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Legerity: Readying for IFRS 17

Jeremy Wood, chief executive of Legerity, gives the low down on the upcoming IFRS 17 rules and what the industry should be doing to prepare

IFRS 17 was finalised at the beginning of this year with a deadline of January 2021. What should the industry expect from the new rules?

IFRS 17 is the biggest accounting change to come into the insurance industry and its impact will be felt across the board. In the past insurance accounting has largely been done at an aggregated level. IFRS 17 is moving the industry to accounting at the contract level. This will require much more granular calculations and journal postings. The industry needs to change its accounting processes in a wholesale manner.

How well prepared is the industry for IFRS 17? What are the challenges?

IFRS 17 will have a massive impact and timescales are challenging. The Big Four advisory firms have started to make clients aware of the significance of the change in the last few months and insurers are readying to explore it now. But the industry is only just starting to understand the size of the challenge. On top of the more complex accounting and new Contractual Service Margin (CSM) calculations the industry will face significant challenges in data. The abundance of heritage and acquired technology has led to data being held in multiple, siloed systems. Data preparation and manipulation is largely managed in spreadsheets; and completeness and accuracy of data varies across systems.

Many insurers currently see accounting as a month-end process and work on aggregated information. IFRS 17 will mean this will be much harder to manage because of the more detailed calculations and postings required. Legerity will enable the delivery of an efficient accounting process; it can work in real time off granular data from multiple sources.

Dealing with IFRS 17 will be a challenge that is as large if not larger than Solvency II. Those that plan for this early will be in a far better position.

What lessons can insurers take from Solvency II for IFRS 17?

The process firms went through for Solvency II has to have helped. But the difference between Solvency II and IFRS 17 is that the former is about balance sheet reporting while the latter is a fundamental change to your income statement.

One of the main elements of IFRS 17 is getting data quality right. Organisations which spent more time putting in strategic solutions to get good quality data for Solvency II will be in a better position to tackle IFRS 17. Those who put in tactical, end point solutions purely for reporting will struggle.

How are you helping insurers to meet the IFRS 17 challenge?

One option is to change accounting in your core processing or actuarial systems. But finance technology has moved on and more suitable options exist.

Legerity FastPost can be implemented in a non-disruptive manner using a dedicated accounting engine which produces the correct CSM and IFRS 17 journals for the general ledger and reporting databases. It has an event-driven architecture which is driven by contracts and solves the issue in an unobtrusive fashion. At the same time it is based on the cloud so is scalable and at lower cost.

The architecture allows you to process more granular contract-based accounting and even a move from a monthly to daily process. The rules are easy to define based on a familiar spreadsheet-based user interface. You don't need any specialist training to understand the underlying accounting rules when using it.

We have also made the solution easier and quicker to integrate using APIs (Application Programming Interfaces). It is part of an end-to-end process where data integration is key.

For the future, we are using new technologies like Hadoop which allow users to share data across organisations.

What other future accounting challenges might the industry need to resolve?

IFRS 17 is a three year programme. But one of the lessons we learnt when designing this solution is that things do change. Products in general are getting more complex. One of the risks is not just dealing with today but what contracts you are selling in three or four years. Systems which are hard coded cannot do this. Our software is designed to on-board new products quickly and handle the accounting change.

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