Aptitude
IFRS 17 Solution

Aptitude SOFTWARE

7 reasons an IFRS 17 project may fail

While the selection of an IFRS 17 solution vendor may seem like the end of a long and detailed internal project, the reality is that the start of solution implementation is just the beginning.

Hopefully, you have secured a solution with all the 'must have' functionality required by the new standard, but many insurers don't have a complete understanding of these necessities at the outset of their projects – and it may not become apparent until quite late.

The challenge for many insurers is that they have initially focused their projects on the need to determine the calculations for IFRS 17, assuming that the process to then integrate into their financial landscape can be achieved with the bolt-ons being developed by their calculation engine vendor. However, for many, the complexities in the accounting are only just being realized, resulting in some clear systems issues that are preventing them from delivering an operational solution.

Here are seven common IFRS 17 solution issues that may arise during IFRS 17 projects.

1. Lack of persistence and audit trail for calculated data

If data is held in a table and not a database, it may impact the solution's ability to provide a necessary audit trail and manage reconciliations. In addition, IFRS 17 requires measurement and re-measurement of the performance of contracts over the life of those contracts. This requires the intrinsic capability to store the results of the calculation at each measurement period and provide a full audit trail to explain the results movement as the calculation changes over time. Without a subledger, the process cannot be efficiently managed and there is no audit trail to show changes that can be assessed and tracked to the transaction level.

2. No version control for accounting rules and no audit trail of the rules used, which impacts controls and reconciliations

Version control of accounting rules is very important and can have a significant impact, especially when accounting policies or chart of accounts change. There is an expectation for finance to keep the detail of how balances are derived for tax authorities, financial reporting, and regulatory inspection – in many cases this detail must be stored for many years after the cutover to the new standard. It is also important to understand and show what rules were applied and when, and to be able explain period to period differences as a result of core accounting policy changes.

When an IFRS 17 solution lacks persistence and transparency around data, accounting rule versioning, and accounting rule use, it can lead to issues. Other issues can arise when an IFRS 17 solution is IT centric and requires the involvement of IT for key finance aspects like audit. Rather than traceability through the subledger, these IT-based solutions are known to produce Binary files which then require a complex mechanism through which you can interrogate files to deliver the audit trail required.

3. Inability to support reversals and interim versus external reporting

There is a practical finance issue that arises when evaluating interim vs external reporting. This is particularly apparent when subsidiaries perform annual reporting whereas the parent reports quarterly.

This situation requires that at least two sets of books with two separate CSM figures are held, depending on the frequency of reporting and the year end of the subsidiaries. This kind of parallel processing would typically overburden a General Ledger. A subledger capability is necessary to meet this important requirement.

4. Limited accounting templates and business event rules, resulting in the need for customizations and an explosion of custom rules

Any comprehensive IFRS 17 solution will need to convert actuarial data and actual cash flow data into accounting transactions. The inbound insurance data should be processed by the accounting engine and posted to a granular subledger.

It is very easy for the number of accounting rules to explode as IFRS 17 requires the application of a significant change to the mechanism an insurance firm uses to create their books and records. When accounting rules are written on a contract-by-contract basis, there is often a massive duplication of logic, leading to inconsistencies between developers as well as a maintenance nightmare once the solution goes live.

5. Limited internal controls for areas such as FX, zero balancing journals, and period control

If these features are not included as part of the solution, the onus is on the General Ledger (GL) or custom processes to ensure the validity of the journals and complete the operational accounting process. Given the level of scrutiny expected on the part of auditors, shareholders and the ratings agencies, having a fully functional subledger with capabilities like zero balancing and automated reconciliations, operating at the journal level is essential. Auditors will check for quality of input data, calculations, accounting transactions and processes and thus the ability to drill down to a highly granular level is critical.

IFRS 17 also requires a number of complex currency translations for multi-currency denominated contracts and aggregations up through legal entity structures. It is important this is maintained at the correct level of granularity within the IFRS 17 solution to explain the impact on the CSM and ensure that

the business is managing its currency positions. Any IFRS 17 solution should provide full, multi-currency accounting including FX translation, FX revaluation functionality and management of multi-currency CSM.

6. Incomplete chart of accounts (CoA) with no flexibility to edit, requiring CoA mapping to happen in a custom layer

In an operational process, the disclosures should always be generated from the CoA balances to maintain auditability and traceability. An incomplete CoA will result in missing information for disclosures and requires unpicking the numbers externally.

This places a needless burden on the finance team, requiring them to fill in the blanks - a nightmare during year-end preparation of disclosures for the annual report. In such a situation, the period-end reporting processes will increase in duration, complexity and stress.

7. Disclosures generated from calculated numbers, not posted journals.

Big 4 Insurance Advisory firms have noted a trend over the last six months. Insurers who selected an IFRS 17 calculation engine are now realizing that they need an accounting rules engine and subledger to satisfy the requirements of the standard. Many of these insurers that selected a pure IFRS 17/CSM engine have now gone out for a second wave of RFPs specifically for an accounting rules engine and subledger.

Finance teams are demanding an underlying data repository to plug the existing solution gaps that prevent them from accurately accounting, reconciling, and producing their disclosure reporting requirements. While some actuarial based solutions can undoubtedly calculate the expected CSM and RA numbers, it is the translation of these numbers into accounting inputs (debits/credits) and the associated postings that, when missing, pose a major challenge to insurers.

Aptitude Software's IFRS 17 Solution helps organizations avoid these 7 issues – and gain business value beyond compliance

The Aptitude IFRS 17 Solution meets the many requirements of the Standard by including all three necessary components for compliance: an IFRS 17 Calculation Engine, an accounting rules engine and a subledger with underlying data repository that can be traced from source to disclosure report. It provides an audit trail of changes which can be easily assessed and tracked to the transaction level as needed. It also enables the persistence of the balances - balances are not just calculated on the fly - at each layer to retain the auditability.

The solution can be owned by finance, reducing the dependence on IT and putting the control in the user's hands. It has significant built-in IP with templated rules for more than 160 insurance lifecycle business events which are used to generate all the IFRS 17 accounting transactions. These events are re-usable every time a new product is launched and hence help to manage the rules and ease the risk of the GL from storing an explosion of rules or data. A simple example is often shown during our POC playbacks, where the "ACID" business event (Assumption Change Increment Decrement) is re-used across policies and policy types whenever this type of data is discovered. The elegant 3-step accounting process used by Aptitude, ensures there is a minimal number of Business Events, Accounting Events and Posting Patterns to maintain, meaning a smaller, simpler and easier to audit set of accounting logic is in the hands of the Finance team.

Aptitude Software's IFRS 17 Solution is being implemented in over 46 countries to provide compliance with the new Standard while providing additional business value. Its Centre of Excellence ensures that all lessons learned from these engagements are incorporated back into the product and inform the implementation process for all further projects.

Aptitude Software provides software solutions that enable finance professionals to run their global businesses, forecast decision outcomes, and comply with complex regulations. Uniquely combining deep finance expertise and IP rich technology, Aptitude gives finance leaders the tools they need to transform their business and achieve their ambitions.

Aptitude is proud to have served the offices of finance for over 20 years, delivering financial control and insight to create a world of financial confidence for our global clients.

Aptitude Software supports businesses with combined revenues approaching $1 trillion and over 500 million end customers. Headquartered in London, Aptitude Software is an operating company of Aptitude Software Group plc.

For further information, email us at info@aptitudesoftware.com or contact us:

Boston

Suite 1310, 101 Federal Street Boston, MA 02110

Tel: +1 (857) 201-3432

London (Headquarters)

Old Change House, 128 Queen Victoria Street, London EC4V 4BJ

Tel: +44 (0)20 7496 8196

Singapore

Centennial Tower, Level 17, 3 Temasek Avenue, 039190 Singapore

Tel: +65 82282403

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