Oracle Financial Services IFRS 17 Solution

Oracle provides a comprehensive solution for the diverse insurance industry to address the financial accounting requirements of IFRS 17 and to measure and report liabilities and unearned profit as per the new standard. Oracle IFRS 17 solution is built on Oracle's integrated risk & finance architecture and provides out-of-the-box capabilities for data aggregation and CSM calculations, while seamlessly integrating with finance and actuarial applications, enabling accounting, performance management, risk management and reporting from a single platform.
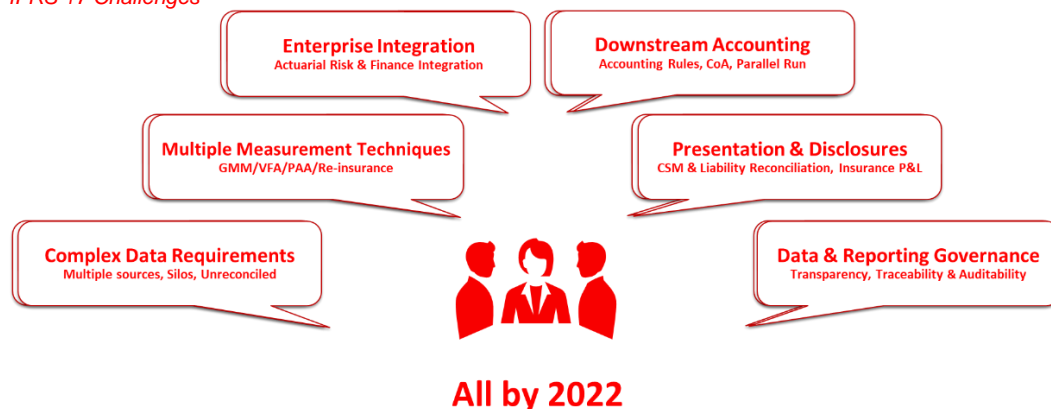
In May 2017, International Accounting Standards Board (IASB) introduced the first truly global accounting standard for insurance contracts. The result of 20 years of deliberations, the International Financial Reporting Standard (IFRS) 17 Insurance Contracts, aims to provide consistency to all aspects of accounting for insurance contracts and enable analysts, investors and regulators to meaningfully interpret the profitability and liabilities of companies and such contracts.

But it does not come without its challenges to the Insurance industry that are impacted the most by it. Up until now, most insurers operated without a standard accounting regime; now they face numerous up-hill battles in upgrading their processes and systems to the new uniform standard. The comprehensive requirements for measurement of insurance liabilities and unearned profits will significantly impact business processes, while granularity of data and calculations will present challenges in aggregating and presenting the outputs for disclosures and management reporting.

So, what does this mean for insurers and other financial institutions that need to adopt IFRS 17?

Simply stated, it is time to redouble efforts to focus on data and its accuracy, aggregation, governance, transparency and usability, to align Actuarial, Risk and Finance processes and functions.

IFRS 17 Challenges

Enterprise Integration
Actuarial Risk & Finance Integration

Downstream Accounting
Accounting Rules, CoA, Parallel Run

Multiple Measurement Techniques
GMM/VFA/PAA/Re-insurance

Presentation & Disclosures
CSM & Liability Reconciliation, Insurance P&L

Complex Data Requirements
Multiple sources, Silos, Unreconciled

Data & Reporting Governance
Transparency, Traceability & Auditability

All by 2022

IFRS 17 Insurance Contracts

The Standard introduces insurance contract measurement principles requiring:

- current, explicit and unbiased estimates of future cash flows
- discount rates that reflect the characteristics of the contracts' cash flows
- explicit adjustment for non-financial risk

Day-1 profits deferred as a Contractual Service Margin (CSM) and allocated systematically to profit or loss as entities provide insurance services and subsequently released from risk.

Revenue no longer equal to written premium on day 1, but realized over time as insurance liability extinguishes.

Completely new accounting and disclosure requirements

Overhaul of financial statements.
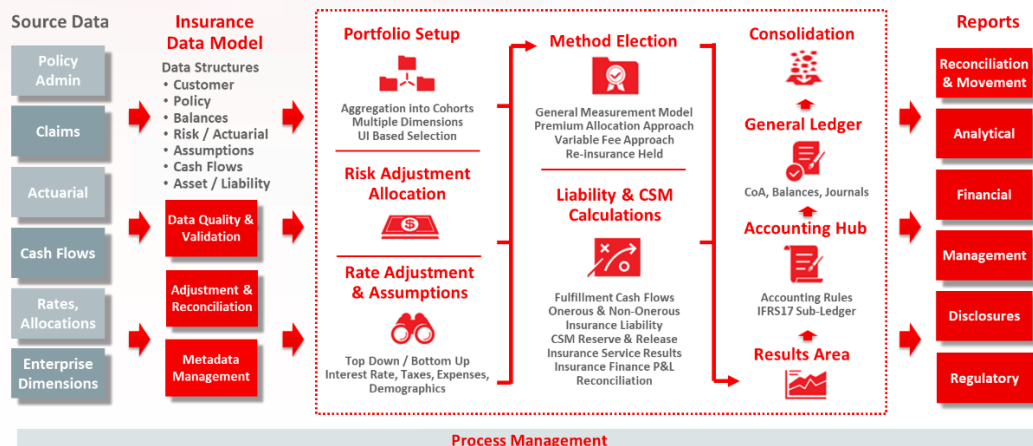
Major impacts on data, systems and processes.

ORACLE®

ORACLE WILL MAKE THE DIFFERENCE

A comprehensive solution that is also future ready

With its extensive experience in the financial services industry, Oracle provides a solution to address these challenges and ensure insurers can comply to the complex requirements comprehensively and in time.

Oracle IFRS 17 Solution Architecture

INSURANCE DATA MODEL

Consolidate data from various source systems – CRM, Policy Administration, Claims Management, Actuarial systems, Market data providers, Enterprise data et al and standardise it for purpose of CSM and Liability measurement. The model can be extended to serve as a unified platform for sourcing and provisioning of insurance related risk, finance and actuarial data and to cater to various business use cases of an Insurance enterprise – Policy, Claims, Transactions, Re-insurance, Own Funds, Solvency II, Assets/Liabilities, Products, Actuarial, Market Data, Cash Flows, Reporting etc.

DATA QUALITY AND RECONCILIATION

Validate input data through pre-configured business contextualised data quality checks and a reconciliation framework to ensure balances between transaction and analytical systems match before data is utilized for computing and reporting.

PORTFOLIO AGGREGATION

Aggregate contracts into portfolio(s) based on multiple dimensions like product, geography, currency, origination date, policy term, coverage type etc. Further, build cohorts to determine manageable IFRS 17 groups for risk adjustment allocations, fulfilment cash flows and onerous identification.

YIELD CURVE ADJUSTMENT

Upload rate curves and define lock-in rates for financial assumptions and interest accretion. Rates can be adjusted based on bottom-up and top-down approaches for analysis of insurance contracts and derived from market data on similar instruments.

CONTRACTUAL SERVICE MARGIN & LIABILITY MEASUREMENT

Leverage pre-configured business rules for GMM, PAA, VFA and Re-insurance calculations. The measurements techniques and associated variables can be easily modified for changes in the rules or methodology and defined as per the granularity of data from source systems. Portfolios can be mapped to and analysed by one or more measurements techniques for comparative and what-if analysis.

Key Business Benefits

- **Pre-built and flexible Insurance data model** to accelerate implementation timeline

- **Unified Platform** for finance & actuary

- **Truer profit measurement** and revenue recognition

- **Profitability and Pricing discipline** – Valuation of Insurance Liabilities and CSM

- **Data Management** - Quality checks, Metadata & Lineage

- **Readily scalable** to other insurance use cases

- **Transparency, Auditability and Traceability** of calculations and reports

- **Rapid Accounting and Reconciliation** for faster close and reporting

- **Process Orchestration** for control and governance

- **Pre-built Reports & Disclosures**

- **Future proof** platform to incorporate changes in regulations and processes

MOVEMENT ANALYSIS & LIABILITY RECONCILIATION

Analyse changes in fulfilment cash flows and policy experience (related to current and future service), expenses, claims and premiums into CSM or Liability by reporting period and contract groups. Further, reconcile Liability for Incurred Claims and Liability for Remaining Coverage (including Loss Component) and analyse the impact on Insurance Service Results and Insurance Finance P&L to provide a complete insight into Insurance Revenue. Easily build new reports and dashboards for analysis, financial or management reporting.

ACCOUNTING ENABLEMENT

Enable downstream accounting by defining consistent posting rules, events and charts of accounts for Insurance revenue & PnL. Maintain IFRS 17 subledgers for reconciliation and transition, and achieve compliant and auditable accounting, reporting and consolidation. Get visibility into the journal entries resulting from the accounting process, reconcile to source and any exceptions that require action before they are exported to any general ledger system of record (Oracle or non-Oracle). Get further insight by using business dimensions and transaction attributes that are outside the chart of accounts to build reports and analysis.

WORKFLOW AND CONTROLS

Support visual orchestration of workflows to view and control processes, input/outputs, mappings and calculation logic.

EXTENSIBILITY TO IFRS 9

Leverage the integrated analytical applications infrastructure to deploy requirements for IFRS 9 Impairment, on the same platform. Oracle delivers a unified platform for all analytical requirements in an enterprise without the need to build integrations between various point solutions. Data, results and analytical capabilities are shared across applications giving the ability to scale up the same platform for other business use cases, while reducing incremental effort.

CLOUD DEPLOYMENT

Explore multiple deployment options ranging from On-Premise – Traditional Infrastructure, Cloud@Customer – Cloud Machines, and Public Cloud.

ORACLE FINANCIAL SERVICES ANALYTICAL APPLICATIONS

Oracle Financial Services Analytical Applications (OFSAA) is a family of solutions for global financial services industry. Oracle Financial Services Analytical Applications are built upon a commonly available analytical infrastructure consisting of a unified financial services data model, analytical computations and the industry-leading Oracle Business Intelligence platform. These components are leveraged from application to application to ensure data consistency, traceability and availability throughout the enterprise, thus offering a 'UNIFIED' platform for an integrated Risk & Finance transformation required for achieving many of the complex regulatory and compliance requirements of the financial services industry.

Integrated Cloud Applications & Platform Services