IFRS 17: How a Target Operating Model approach will help achieve benefits
IFRS 17 standard is expected in the first half of 2017, with an effective date of January 1, 2021.

A structured Target Operating Model approach will help overcome challenges and provide opportunities and benefits.

Start an impact analysis now for an effective planning process, allowing you to secure budgets and resources and determine potential benefits.
Table of content

IFRS 17: the new burden for insurers after Solvency II or are there benefits? ...........................................04
  Summary ...........................................................................................................................................................04
  What is IFRS 17 .................................................................................................................................................05
  Challenge ..........................................................................................................................................................06
  Implementation ....................................................................................................................................................06

The impact of the new standard on the finance and actuarial function ...............................................................08
  Importance of data ...........................................................................................................................................08
  Technology .........................................................................................................................................................08
  Integration of functions ....................................................................................................................................09
  What are the opportunities and benefits? ........................................................................................................09

Implementation roadmap ......................................................................................................................................11
  Leveraging solvency II benefits ......................................................................................................................12

How Genpact can help .........................................................................................................................................13
  Target operating model .....................................................................................................................................13
### IFRS 17: The new burden for insurers after Solvency II or are there benefits?

#### Summary

- After Solvency II the next big challenge impacting the insurers’ finance and actuarial function is IFRS 17 with an implementation date of January 1, 2021.
- A lesson learnt from Solvency II is that an implementation approach which aims at improving the operating model is most successful in meeting the project goals and de-risking the implementation.
- The impact of IFRS 17 will be felt across the finance function, while insurers are still working on the acceleration of Solvency II reporting processes and embedding these in decision-making processes.
- The need for faster, more efficient, and better controlled processes increases.
- Impact on data collection and storage as well as on IT are expected to be fundamental.
- IFRS 17 will give insurers potential benefits, such as better insights into business performance as well as standardization and acceleration of processes, where data marts, robotics, and advanced analytics can enhance performance and analysis.
- These changes require a rethink of the Finance operating model. A structured Target Operating Model approach to the implementation will help manage and de-risk the challenges presented by IFRS 17, and recognize and build on the opportunities it provides.
- By starting an impact analysis and setting up an implementation program in the short term, insurers can leverage Solvency II investments further and take full advantage of those benefits.
What is IFRS 17?

IFRS 17 applies to all insurance contracts.¹ The default model is the Building Blocks Approach (BBA). The basic components of the BBA are the fulfilment cash flows and the contractual service margin (CSM). With a discounted cash flow model the fulfilment cash flows are determined. A risk adjustment needs to be applied to reflect the uncertainty in the cash flows. The CSM represents expected future profits in an insurance contract and cannot be negative. Depending on the source, the changes in the measurement of an insurance contract are treated differently, impacting profit recognition:

• Changes in estimated cash flows and risk adjustment related to future services are recognized by adjusting the CSM
• Changes in estimated cash flows and risk adjustments related to past and current services flow will be represented in the P&L as underwriting result
• The effect of changes in discount rates can either be recognized in P&L (as investment result) or OCI
• The CSM amortization pattern is based on the passage of time and release of the CSM will be recognised in the P&L as underwriting result

For short-term contracts (coverage period up to one year) with little variability, the Premium Allocation Approach can be applied

¹The project for the new insurance accountings standard was formerly known as IFRS 4 phase 2. When the proposed standard is published (expected at the first half of 2017), the standard for accounting of insurance contracts will be called IFRS 17 Insurance Contracts.
How big is the challenge?

IFRS 17 will further challenge insurers to review data, processes, and IT architecture. It will challenge existing practices, require change assessments, planning and resource realignment. However, Genpact believes it will also give insurers benefits, such as better insights into business performance and standardization and acceleration of processes. By starting an impact analysis and setting up an implementation program in the short term, insurers can leverage Solvency II investments further and take full advantage of those benefits.

What insurers should be doing to prepare for the IFRS 17 implementation?

The majority of IFRS 17 requirements are now established with a revised standard expected to be published in the first half of 2017. For a controlled implementation and reduced risks, insurers should start now with an impact analysis. This should give an overview of the expected impact on the operating model, expected timelines and skill profiles, and the required budgets for implementation. It should also provide an overview of the potential benefits.
Given the effective date of January 1, 2021 for the new IFRS standard, we recommend insurers start a change program based on a Target Operating Model (TOM), beginning with an impact analysis to determine potential benefits and needed budgets.

A structured TOM-based approach to the implementation project will help insurers manage and de-risk the challenges IFRS 17 presents, while also recognizing and building on the opportunities it provides. Therefore, insurers should be looking at:

- Impact assessment (financial and operational)
- Project planning, allowing the securing of budgets and resources
- Considering interaction with ongoing or planned projects, specifically finance transformation work
The impact of the new standard will be felt across the finance and actuarial function

The arrival of IFRS 17 shortly after Solvency II adds pressure to develop a Target Operating Model to manage the impact on planning, forecasting, accounting, and reporting processes, and also to support acceleration of Solvency II processes.

It’s all about data

• Insurers need to realize that the way the data is collected, stored, and managed is heavily impacted. IFRS 17 puts additional data requirements into the Solvency II requirements, such as the contractual service margin, and introduces a more granular level of measurement
• This impacts the collection of data from source systems. Also, data must be stored and managed effectively to be available for analysis, planning, and forecasting, which are needed for internal management objectives and external market reporting
• Robust data management processes and systems can help insurers to manage the additional granular data requirements and support data lineage (from report back to source)

Technology

• The implementation of IFRS 17 will be technology-heavy change program. Taken into account that insurers have already invested heavily into systems for Solvency II, a Target Operating Model approach can minimize the risk of rework and duplications. This requires involving key stakeholders from finance, risk, actuarial and business teams to work with the IT experts
• The finance, risk, and actuarial architecture needs to store granular data to support the calculations of the CSM and needed for internal management objectives and external reporting. It needs to support income statement movement analysis and multi-GAAP reconciliation requires sufficient data to be available
Digital solutions will drive a more effective, integrated finance- and actuarial operating mode

• The new standard will result in a greater volatility of the Income Statement. Managing, and ideally eliminating or reducing, the income statement volatility, which is introduced by the new standard, requires more advanced forecasting and simulation capabilities for reliable financial forecasts. In addition, investors will want to understand how the IFRS balance sheet bridges to the Solvency II balance sheet. In addition, reconciling the different GAAPs can be a complex challenge

• Supported by robust forecasting, planning, and analysis tooling in combination with predictive analytics, insurers will be able to construct an approach to reconcile different GAAPs, analyze income statement movements, and predict future movements and volatility

Integration of finance, actuarial, and risk processes

• With IFRS 17, integration of actuarial processes in the financial reporting chain is critical. The complex valuations of Solvency II and IFRS 17, in addition to any other required economic calculations, need to be run in parallel. Eliminating process bottlenecks is crucial

• This increases the importance of moving away from manual spreadsheet-driven processes involving with multiple time-consuming manual interventions, and toward streamlined workflows with controlled processes, strong data integrity, and audit trails

• Ongoing cost-control pressures will require processes to be streamlined and robust to support compliance with future timelines in a multi-GAAP environment. Additionally, sufficient time for effective analysis and reconciliations needs to be allocated

• In the design of an integrated Solvency II and IFRS multi-GAAP process model, Lean methodologies can be applied, supported by dynamic workflow systems and robotic software

Opportunities and benefits

If implementation is managed effectively, the new accounting standard can offer significant benefits for insurers:

• Integration of actuarial, risk, and finance functions, giving the potential to leverage standardized processes, and leading to accelerated delivery times as well as cost benefits
• Standardized processes have more potential to be optimized using Lean methodology and digital solutions, such as robotic process automation
• Enhanced measurement of business performance, as this will be based on economic principles, better reflecting risk and cost of capital
• Closer alignment towards Solvency II and other economic frameworks (which can lead to more closely aligned processes), making it easier to prove to regulators that the business is managed on economic principles
• For insurance groups there is the possibility for the harmonization of accounting policies across countries/business units, enabling standardization of accounting and reporting processes across an insurance group
• This gives the potential to organize these processes in centers of excellence (CoEs), shared service centers, and/or captives
A TOM-based approach enables impact analysis across all dimensions of the finance organization, and could de-risk the IFRS 17 implementation program.

A structured TOM-based approach to the implementation project will help insurers manage and de-risk the challenges presented by IFRS 17, enable impact analysis across all dimensions of the organization; it also helps insurers recognize and build on the opportunities IFRS 17 provides. Therefore, insurers should be looking at:

- Impact assessment (financial and operational)
- Project planning, allowing the securing of budgets and resources
- Considering interaction with ongoing or planned projects, specifically finance transformation work
There is potential to leverage Solvency II investments

Leveraging Solvency II investments

If correctly planned, the implementation of IFRS 17 provides insurers the opportunity to leverage some of their investments in Solvency II. However, effective analysis is required to identify the actions necessary for addressing areas where IFRS 17 and Solvency II approaches and deliverables differ.

### Dimension

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Indicative Solvency II program key achievements</th>
<th>Potential leverage</th>
</tr>
</thead>
</table>
| Organisation and governance | • SII program infrastructure exists cross functionally and involving a number of BU’s, already integrated with IFRS  
• SII roles and responsibilities defined                      |                    |
| Policies               | • Existing methodologies have been updated to meet SII requirements  
• Chart of accounts for SII MCBS defined                        |                    |
| Processes              | • Market consistent balance sheet process designed, tested and documented, and many of these can be leveraged for IFRS  
• Forecasting, planning and budgeting processes include SII metrics  |                    |
| People                 | • Many training modules built and handed over to BAU  
• Trained staff, particularly in Finance                         |                    |
| Data                   | • All stable data requirements for SII have been identified and mapped to Group/legal entity systems, data dictionary exists  
• Data quality remediation being performed                        |                    |
| Systems                | • New Central systems built, to hold all data for central and Group MCBS and reporting  
• Direct connections built between systems                        |                    |

### Overall leverage

IFRS 17 and Solvency II overlap encourage efficiencies

- Single data sources and data model and automated central data feeds
- Chart of accounts commonality
- Documented and tested processes
- Single view of best estimate assumptions
How Genpact can help

With our experience with process change, optimization, and the implementation of new regulatory frameworks and accounting regimes, Genpact helps insurers analyze the impact of IFRS 17 on their operating model. Leveraging leading practices, we support the design of a new optimal operating model—one that is fit for the future. This means not only complying with the new accounting standard, but also achieving efficiency and effectiveness through Lean Digital™ solutions (robotics, dynamic workflow, analytics, machine-based learning), redesigning existing processes, and being supported by the extension or set up of centers of excellence (CoEs), shared service centers, or captives.

**Target Operating Model**

Genpact’s target operating model framework is structured to assess and define your current and desired states.

**Target Operating Model** is comprised of the nine elements of Smart Design and Smart Delivery. Together these elements provide an end-to-end structure to get the most value across all finance capabilities.
Process:
- Has an enterprise wide approach to policy and standardisation, resulting in transparency, consistent nomenclature, taxonomy and activities
- Ensures there is clear communication and integration hand-offs between process owners

Information:
- Drives a transparent and globally consistent enterprise information model to support decision making
- Supports reporting approach to align corporate objectives with executive, management and operational decision making
- Maintains a scalable information model balancing evolving information needs with master data standards

People:
- Aligns finance capabilities and roles with corporate objectives
- Develops a culture of collaboration and best practice
- Implements a global talent management programme that develops high performers

Control:
- Considers controls in an end to end view of process
- Reviews controls regularly so that compliance systems and key controls are up to date

Technology:
- Rationalises technology to reduce risk and improve access to information
- Automates where possible to improve data accuracy, control and productivity
Service delivery:
• Builds a scalable and flexible service delivery model that can adapt to changing business objectives and targeted benefits realisation
• Evaluates the right mix of outsourcing, captive and retained operations to optimise service delivery model

Risk management:
• Implements an enterprise-wide framework to accurately assess risk to operations
• Periodically reviews controls and contingency plans to select intervention approach and corrective actions

Continuous improvement:
• Identifies and applies best practices, whether internally or externally, to continuously improve processes
• Leverages Lean and Six Sigma to constantly improve performance and reduce costs

Governance:
• Implements a framework where cost, risk and performance are balanced and consistent across the business
• Evaluates performance across retained, captive and outsourced organisation’s cascading business objectives so that targets and KPIs are aligned
About Genpact

Genpact (NYSE: G) is a global professional services firm focused on delivering digital transformation for our clients, putting digital and data to work to create competitive advantage. We do this by integrating lean principles, design thinking, analytics, and digital technologies with domain and industry expertise to deliver disruptive business outcomes – an approach called Lean Digital℠. We deliver value to our clients through digital-led, domain-enabled solutions that drive innovation, and digital-enabled intelligent operations that design, transform, and run clients’ operations. For two decades we have been generating impact for clients including the Fortune Global 500, employing 77,000+ people in 20+ countries, with key offices in New York City, Palo Alto, London, and Delhi.

For more information, visit insurance.solutions@genpact.com and visit www.genpact.com/what-we-do/industries/insurance

Follow Genpact on Twitter, Facebook, LinkedIn, and YouTube

© 2017 Genpact, Inc. All rights reserved.