes still longer.

## Expectations of business impacts are deep-seated

Three-quarters of insurers believe that the new standards will have a business impact as well as a financial one. It is much more than ‘just an accounting or actuarial change’.

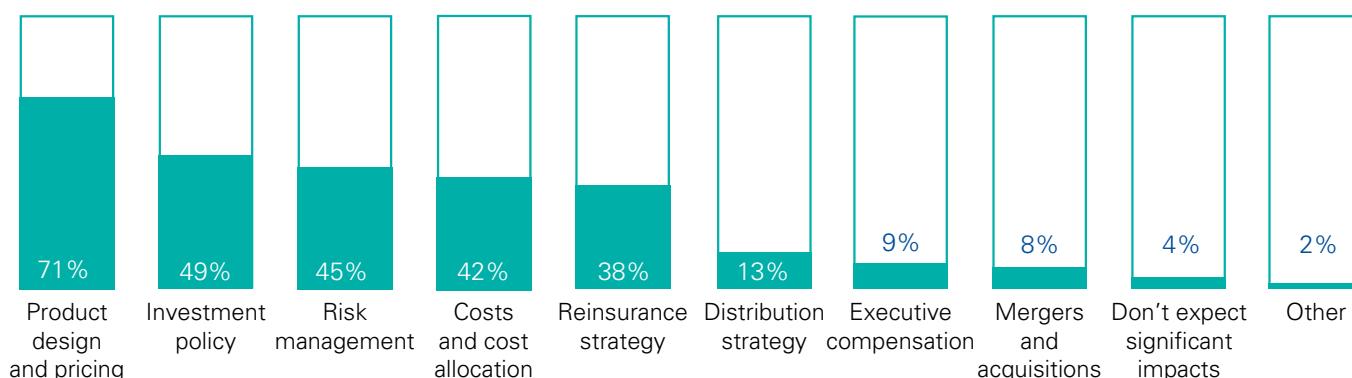
The impacts are deep-seated — by far the leading area is product design and pricing (71 percent), while investment policy (49 percent) and risk management (45 percent) are also widely expected to be significantly impacted by respondents. The impact on investment policy is less than surprising considering that almost three-quarters of respondents are planning to defer IFRS 9 implementation to align with IFRS 17 implementation. In addition, over three-quarters of respondents expecting risk management to be impacted are outside the European Union, where Solvency II will continue to be front of mind.

Given the fundamental changes being made to reinsurance accounting by IFRS 17, it is surprising that more respondents do not identify this within their top four issues — perhaps reflecting that many are still bottoming out the impact of IFRS 17 on their gross business before tackling the impacts on reinsurance held.

These deep-seated business impacts are an important reason why the board and the business need to be included in IFRS 17 and 9 training and education initiatives.

## Business areas expected to be most impacted

Among respondents that expect more than a financial impact, (% of all respondents, based on top four selected)



Source: In it to win it, Feedback from insurers on the journey to IFRS 17 and IFRS 9 implementation one year in, KPMG International, September 2018.

<sup>1</sup> All companies with annual premiums less than US\$10 billion aggregated.

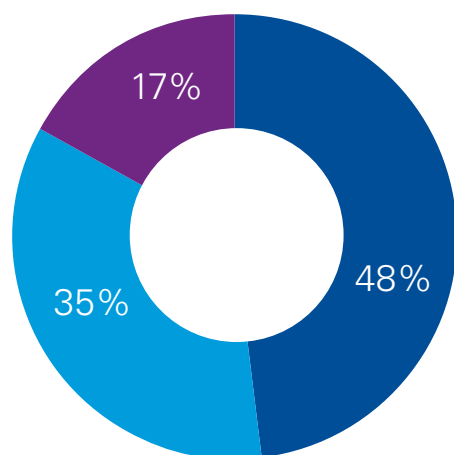
# Conceptual challenges

## Insurers beginning to make working assumptions

For each insurer there are a myriad of technical decisions and judgments that need to be made to operationalize the standard, based on their analysis of their insurance portfolios in the light of IFRS 17.

In the first survey 6 months ago, the proportion of insurers answering 'don't know' to many of the conceptual questions raised by the standard was strikingly high. Since then, the IASB's IFRS 17 Transition Resource Group (TRG) has been active in its discussions (for a compendium of key discussions see <https://home.kpmg.com/xx/en/home/insights/2018/01/ifrs17-transition-trg-newsletter.html>) and the IASB has produced a wealth of educational material covering reinsurance, the operation of the premium allocation approach (PAA), the application of the standard to mutual entities and much more.

## Current approach to identifying portfolios (% of all respondents)



- Yes — based on existing lines of business
- No — expected to be more detailed than under current reporting
- No — expected to be less detailed than under current reporting

Source: In it to win it, Feedback from insurers on the journey to IFRS 17 and IFRS 9 implementation one year in, KPMG International, September 2018.

The good news is that with 6 months further analysis, overall, the proportion of insurers answering 'don't know' has fallen. This is a sign that insurers are starting to make working assumptions on key technical judgments that they can test and refine as the project progresses — which is surely the right approach.

## Getting started

One of the key features of IFRS 17, in common with all IFRS standards, is the concept of unit of account. And to identify this, insurers first need to identify their portfolios of contracts that contain contracts subject to similar risks and managed together.

Here, many insurers are seeking to identify portfolios based on their existing lines of business. But over a third of respondents are expecting that the analysis will need to be more granular than is used for current reporting. However, a

## Current progress in identifying groups of onerous contracts (% of all respondents)

Understand the issue but need to do further investigation

75%

Know the outcome

7%

Don't expect to identify any onerous contracts

5%

Don't know

13%

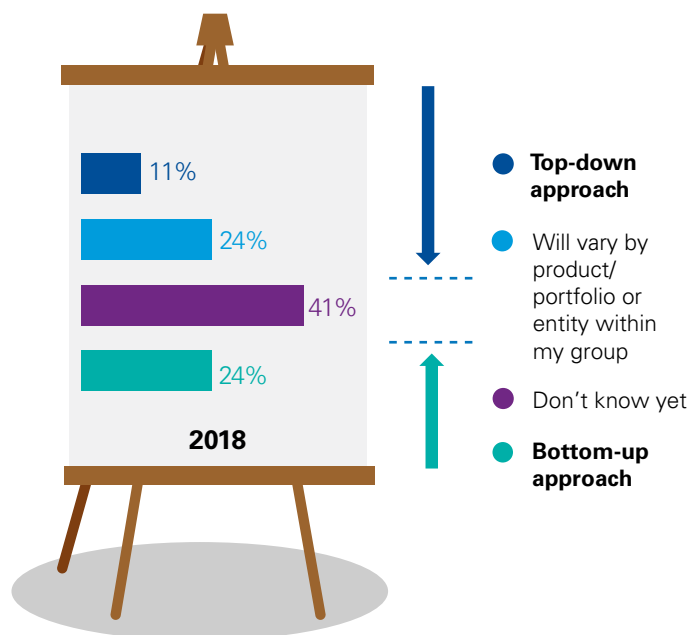
minority are taking a clean start and coming at this top down with a view to achieving an outcome that is less detailed than under their current reporting.

In terms of identifying groups of onerous contracts, there is still significantly more work to do — 75 percent of respondents admit that they need to undertake more analysis to identify which groups of contracts will be onerous, leaving only 7 percent of respondents who can state with confidence that they know which groups of contracts, if any, will be onerous, 5 percent who do not expect to identify any onerous contracts and 13 percent who admit that they do not yet know. Under the premium allocation approach, one of the permitted simplifications is to be able to assume that no contracts in a portfolio are onerous in initial recognition unless facts and circumstances indicate otherwise. However, that is not the same as saying no determination is needed, and work is needed even for property casualty insurance that qualifies for the PAA.

### Fundamental judgments

Determining the discount rates applicable to their portfolio is a key judgment for all except insurers writing the very shortest tail business. All of the respondents planning to determine discount rates on a bottom-up basis expect to allow for an illiquidity premium.

### Approach for determining the discount rate (% of all respondents)



Source: In it to win it, Feedback from insurers on the journey to IFRS 17 and IFRS 9 implementation one year in, KPMG International, September 2018.



Implementing IFRS 17 is not only about compliance, data, systems and processes, and project management: Those charged with governance need to be aware of business impacts, accounting policies and positions.



— **Joachim Kölschbach**  
Global IFRS Insurance Lead Partner  
KPMG in Germany

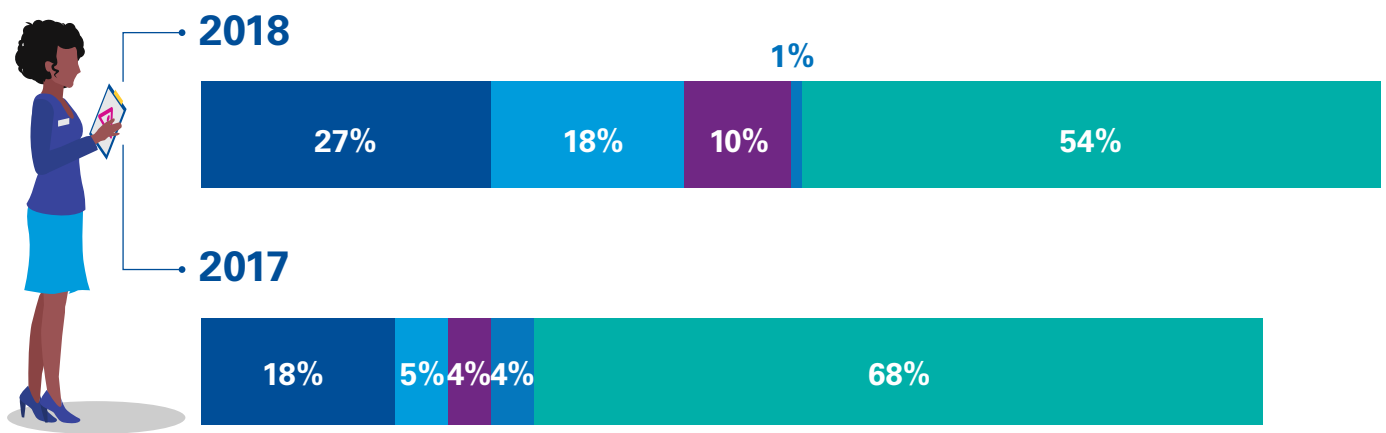


In 2017, nearly seven out of 10 insurers did not have an initial view of the approach to be adopted for the determination of the risk adjustment. This has now fallen to a little over a half (54 percent). This is still a large proportion, however, and following the TRG discussions in May, insurers have little reason to delay their analysis of this area. Among those who have decided, confidence-level-based approaches

are growing in favor — perhaps as insurers consider how in fact they manage risk, and perhaps also considering that confidence level disclosures are required no matter what approach is adopted. It is arguably surprising to see so many choosing the cost of capital approach (27 percent). Their motivation for this is most likely to be because they can reuse information they have already compiled for Solvency II.

### Expected method to determine the risk adjustment calculation

(% of of all respondents, select all that apply)

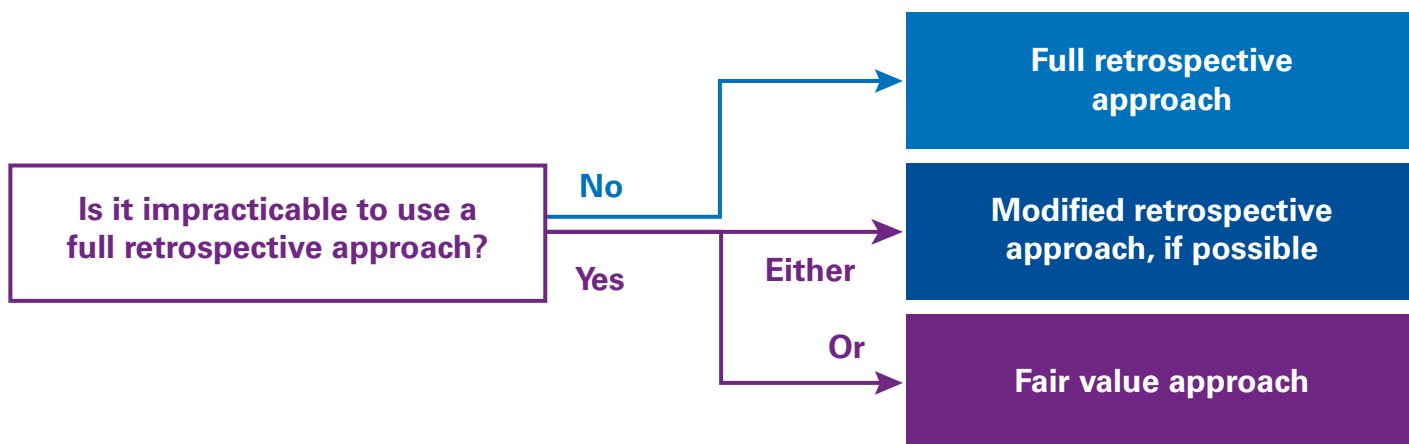


- Cost of capital approach
- Confidence level approach — over entire runoff of portfolio
- Confidence level approach — over one year
- Other
- Don't know

Source: In it to win it, Feedback from insurers on the journey to IFRS 17 and IFRS 9 implementation one year in, KPMG International, September 2018.

### Retrospective application

IFRS 17 is applied retrospectively unless this is impracticable.



Source: Insurance Contracts: First Impressions, IFRS 17, KPMG International, July 2017.

There are many important decisions to be taken — and one of the key strategic things that needs to be determined is the approach to be taken to transition to IFRS 17.

Nearly a third (31 percent) of insurers have still not decided which approach they will adopt. Over a quarter (27 percent) say their approach will vary by portfolio or group entity (which could significantly complicate both transition and ongoing reporting), while a modified retrospective approach is beginning to be somewhat more popular than a fair value approach. Property and casualty insurers are more likely than others to opt for a full retrospective approach. Since the transition adjustment will be a significant undertaking that has the potential to influence earnings for many years for insurers other than those whose business qualifies for the premium allocation approach, this is an important area that deserves further analysis.



If you know that IFRS 17 will apply to your business and you haven't built your transition plans yet, you need to run like your shoes are on fire. And if you have started, keep checking your plans from right to left to adapt to changing circumstances.

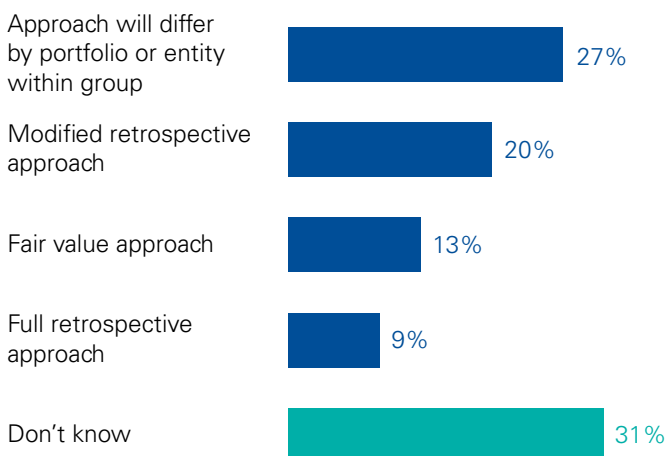


—Mary Trussell

Global Insurance Accounting  
Change Lead Partner  
KPMG International

### Expected approach to transition to IFRS 17

(% of all respondents)



Source: In it to win it, Feedback from insurers on the journey to IFRS 17 and IFRS 9 implementation one year in, KPMG International, September 2018.

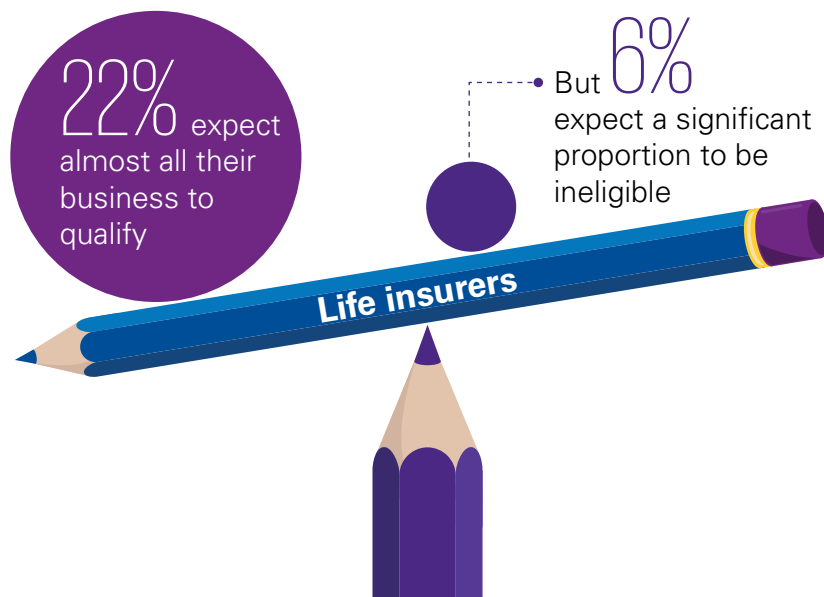
### A call to action

What is the biggest call to action that KPMG professionals see following their discussions with insurers? Sixty percent of insurers have not yet addressed the disclosure gaps associated with introducing the new standard. But this needs to happen early on and before the specifications for new systems are finalized, and feeds from existing systems are defined, in order to ensure that the more granular information needed will be gathered.

Nevertheless, while much uncertainty remains, it is at a lower degree than 6 months previously and many insurers are at least beginning to form a clearer view of their approaches to some of the granular technical issues that they need to deal with.

### Qualifying for the variable fee approach

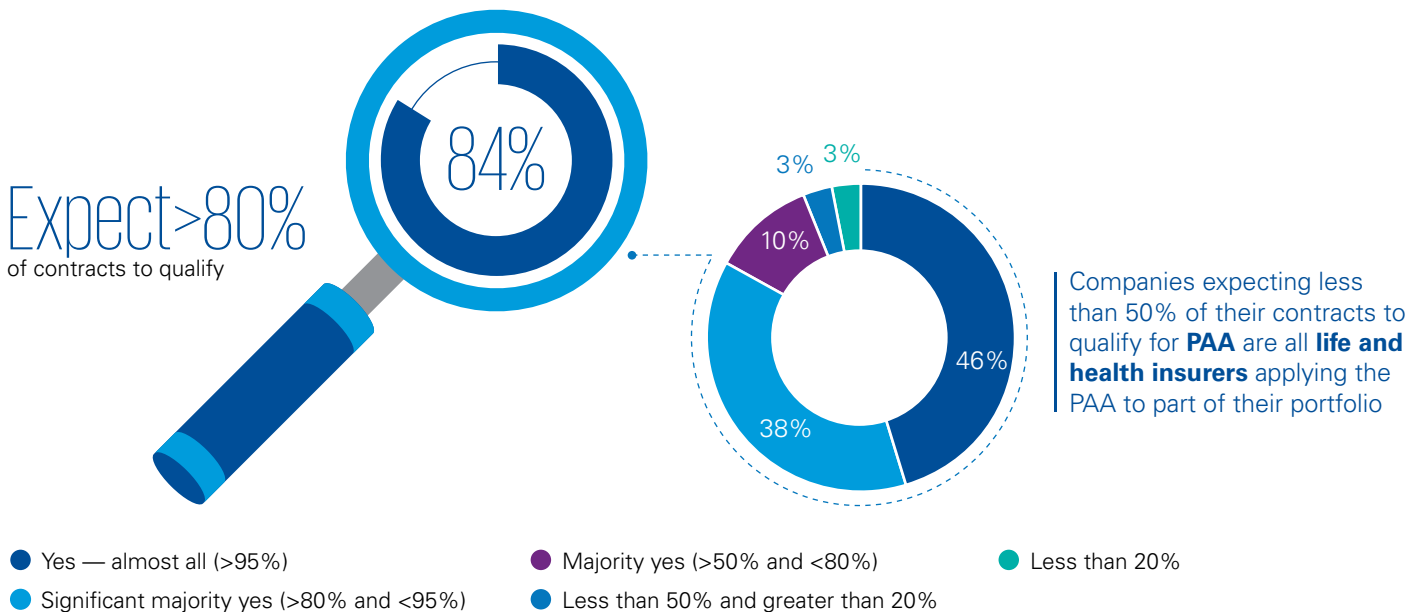
(% of all respondents)



Source: In it to win it, Feedback from insurers on the journey to IFRS 17 and IFRS 9 implementation one year in, KPMG International, September 2018.

### Extent to which groups of P&C insurance are expected to qualify for the premium allocation approach

(% of all respondents)



Source: In it to win it, Feedback from insurers on the journey to IFRS 17 and IFRS 9 implementation one year in, KPMG International, September 2018.



# In conclusion — You have to be in it to win it

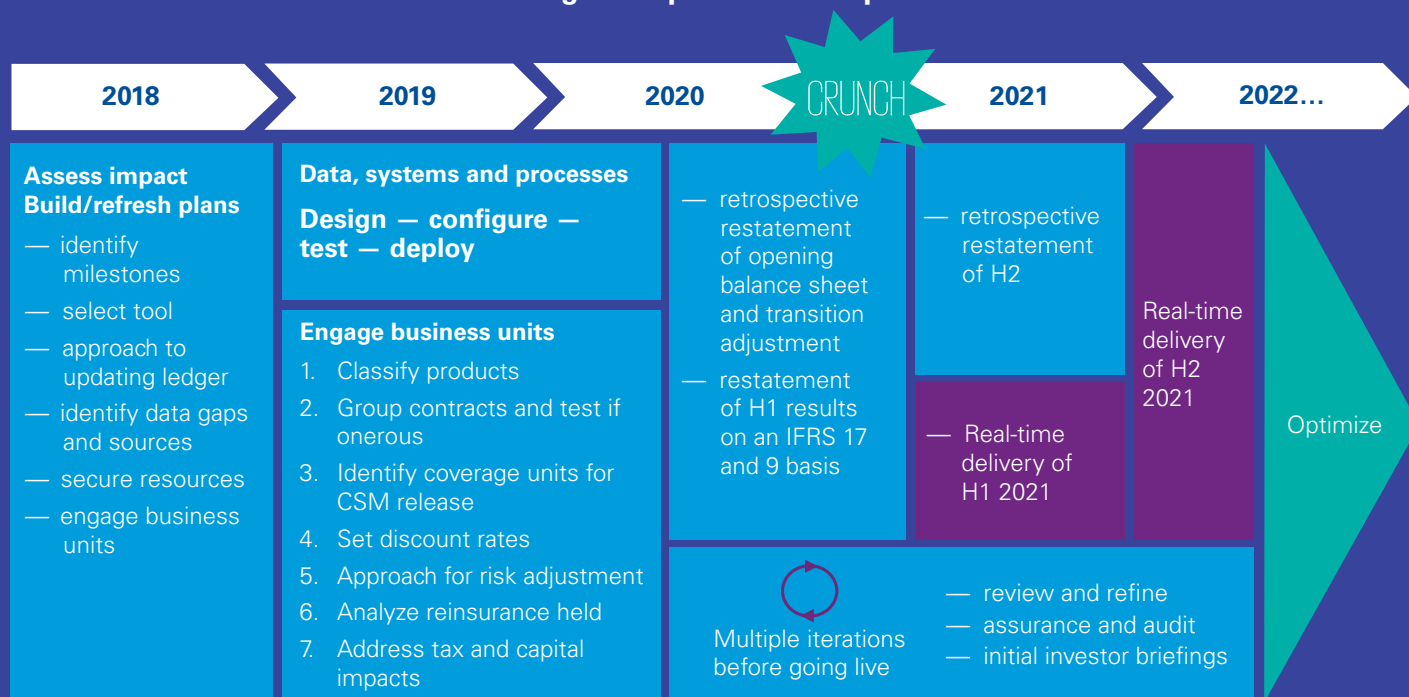
The time for action has come.

The early stages of thinking about and sizing up the scale of the project are over. Now, insurance organizations large and small have to start making real progress towards implementation. The only way to implement is to start doing it: which is why we say you have to be in it to win it.

The lack of progress among smaller insurers is an area for concern. If they do not kick-start their projects very soon,

there must be real concerns — at a minimum they are condemning themselves to a future of manual work-arounds and patches that won't be sustainable or efficient for the long term and that certainly do not deliver wider business benefits. How to get started? The answer is laser-sharp focus on addressing data and systems requirements to get ready for the transition adjustment and building comparatives ahead of going live, recognizing that optimization of processes will take several years after going live.

## Illustrative timeline for an insurer kicking off implementation plans in mid-2018



Leading insurers have been making headway, and a clear majority of the larger insurers are now in the design phase. Growing numbers of organizations are beginning to see the wider benefits to their business operations that they can secure following implementation. It is a question of firstly implementing the changes that are needed to be

compliant — and then optimizing these to become fit for the future. As one survey respondent put it: “The complexity of the project is unprecedented. The pool of resources is limited. We need to unite to deliver the project on time for the industry as a whole.” Below are five steps to success to help make this a reality.



The winners from IFRS 17 will likely be the companies who have the best understanding of what it means for their business and can communicate that to their investors. Practice, practice, practice building and explaining results on the new basis and ensure you have clarity around the drivers of performance. To do that, you need to crack on with building the systems and processes to generate them and involve the board and the business throughout the journey. 

—Mary Trussell

Global Insurance Accounting Change Lead Partner  
KPMG International

## Five steps for success



# How KPMG member firms can help you

KPMG professionals have a distinctive top-down and business focused approach to IFRS 17 and 9 implementation to help you accelerate progress towards your goals surely and securely — wherever you are starting from.

This approach is tailored to help answer the questions that are important to clients, while building on the market-leading knowledge of KPMG professionals who:

- have a hypothesis-driven approach, starting top down rather than bottom up with a gap analysis. This allows design decisions to be taken earlier, reducing demands on scarce resources
- bring deep market insights from advising many leading insurers on IFRS 17 and IFRS 9 and bring the experience from this work to accelerate thinking in the most complex aspects of the new requirements
- understand that one size does not fit all, enabling clear communication of the issues that matter to you
- leverage our proprietary tools and accelerators to fast-track your impact assessment, with a tailored approach to meet your needs and aspirations, whether it's quick wins, cost savings, high quality and efficient financial and regulatory reporting, improved teamwork and other benefits
- are comprised of highly qualified teams that can bring you insights every step of the way, actively promoting knowledge transfer to your people from the outset, so that you have a sound base of expertise to deliver the new ways of working.

To learn more about how KPMG member firms can help unlock value from your IFRS 17 and IFRS 9 programs, please contact your local KPMG professional listed on the back cover of this report.

## Who took the survey?

In order to develop a benchmark study of approaches to the implementation of IFRS 17 and IFRS 9, KPMG professionals conducted an initial face-to-face and online survey of 160 executives from insurers around the world drawn from over 30 countries in May 2018. Fifty-five percent of respondents were C-level executives, including 40 percent from parent companies, 36 percent from subsidiaries of insurance groups, 14 percent from subsidiaries of other financial institutions and 10 percent selected 'other'.

Forty-eight percent of respondents work at companies with European headquarters, 36 percent are headquartered in Asia Pacific (including Australia) and 16 percent in the Americas. Twenty-one percent of the companies represented have annual global premiums of US\$10 billion or more, while 31 percent have premiums greater than US\$5 billion. Most of the companies are composites (37 percent), followed by life and health insurers (31 percent), while 19 percent are property and casualty insurers and 7 percent are reinsurance companies.

To contribute to the continuing body of knowledge about the implementation of IFRS 17 and IFRS 9 by global insurers, this survey will be repeated periodically on the journey to implementation.

# Contacts

## Laura Hay

### Global Head of Insurance

KPMG International

E: [ljhay@kpmg.com](mailto:ljhay@kpmg.com)

## Mary Trussell

### Global Insurance Accounting

#### Change Lead Partner

KPMG International

E: [maryhelentrussell@kpmg.com](mailto:maryhelentrussell@kpmg.com)

## Joachim Kölschbach

### Global IFRS Insurance Lead Partner

KPMG in Germany

E: [jkoelschbach@kpmg.com](mailto:jkoelschbach@kpmg.com)

## Martin Hoser

### Global Insurance Accounting Change

#### Data and Systems Lead Partner

KPMG in Germany

E: [mhoser@kpmg.com](mailto:mhoser@kpmg.com)

## Ferdia Byrne

### Global Insurance Actuarial Lead

#### Partner

KPMG in the UK

E: [ferdia.byrne@kpmg.co.uk](mailto:ferdia.byrne@kpmg.co.uk)

## Danny Clark

### Global Insurance Accounting Change

#### Global Accounting Lead Partner

KPMG in the UK

E: [danny.clark@kpmg.co.uk](mailto:danny.clark@kpmg.co.uk)

## Pierre Planchon

### Global Audit Insurance Accounting

#### Change Lead Partner

KPMG in France

E: [pplanchon@kpmg.fr](mailto:pplanchon@kpmg.fr)

## Erik Bleekrode

### Asia Pacific Insurance

#### Accounting Change

#### Lead Partner

KPMG China

E: [erik.bleekrode@kpmg.com](mailto:erik.bleekrode@kpmg.com)

## Michael Lammons

### North America Insurance Accounting

#### Change Lead Partner

KPMG in the US

E: [mlammons@kpmg.com](mailto:mlammons@kpmg.com)

## Ian Moyser

### Insurance Accounting Change

#### Lead Partner

KPMG Australia

E: [ianmoyser@kpmg.com.au](mailto:ianmoyser@kpmg.com.au)

## Briallen Cummings

### IFRS 17 Actuarial Lead Partner

KPMG Australia

E: [bcummings01@kpmg.com.au](mailto:bcummings01@kpmg.com.au)

## Simona Scattaglia Cartago

### Global Insurance Accounting Change

#### Implementation Lead Partner

KPMG in Italy

E: [sscattaglia@kpmg.it](mailto:sscattaglia@kpmg.it)

---

[kpmg.com/socialmedia](https://kpmg.com/socialmedia)



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2018 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

Designed by Evalueserve | Publication name: In it to win it | Publication number: 135723-G | Publication date: August 2018