How addressing your post-IFRS 17 priorities can support the strategic direction of finance

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Having implemented solutions to achieve baseline compliance with IFRS 17 reporting requirements, many insurers around the globe have turned their attention to optimizing, automating, simplifying and improving their reporting capabilities and controls. These strategic activities are addressing the technical debt introduced by tactical solutions, bedding in the new operating model and providing reported results and analysis. Having made considerable changes to their teams and organizations, processes and data during the implementation of IFRS 17, many insurers lack a sustainable finance operating model for the future, and therefore require a clear plan designed to address efficiency, effectiveness and control in reporting processes.

These improvements are part of a necessary shift for finance and risk teams to show benefits from the significant investments in IFRS 17 and toward more performance-related objectives, such as acceleration of financial close timetables, optimization of internal controls, enhanced reporting on key performance indicators (KPIs), and more accurate and insightful financial planning and analysis (FP&A). At the same time, finance and risk leaders are challenged to increase operational efficiency, reduce costs and build out new value-adding capabilities.

While different insurers have distinct transformation priorities, we see four common challenges and themes for most organizations:

1. The reporting of more granular information, with additional calculations, and more extensive disclosures, has led to a substantial increase in the financial close effort for many, putting further pressure on already tight timetables.
2. In implementing IFRS 17 solutions, many insurers relied on tactical workarounds involving many manual data extractions and manipulations, which pose new risks and require additional controls and mitigation, which exerts further pressure on internal frameworks and resources.
3. Beyond a narrow focus on compliance, there is new emphasis on understanding the impacts of IFRS 17 on business performance and the associated "levers" management can apply to reporting and explaining performance to regulators, investors, and other stakeholders. Expectations for comparability and transparency of financial performance at a much more granular level have also risen under the new accounting standard.
4. New information (e.g., future cash flow projections) is enabling a shift from backward-looking financial reporting to improved FP&A and the synchronization of plans across multiple stakeholders, tools, processes, and data sources. Empowering finance teams to share more high-value insights with the business.

In this article, we explore different strategies and solutions embraced by insurers globally, highlighting three key areas:

01 Immediate priorities and focus

02 Optimizing processes, technology and teams

03 Strategic investments for longer term, sustainable improvement

1 Immediate priorities and focus

Before the 2023 year-end close, insurers focused on implementing the necessary procedures, tactical solution improvements and controls to deliver their first IFRS 17 full-year close as smoothly and accurately as possible. Audit sign-off and delivery within the agreed extended timelines for financial close and reporting was the immediate goal and looking forward there are a number of key priorities.

Smart close, integrated reporting and internal control transformation: The introduction of new processes to generate cash flows, calculate IFRS 17 results, and account and report for those results has, in many cases, extended the time to report. Many insurers are now looking to shorten these timelines. Finance teams are assessing how to most effectively use newly implemented solutions and re-examining their approach to reporting and the use of early cutoffs and roll-forwards, if necessary.

The urgency to achieve compliance quickly understandably led to partial adoption of solution features and the use of tactical shortcuts (e.g., offline data manipulations). The activities now being handled manually include transformations and transfers between systems, calculations of out-of-system adjustments, reconciliations and control checks, and approval workflows. These time-consuming manual steps make it harder to accelerate timelines and pose risks that require mitigation.

Process optimization and improved ways of working: At many insurers, new IFRS processes have led to increased headcount and, in some cases, the extension of project teams and key person dependencies to run them. The result has been a need to reduce operational cost and operational risk through efficiencies in data sourcing, processing, IFRS 17 calculations, accounting and reporting.

The introduction of IFRS 17 has created a need for closer working relationships among accountants and actuaries that collectively work to calculate, account for and report the required account balances and disclosures. It has also highlighted the importance of data quality, the need for a deeper understanding of and confidence in organizational data, and, therefore, more data expertise.

Going forward, finance leaders must effectively blend traditional accounting expertise and actuarial domain expertise along with the data scientists, data engineers and software developers who can support advanced analytics, statistical modeling and visualization. IFRS 17 has also driven a need for closer ways of working between group reporting teams and subsidiary and business unit finance teams, with many now considering how ways of working can be improved and whether they have the proper organizational design.

Harmonized planning and KPIs: Given that many insurers have only recently implemented IFRS 17, we are only seeing a recent shift in focus from compliance to improved operational performance. For example, having implemented their IFRS 17 subledger systems, leading regional and global life insurers in Asia are now focused on enhancing their internal financial controls and KPI reporting capabilities. Market leaders in other regions are doing the same.

Financial planning is still a largely manual exercise for most insurers, involving complex spreadsheets or inflexible legacy planning tools. Planning processes will get smarter as more insurers adopt leading-edge tools for integrated planning. For instance, a large pan-Asian life insurer is now implementing a tool capable of combining granular historic actuals with modeled future cash flow projections generated under different economic scenarios and business assumptions. Investing in such new capabilities and technologies can pay off in operational cost efficiencies, realizing further benefits from the implementation of IFRS 17 solutions and enhanced partnering capabilities.

2 Optimizing processes, technology and teams

Approach to the financial close and strategic data solutioning: For many insurers, half-year 2023 reporting was the first time end-to-end IFRS 17 production and reporting processes were run as business-as-usual (BAU) operations. Many different approaches were taken across the industry, from a hard close to roll-forwards of earlier results. Looking ahead, many insurers will balance the use of hard close and roll-forwards to achieve their target reporting timelines.

In our experience, the primary weak point of CSM calculations is the data inputs. To support acceleration of their reporting timelines, many insurers are seeking to further automate the tactical and manual components of their solutions; for example, automating reconciliation and data transfers across the architecture reduces the need to manually adjust data inputs to IFRS 17 calculations and for overlays and adjustment to these results. Data convergence will be a critical consideration going forward, with the need to align data across reporting regimes (e.g., local GAAP, IFRS or regional solvency standards) to support process rationalization across reporting frameworks. The tools and skill sets to support data management need to be re-evaluated to meet requirements around sourcing, storage, management and transformation of data that can act as a single source of "data truth."

Automating processes and controls: Insurers are using process mining platforms to identify improvements to tactical solutions; for example, many are exploring solutions to expedite and automate the production of analysis to support results sign-off and profit analyses. Others are looking to automate rules-based accounting, with a direct feed of IFRS 17 results from data stores to the general ledger and reporting tools. Improvements to data sourcing are also key; with source data available at the required level of granularity and automated mapping to cohorts based on a single source of governed reference data, finance teams can eliminate allocations and manual data manipulations.

Additionally, the implementation of tactical solutions and manual processes has introduced risk into production and reporting processes. Many insurers are now reviewing these processes to automate controls using the latest solutions, such as the EY Financial & Actuarial Controls Transformation (FACT) platform. This platform offers controls automation in a box, with user-friendly interfaces and pre-built components to automate specific controls.

The impact on finance teams and organizational design: Greater collaboration and knowledge sharing and increased agility among all teams involved in the production and reporting of IFRS 17 results is key to accelerating close timelines. Training and upskilling can empower teams by cultivating citizen-developer skills that allow them to take advantage of low-code tooling and new technologies. The results include improved efficiency in production and reporting processes and increased insights.

Preparing for the next leg of the journey: After the 2023 year-end close, insurers can review current complexities in the reporting process (including disclosures) and identify opportunities to simplify. The development and refresh of the strategic roadmap required for data and system improvement is a good starting point. For example, redesigning the financial close process and automating controls can shorten the financial close timetable in the future and establish a sustainable reporting cadence for 2024 and beyond. Clearly, this can be a long ‘to-do’ list, so the focus is then on prioritizing this list and sequencing delivery over the next twelve months (plus) with clear, quarterly outcomes. A clear understanding of the post-IFRS 17 current state can also inform the design of the future organizational structure and new ways of working, as well as the identification of cost optimization opportunities. Many system vendors will augment their IFRS 17 results calculation and subledger systems based on clients’ requests for new features that facilitate a faster close.

With the next cycle of financial planning, the new IFRS 17 numbers and KPIs can provide the basis for re-baselined long-term strategic plans and one-year budgets. Given the technological advances and lessons learned by early adopters, we foresee a big market push to take advantage of this evolving class of integrated enterprise performance management (EPM) systems. These systems being able to link to the core insurance systems as well as actuarial systems, general ledgers, and integrated financial and actuarial data lake using sophisticated API/ETL interfaces.

3 Strategic investments for longer term, sustainable improvement

During the recent past, leading finance functions assumed a more forward-looking strategic role, focused on delivering commercial value through deeper analytics, rather than serving primarily as custodians of historical performance data and producers of reports. The enhancements of IFRS 17 solutions should be viewed as part of this holistic and long-term evolution. Considering how they can accelerate the working day timetable and also streamline, consolidate and automate end-to-end workstreams. A common set of processes and controls, underpinned by the right tools and data, is now within reach and representing a big improvement on today's fragmented and inconsistent approach. Optimizing these processes can free resources to focus on higher value analytical tasks and engagement with business leaders.

More extensive collaboration between accountants and actuaries has prompted a reassessment of organizational design in finance. Firms that restructure appropriately will benefit from reduced handoffs, integrated ways of working, clearer accountabilities, and new skills and capabilities. Ultimately, the combination of process efficiencies and organizational redesign will result in lower costs, increased capacity, and, ultimately, a more strategic finance function.

Looking beyond 2024, senior finance and accounting leaders will pivot toward strategic data and technology developments, process and control optimization delivery, and more integrated reporting metrics. We could even see an uptake of emerging generative AI tools that will allow the exploitation of both proprietary structured financial data and unstructured internal and public data related to client demand and market behavior. The benefits of these insights are compelling: the development of richer and more agile financial planning models, real-time IFRS 17 performance benchmarking, and the development of products that meet future market demands, reduced financial risk exposure and lower capital needs.

The implementation of IFRS 17 (and before that, Solvency II in Europe and RBC/ICS in Asia) has catalyzed significant change. New technological advances and the perennial goals of cost and operational efficiency, as well as the shortage of financial and actuarial talent, will drive the next wave of change. Insurers can build on the solid foundation of past investments as they continue on their finance transformation journeys toward optimal performance in the post-IFRS-17 world.

EY teams are helping clients across markets address these challenges with recommendations on reducing costs, simplifying processes, addressing technical debt, and resolving data challenges. We are also sharing insights as to the role of managed services in optimizing performance. To continue the discussion, please reach out to the **regional EY leaders**.


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EYG no. 000401-24Gbl

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GA 203731668

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