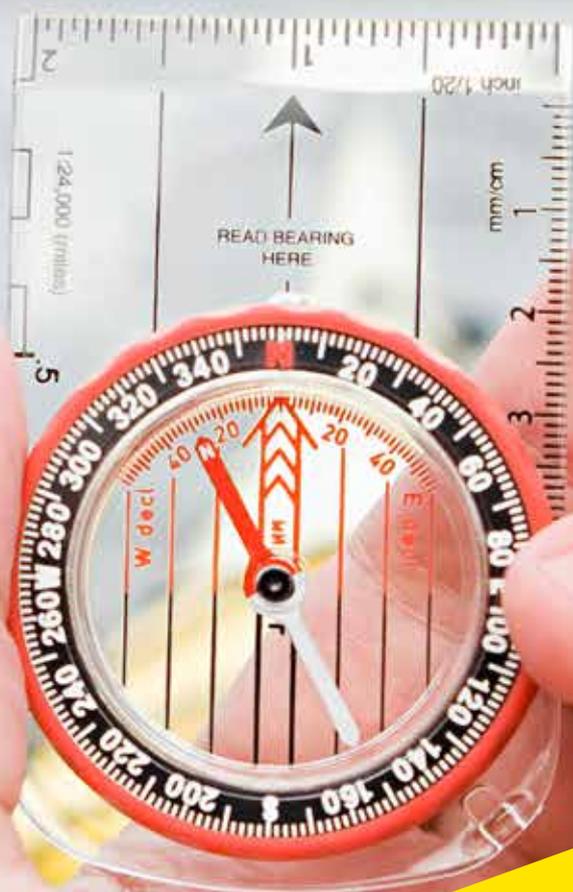


IFRS 4 Phase II Operational impacts



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1 Executive summary

The International Accounting Standards Board (IASB) issued their revised Exposure Draft (ED) for IFRS 4 Phase II on 20 June 2013, with the comment period concluding on 25 October 2013, which, if adopted, will replace IFRS 4 *Insurance Contracts* (IFRS 4).

The proposed standard, if adopted will replace IFRS 4 *Insurance Contracts* and seeks to establish a single consistent recognition and measurement model, with complementary presentation and disclosure requirements aimed at enhancing transparency, for all insurance contracts issued by entities reporting under International Financial Reporting Standards.

However, IFRS 4 Phase II will require insurers to fundamentally re-assess how they report their financial results and manage their business. The impact of the proposed new standard will be felt across the finance function and may require changes to both strategic financial management processes and the finance operating model.

Financial management strategies must be developed to address the challenges presented by IFRS 4 Phase II. Insurers need to focus on communicating results to capital markets and aligning performance management frameworks to the new accounting regime, as well as developing a strategic approach to managing volatility and asset and liability management.

In particular, IFRS 4 Phase II will drive significant procedural change. In the financial statement closing process, new complex calculations will need to be adapted in existing processes in tandem with Solvency II reporting. At the same time, group consolidation and reporting processes will need to accommodate the new disclosure and presentation requirements. In addition, new control and reconciliation processes will need to be developed to provide robust audit trails.

On its own, the introduction of IFRS 4 Phase II presents a major challenge to insurance company CFOs, but taken together with the implementation of the delayed Solvency II regulations and other accounting requirements, the scale of change that insurers face is unprecedented. The response will require careful planning and management to ensure that the transitions are well controlled.

Many insurers expect to leverage the investments they have made in Solvency II solutions, but this will not provide all of the answers. While there are many elements of Solvency II that will support IFRS 4 Phase II requirements, there are a number of important differences, such as, in the concept of the contractual service margin, presentation and disclosure requirements and transition. It is important that these gaps are understood and their implications incorporated into implementation plans.

This paper aims to identify the main areas that IFRS 4 Phase II will impact and challenges that implementation will present. The far-reaching changes will require further modifications to the finance operating model, and development of a communication strategy to educate both capital markets and executive management on the impact of the new accounting regime.

Given the fundamental change in financial management, the publication of the exposure draft (ED) in June 2013 is the ideal moment to assess impacts alongside Solvency II requirements and implementation plans. Businesses that tackle these issues early and have strategies and plans in place to address the challenges may gain a competitive advantage.



2 Overview

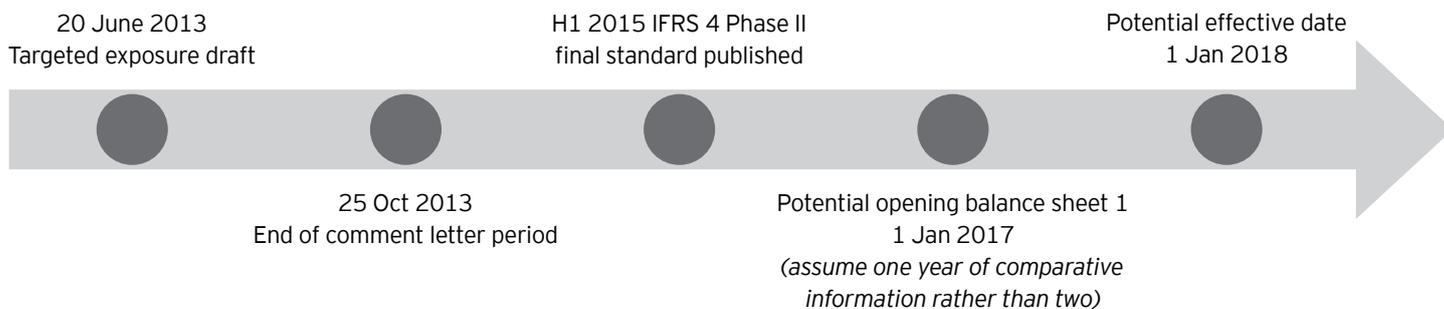
The long-awaited revised ED, as a response to the proposals issued in 2010, was released on 20 June 2013 and the comment period concluding on 25 October 2013.

EY has been closely following the developments in the evolution of this exposure draft and discussed these developments with insurance companies, standard setters and others. In this paper, we aim to share our views on the strategic and operational considerations associated with implementing the proposed changes.

It is expected the standard will be published in 2015 with an expected mandatory effective date of 1 January 2018 at the earliest (see figure 1). While the ED contains the full text of the proposed standard, the International Accounting Standards Board (IASB) does not intend to revisit all aspects following re-exposure. The IASB have asked for feedback on a limited number of topics: adjusting the contractual service margin, the use of a measurement and presentation exception for certain types of contracts with participating features, the use of other comprehensive income (OCI) for changes in discount rates, the presentation of insurance contract revenue, and the proposals for transition.

In addition to the technical questions in the ED, the IASB has asked for feedback on the likely compliance costs for insurers and the users of financial statements, both for the initial application and on an ongoing basis.

Figure 1: Expected IFRS 4 Phase II timeline





3 Major impacts

The implementation of IFRS 4 Phase II will have a major impact across the entire financial management framework, requiring changes to key areas of strategic financial management and operations to deliver the results.

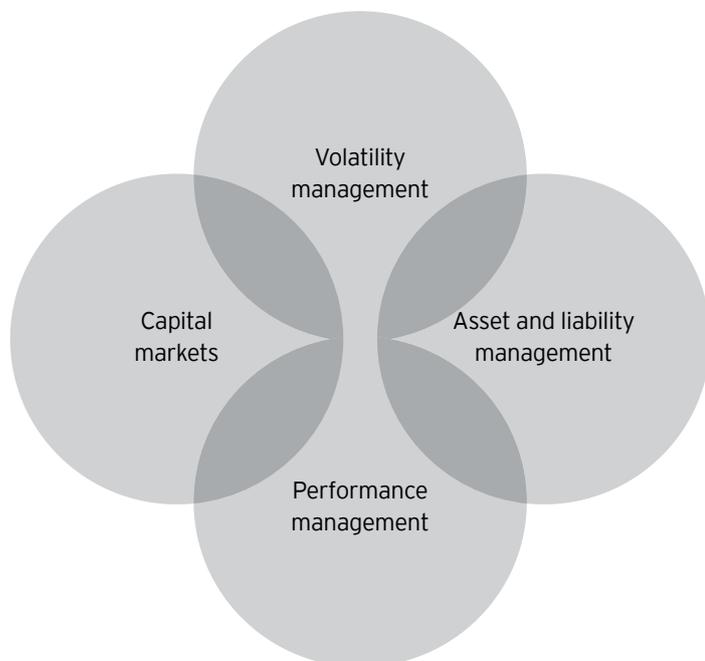
The new reporting requirements will necessitate implementation plans which will impact internal operating processes and systems, as well as the external presentation of results to the capital markets.

3.1 Strategic management framework

The impact of IFRS 4 Phase II on key elements of the strategic management framework will need to be addressed.

Insurers will need to focus on a number of issues, including: communicating results to capital markets; performance management frameworks; the strategic approach to managing volatility; and asset and liability management.

Figure 2: Strategic management framework



3.1.1 Capital markets

Communications with capital markets will be challenged by overall changes in the presentation of financial results and increased complexity in the calculations. Both insurers and investors need to understand the financial impact of the new rules. Companies will need to explain results to the investor community and, during transition, distinguish the impact of movements from changes to accounting bases from those related to underlying business performance.

IFRS 4 Phase II and Solvency II will lead to greater public and regulatory disclosure of results and risk management and the requirement to demonstrate its use in practice. Although IFRS has risk management disclosure requirements and other similarities with Solvency II, there are significant differences. This highlights the need to establish meaningful reconciliations between the two, and ensure that reported information is consistent to minimise misunderstanding by analysts. An early top-down review of current and required disclosures can help to drive consistency of messaging and process, as well as an investor communication strategy.

The new measurement bases are likely to drive changes to internal metrics in relation to revenue and profit, which can be leveraged for external reporting. At the same time, the early understanding or adoption of metrics can help shape analysts' expectations.

3.1.2 Performance management

The new reporting basis will require adjustments to the performance management and KPI framework. The current set of key metrics for volume, revenue and profitability will have to be adjusted to the new regime, which will impact the entire performance management process. Reporting multiple key metrics (IFRS, Solvency II, market consistent embedded value, or MCEV) will necessitate an increased demand for reconciliation with IFRS.

The IASB has proposed a consistent treatment for the measurement of revenue, which would eliminate the various methods currently employed by insurers today under their grandfathered local accounting policies. Revenue would be reported on an earned basis that excludes investment components. This is a major change for life insurers and would require new business metrics to be developed and aligned to the presentation of revenue in the financial statements. The introduction of the contractual service margin concept and the associated amortisation profile will appreciably impact the shape of future earnings and require key metrics to be recalibrated.

The significance of these changes will need to be considered in long-range planning. The impact on the KPI framework must be analysed and built in, together with any implications for the long-term incentive plans of senior executives. An early assessment of the impact of IFRS 4 Phase II on key metrics and profit will enable businesses to make changes to operational plans and products in advance of the implementation date to mitigate any negative aspects.

3.1.3 Volatility management

The increase in volatility of financial results and equity under IFRS 4 Phase II will require more advanced forecasting and simulation capabilities to provide reliable financial forecasts. Managers will want to avoid accounting mismatches to reduce volatility in asset and liability measures and other metrics used to manage the performance of the business. Predictability is the key driver for cost of capital and returns. Under IFRS 4 Phase II, the volatility of total comprehensive income would increase significantly, while the volatility of net income would increase to some extent. Investors may expect to require additional returns for increased earnings volatility and further capital may be required to provide a cushion.

An approach to manage changes in volatility under the new standard needs to be developed. Running simulations at an early stage will enable businesses to assess the impact and develop appropriate strategies.

3.1.4 Asset and liability management

The proposed changes to accounting rules under IFRS 4 Phase II and IFRS 9 *Financial Instruments* may drive new choices relating to assets liability management. The measurement will change under IFRS 9 and IFRS 4 Phase II and the introduction of Solvency II will lead to changing capital requirements. The possibility that the timing of the implementation of IFRS 9 will differ from IFRS 4 Phase II adds further complexity to implementation planning and transition to the new accounting rules.

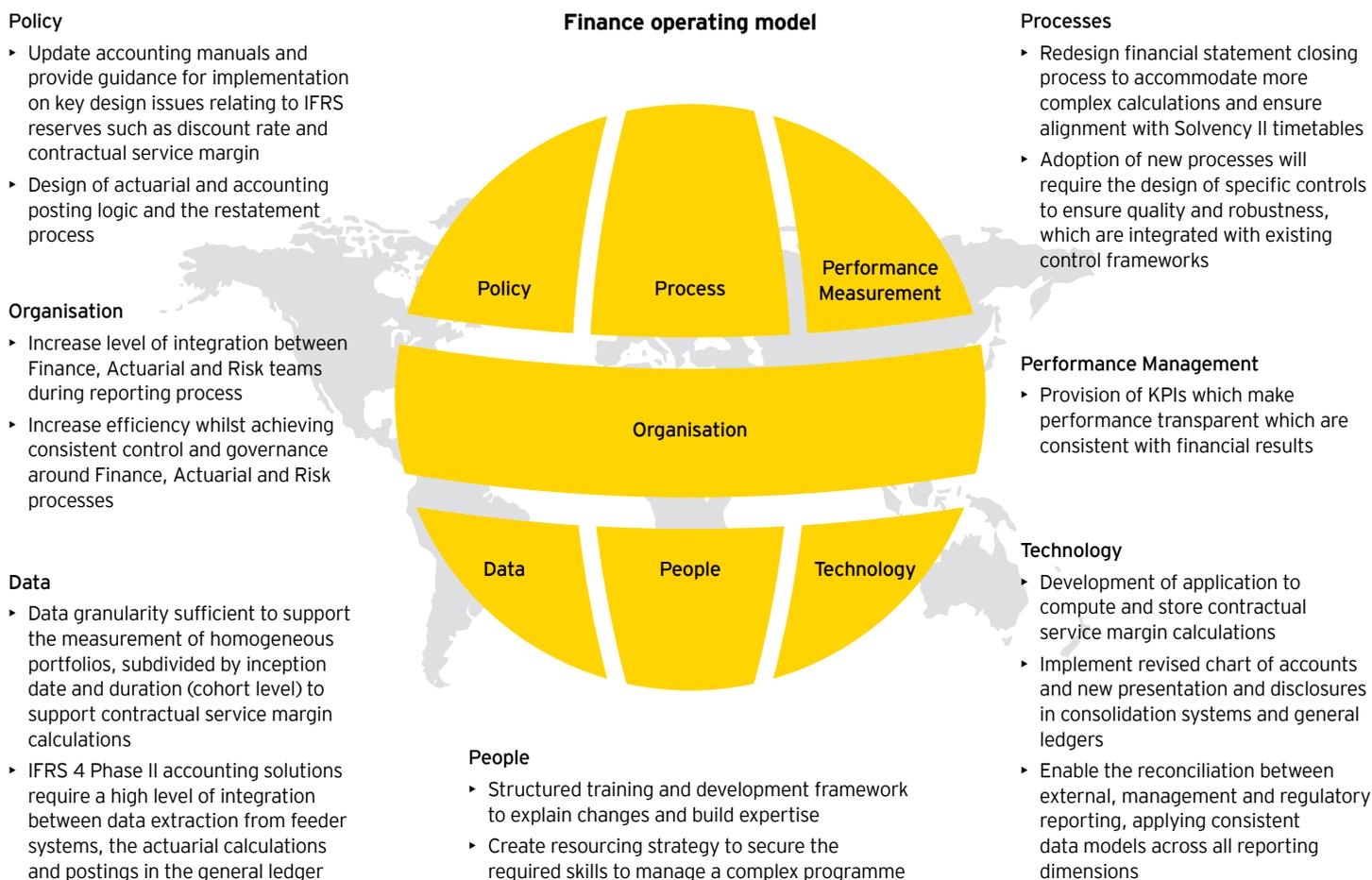
Key strategic decisions will be required on which metrics to apply to asset and liability-matching to protect capital and manage financial statement volatility. Insurers will need to determine the combined impact on assets and liabilities and the accompanying implications for all policies in the income statement. During implementation, it will be necessary to determine which elements to match and which asset classes to use. An early consideration of strategy will allow changes in asset portfolios to be phased in over time and inform decision making on strategy going forward.

3.2 Operational impacts - business process and systems

We expect that Solvency II and IFRS 4 Phase II requirements will further push insurers to rethink their finance operating model (see figure 3). IFRS 4 Phase II pressures CFOs and finance functions to increase efficiency, as well as achieve a higher level of integration between finance, actuarial and risk processes.

Both the additional complexity driven by Solvency II and the future IFRS 4 Phase II will place greater strain on existing work processes and necessitate additional operating staff. Tactical IFRS 4 Phase II solutions will increase the potential for duplication of efforts between finance and risk and the creation and maintenance of data repositories, which will drive costs within the finance function. Finance will come under further pressure to implement streamlined processes that will meet reporting time scales at an acceptable cost.

Figure 3: IFRS 4 Phase II impacts on all elements of the finance operating model



3.2.1 Accounting policy

One typical area of an IFRS 4 Phase II programme will be a focus on policy issues. The IFRS 4 accounting policy considerations will need to be addressed at an early stage. Key decisions must be made to determine accounting policies and interpretations, and to assess the impact on the business, financial results and equity. As the IASB has asked for comment on a limited number of areas, the ED will provide a starting point on which to develop the new accounting manual.

Group accounting policy teams will need to design the restatement process, update accounting manuals and provide sufficient guidance to local accounting teams to instigate the preparatory work required. The group accounting policy teams will need to provide direction on key design and governance issues such as detailing the future cash flows and risk adjustments, the discount curve and the use of new, or enhanced, models to estimate these amounts. The chart of accounts and general ledger postings must be defined to provide the basis for automation of accounting and actuarial tools.

3.2.2 Processes

Following the adoption of Solvency II and IFRS, one likely challenge will be the optimisation of the closing process to meet current deadlines. We expect companies to refocus on fast-close initiatives as deadlines to publish results remain unchanged or shortened, while undertaking more complex calculations. The increased complexity will drive greater automation of reporting processes to enable changes to assumptions to be easily made in a controlled environment, eliminating manual activities. Additional time will be required for the insurer to analyse and interpret a new set of results, together with the need for parallel alignment with Solvency II.

Designing the financial statement closing process to meet the challenging reporting time scales will have significant implications for systems, processes and organisations. The reporting timetable is likely to lead to a complex schedule of actuarial model runs to meet reporting timelines and will require additional controls and reconciliations to be performed to ensure consistency across the different bases. Companies will need to determine whether to run reporting sequentially, using the overlap between IFRS 4 and Solvency II, or in parallel to meet the required timetable.

There will be major changes to group consolidation and reporting processes to align with new formats for the statement of financial position and statement of profit and loss and comprehensive income. Additional disclosure requirements (such as methods, estimation approaches and risk information) to enable users to understand the nature, amount, timing and uncertainty of cash flows will necessitate changes to processes. To support these disclosures, the content and structure of data captured from business units to support group reporting will change significantly.

Planning and forecasting processes will also need to be adjusted to the new IFRS, and the provision of management information and KPIs which make performance transparent will need to be consistent with financial results. The volatility of financial results and equity is expected to increase and will require more advanced forecasting and simulation capabilities to provide reliable financial forecasts. Insurers will need to clearly communicate performance to the Board of directors and external investors and deliver the predictable results that financial markets expect.

The adoption of new processes will require the design of specific controls to ensure quality, robustness and integration into existing control frameworks. A clear audit trail will need to be established for reported figures across the full value chain.

3.2.3 Financial systems and data

The entire financial systems' architecture will be impacted. Operational systems, actuarial models, general ledgers, consolidation and performance management systems will need to be amended to take into account the additional data required to support the new measurements, presentation and disclosure requirements in IFRS 4 Phase II.

Upon determination of the new accounting policies, a gap analysis will need to be performed and the quantitative impacts of the changes understood. Obtaining an understanding of the presentation of financial results and their structure, including data items, breakdowns and dimensions required to fulfil future reporting needs, will facilitate developing designs and plans. A high-level design of the chart of accounts will enable a common understanding of the changes required and their impact on both group and local finance tools and systems.

Source systems will need to provide data at sufficient granularity to enable portfolios to be sub-divided by inception data and duration in order to calculate the contractual service margin. Actuarial models must be capable of running more frequent and complex calculations within the timelines required by the financial statement closing process. Companies that are required to implement Solvency II should be able to leverage their investment in actuarial data and models to facilitate meeting the requirements of IFRS 4.

General ledgers and sub-ledger systems will require functionalities to support the analysis and reconciliation of data available; for example, to analyse the effect of changes in different assumptions and to reconcile IFRS data and Solvency data, or post- and pre-implementation financials at the time of transition to IFRS 4 Phase II.

The chart of accounts redesign and new presentation and disclosure requirements will substantially impact group consolidation systems and the data required from subsidiaries. Management reporting, planning and executive dashboards will need to be redesigned to mirror the new requirements – and KPIs will need to be recalibrated.

The accounting solutions will demand a high level of integration between data extraction from feeder systems, the actuarial calculations and postings in the general ledger. An integrated solution will create a robust audit trail that will meet external reporting standards and facilitate reconciliation between external, management and regulatory reporting (e.g., IFRS, economic balance sheet, MCEV, Solvency II).

3.2.4 People

The new accounting regime imposes transformational change on finance, which needs to be addressed by a clear people agenda. Early communication and raising awareness will be essential to build a structured training and development framework to explain the accounting changes, the new KPIs and to develop the technical expertise required to support the introduction of the new standard.

Functions will change as IFRS 4 Phase II will necessitate increased integration of the finance, actuarial and risk functions during the reporting process. Close collaboration will be required to prepare results under the new standard, as failures in communication and misunderstandings would raise the real risk of financial misstatement.

Programme structures have been established for Solvency II and businesses should seek to retain and build on the project management and change expertise within these teams to establish their IFRS 4 programmes. It will be essential to develop an integrated change management plan to ensure that these complex and linked developments are smoothly transitioned from the project mode into operations. Change management will be a major challenge for stretched finance functions that have had to deal with a raft of regulatory and reporting changes in recent years, while trying to maintain business as usual in challenging market conditions.



4 Major operational gaps

IFRS 4 Phase II is built on several key elements that are similar to concepts in Solvency II. As such, it will be possible to leverage the investment in Solvency II (see figure 4). However, there are a number of key differences to the existing IFRS where there is limited overlap with Solvency II.

In this section, although there are others, we take a deeper dive into the implementation challenges in relation to three topics: contractual service margin; transition; and presentation and disclosures. For each of these areas, the potential to leverage Solvency II solutions is limited, and there is a major gap between current reporting requirements and IFRS 4 Phase II.

4.1 Contractual service margin

IFRS 4 Phase II requires establishing a contractual service margin to defer any Day 1 profit – and this is earned over the period of coverage. There is no concept of profit deferral or contractual service margin under Solvency II.

The contractual service margin is determined at a portfolio level. A portfolio comprises contracts that are subject to comparable risks, priced similarly to the risks and managed together as a single pool. The contractual service margin is unlocked for changes in assumptions of future cash flows after the inception date, which has the impact of spreading those changes to the income statement over the remaining coverage period of the contract.

Companies will need to define “portfolio level” for the determination of the contractual service margin. The definition of portfolio will give companies the opportunity to balance between “accuracy” (more portfolios = greater accuracy) with data requirements (fewer portfolios = easier data management). Companies will need to define “portfolio level”, which at a minimum need to comply with the guidance, at a level with which they are comfortable in tracking and is practical in terms of data gathering and management.

Figure 4: Key differences (indicative or illustrative) between IFRS 4 Phase II and Solvency II

Topics	Major gap with current IFRS*	Expected leverage on Solvency II
Contractual service margin		
Transition		
Presentation and disclosure		
Discount rate		
Risk adjustment		
Premium allocation approach		
Product classification, recognition and contract boundaries		
Separating components from the insurance contract		
Future cash flows		
Ceded reinsurance		
Participating contracts		
Taxation		

*The gap with current IFRS may vary depending on the jurisdiction

Major gap with current IFRS  Little/no impact  Significant impact  Medium impact

Expected leverage on Solvency II  No potential  Some potential  Significant potential  High potential

The release of the contractual service margin will form a specific component of profit or loss under IFRS 4 Phase II. Companies will need to assess the impact of the contractual service margin and the amortisation profile of a contract on reported earnings and metrics. Policy decisions about calculating the contractual service margin will not only determine future profit profiles, but also the design of systems and processes – and they will dictate the data required to populate them.

New systems and processes will be required to calculate and track the contractual service margin that is needed to provide for unlocking the contractual service margin for future changes in assumptions. The design of systems to calculate and manage the contractual service margin must take into account the need to make adjustments when assumptions change, or to release the contractual service margin on contracts no longer in force. The flexibility of a spreadsheet-type solution may be favoured by some, but may quickly become unmanageable and lead to control weaknesses inherent in end-user systems. These systems may not meet the control standards required to satisfy regulatory requirements, as they will not be able to support a complete audit trail. Companies should consider more robust database solutions to provide an automated straight-through process.

The practical design considerations of implementing contractual service margin calculations will significantly influence the cost and complexity of the accounting solution to be delivered. The requirement to store the contractual service margin at inception for all business written in a reporting period at portfolio level will require assumptions to be captured and stored for each portfolio. An audit trail of changes to these assumptions will need to be maintained and reflected in subsequent reporting periods. Companies will need to determine both the levels at which these assumptions will be held and the frequency of assumption reviews and updates. The result of these deliberations will determine the granularity of data required, the general ledger posting cycles, the necessary accounting entries and the interfaces to be developed to generate these entries.

4.2 Transition

IFRS 4 Phase II will require retrospective application, while Solvency II requires full prospective application, with an opening balance sheet and capital requirements due on the Solvency II implementation date.

Retrospective application will require all relevant and historical data to be available in the right format and level of granularity for all in-force contracts to calculate the unbiased probability weighted estimates and margins on transition. Estimating the contractual service margin on transition will be a key area of complexity.

The transition will undoubtedly be easier to manage if historical information is available at the level of detail required to calculate the best estimates of the contractual service margin, as this will enable historical and future business to be measured on a consistent basis. It will also remove an area of complexity that will need to be explained and communicated to users of the financial statements.

If it is impractical to apply retrospectively, it will be necessary to estimate the contractual service margin at transition by maximising the use of objective data and by using simplifications to determine discount rates at inception.

The contractual service margin is determined on transition, assuming that all changes in estimates of cash flows between initial recognition and the beginning of the earliest period presented were already known at initial recognition (i.e., no need to track movement of the contractual service margin due to changes in expected cash flows between inception data and transition date).

Companies will need to decide the practicality of retrospectively applying the standard and how to estimate the contractual service margin for earlier periods. The transition approach and opening balance sheet will need to be sufficiently robust for management to confirm compliance with the standard.

The discount rates used will have a financial impact:

- i. The discount rates at inception (i.e., locked-in) will drive the liability measurement and the amount of contractual service at contract inception
- ii. The effect of changes in the discount rates after inception will be reported in OCI on transition

The size and amortisation period of the contractual service margin will have significant impact on future reported profitability. A larger margin will lead to higher future profits, and vice versa.

4.3 Presentation and disclosure

Fundamental changes to the presentation of results in the financial statements and disclosures will be required. The presentation of results under IFRS 4 Phase II differs completely from the presentation in existing reporting.

The standard will require an earned premium method to be followed on the statement of profit or loss. For life insurers this is very different from what is done under most existing models. Disaggregation of the deposit component of premiums will be required, with only the non-deposit element reported in the statement of comprehensive income as insurance contracts revenue. Also required are detailed opening to closing balance sheet reconciliations and confidence level disclosures for the risk adjustments.

Moreover, there are additional disclosure requirements beyond those currently required for IFRS 4 (e.g., the reasons for changes to methods and inputs used, and identifying type of contracts affected).

Companies will be able to leverage some of the Solvency II risk disclosures for the disclosures required under the ED proposals. However, the primary focus of Solvency II is the balance sheet rather than performance measures, although some analysis of the movement in the balance sheet is required. Users are likely to ask for a meaningful reconciliation.

The new presentation and disclosure requirements will drive significant re-engineering of reporting systems to accommodate the new disclosure requirements and will require additional data to be submitted by business units to support the new reporting formats.

Rapid close reporting under different frameworks will be an operational challenge. If Solvency II functionality is used for financial reporting, this may necessitate further acceleration of reporting timetables (as reporting time frames for IFRS will differ significantly from Solvency II requirements). The IFRS reporting processes for insurance liabilities are likely to rely heavily on Solvency II and the embedded value processes, with new processes being developed to cover the calculation, amortisation and updating of the contractual service margin. Actuarial models will need to have the flexibility to produce liabilities under each of the different bases and reconcile between them.

Significant education will be required for all users. Management will need to understand the new reporting metrics to adequately explain their business to analysts. Furthermore, finance staff will need to be trained on all aspects of the changes.

An impact assessment will inform decisions on the strategy going forward. An early consideration of the strategy will allow any potential changes required in products or asset-liability management policies to be controlled and managed in the period of time leading up to the transition date.

Insurers will need to determine the new disclosure requirements that will be built into the chart of accounts and those that will be prepared in off-line systems.



5 Implementation and next steps

As IFRS 4 Phase II will significantly impact all areas of the finance organisation and systems architecture, plans and strategies need to be devised to address implementation challenges.

There are many advantages to acting early. It should not be assumed that Solvency II will provide all the answers. Identifying the strategic and operational impacts of IFRS changes will enable the development of plans and mitigation for the most critical issues, e.g., approach to investor communications. It will also create a more integrated and aligned future state for the finance organisation, avoiding duplication of effort and enabling Solvency II synergies to be realised.

Based on EY's experience with previous conversion exercises, many insurers have left it too late to plan effectively for the implementation of new standards. This has resulted in higher overall costs and insurers living with tactical results that have not been subsequently replaced with efficient processes and system solutions.

Given the significant overlap between IFRS and Solvency II, insurers should seek to leverage their Solvency II deliverables to encourage efficiencies through:

- ▶ Single data sources and data model
- ▶ Automated central data feeds
- ▶ Commonality in chart of accounts
- ▶ Documented and tested processes
- ▶ Single view of best estimate assumptions
- ▶ Training and understanding of the finance team





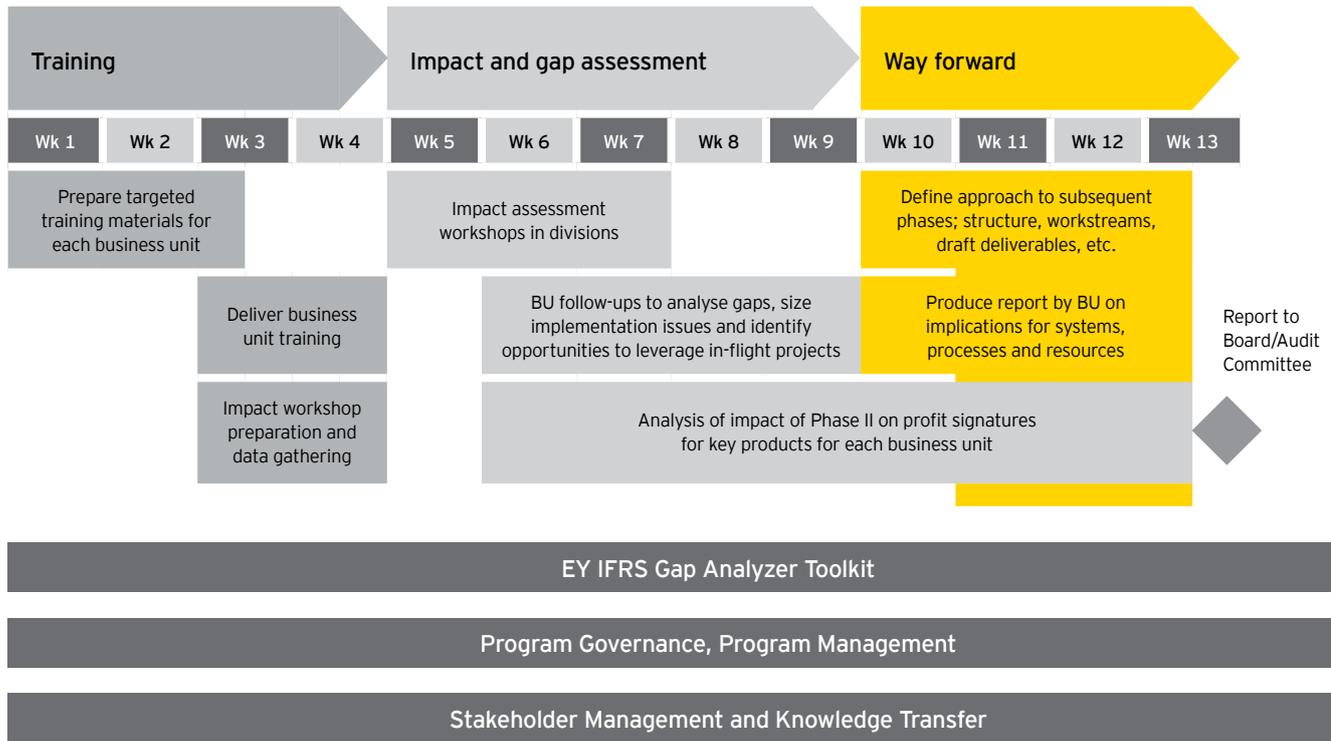
6 How EY can help

EY currently assists many insurance organisations with Solvency II implementation and finance transformation projects. We are analysing overlaps and linkages between IFRS and Solvency II, as well as related implementation challenges and practical solution options. With broad experience and industry-specific knowledge, we are in a position to help insurers with comprehensive impact assessment, detailed solution designs, operational processes and systems implementation, as well as communication strategies.

The first step to developing an implementation plan in response to the challenges presented by IFRS 4 Phase II will be to perform an impact assessment. EY's approach comprises three key steps:

1. Training
2. Impact assessment and gap analysis
3. Developing the way forward

Figure 5: EY approach to an IFRS 4 Phase II impact assessment



The training phase comprises of the development of targeted training materials for each business unit to be delivered to the teams who will support the impact assessment and gap analysis. At the heart of our impact assessment is a series of structured workshops with clients.

EY's IFRS 4 Phase II Gap Analyser has been developed to support the detailed gap analysis in a structured way. It is based on the requirements included in the ED and organised by topics to support structure at workshops with clients. The web-enabled tool will support clients in analysing and understanding the accounting changes in IFRS 4 Phase II implementation and the impact on finance and actuarial processes, systems, data and models. It will also identify potential overlaps with Solvency II projects.

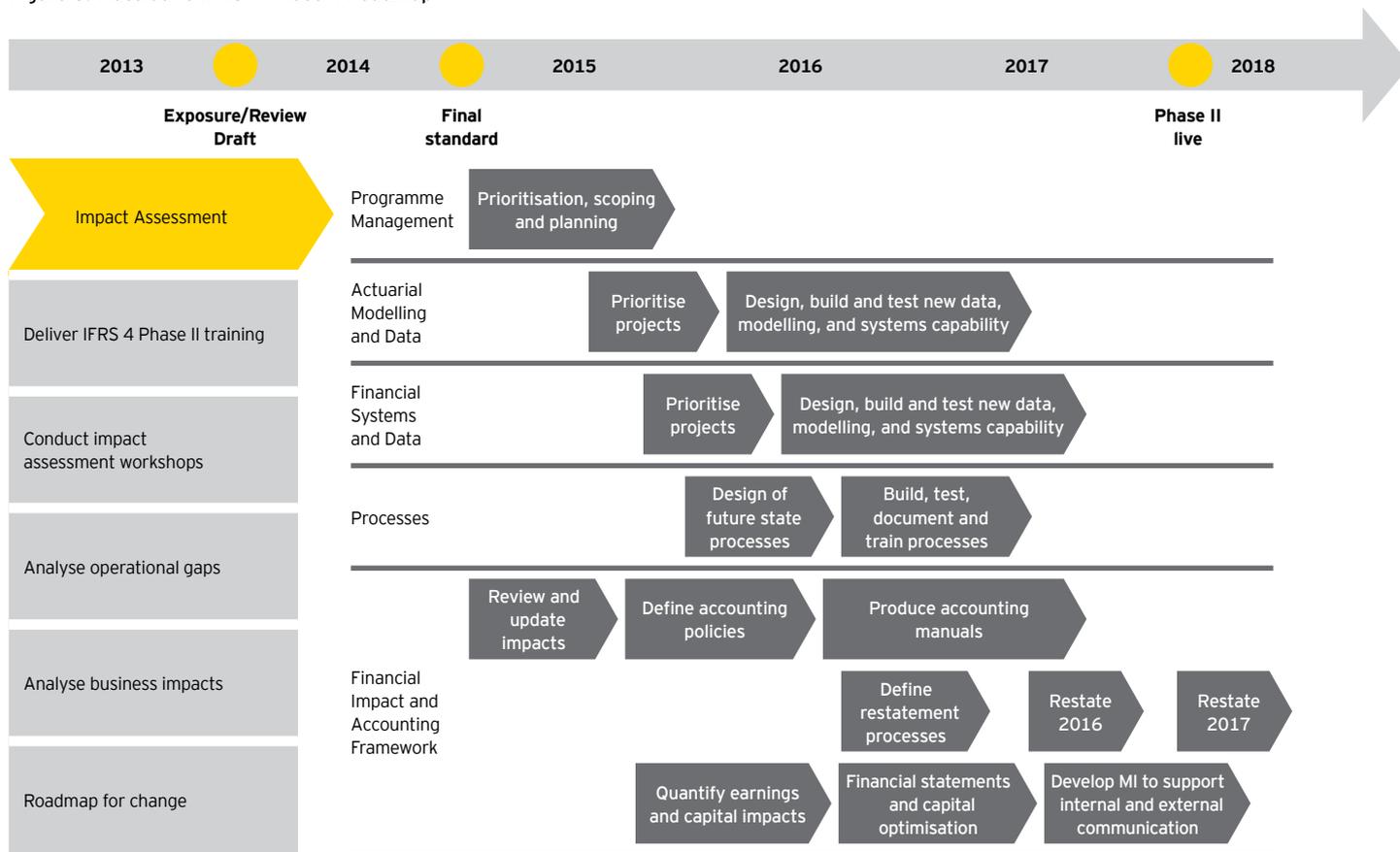
The output from the impact assessment is a series of gaps which will be prioritised and grouped across the end-to-end process for further analysis and validation in developing a holistic roadmap for change and project structure. It will identify the end-to-end process from legacy systems through to external consolidated reporting. We work together with actuarial, finance, risk, IT and tax teams to gain an integrated view of requirements as a basis for holistic implementation plans.

An analysis of the impact of IFRS 4 Phase II on profit signatures for key products can be prepared for each business unit to support the development of the impact assessment and the long-range planning assumptions.

The impact assessment is the first step in developing an implementation plan. EY can draw upon its experience with other IFRS conversion projects to support the development of a roadmap that will encompass all aspects of the conversion. An illustrative IFRS programme roadmap is shown in figure 7, which identifies the key programme workstreams, and deliverables, that will need to be established.

A key element of the implementation programme will be communicating and explaining the impact of IFRS 4 Phase II to both internal and external stakeholders. A clear strategy will need to be established to both educate and communicate the effect of the changes introduced by the new standard to senior management and the investor community.

Figure 6: Illustrative IFRS 4 Phase II Roadmap





7 Conclusion

Implementing IFRS 4 Phase II will have a significant impact across the finance operating model. Understanding the implications of the new standard for your business model will be essential in developing the appropriate strategies and response.

IFRS 4 Phase II will require insurers to look at all aspects of finance. Modifying accounting policies will drive changes to the design of systems and chart of accounts and will lead to the development of new performance management metrics and asset and liability management strategies. There will be a need to communicate effectively to the investor community to explain the impact of these changes and provide consistent information across a new range of measures.

IFRS 4 Phase II programmes will need to be aligned with existing Solvency II and other finance change programmes to avoid redundancy and realise implementation synergies. Management processes must be established to formally link these projects to develop an integrated finance change management plan.

While it will be possible to leverage Solvency II deliverables to support the IFRS 4 Phase II programmes, significant gaps will exist. Implementing the contractual service margin, presentation and disclosure and transition requirements will present significant new challenges. Finance's ability to manage change will be tested as it continues to tackle new requirements in an evolving regulatory environment with challenging market conditions.

In our opinion, insurers should act early to understand the impact of IFRS 4 on their business and develop implementation plans. Doing so will enable them to allow sufficient time to address the strategic challenges that IFRS 4 Phase II presents and to implement the complex operational requirements with their multiple impacts on data, systems, processes, governance and organisation.

We have presented our views on how an IFRS 4 Phase II project should be tackled and given examples on the overall project approach and key implementation challenges. Planning should start with an impact assessment to develop a gap analysis and an implementation roadmap defining key deliverables, milestones and priorities. EY can help perform that initial analysis in a structured and efficient way.

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