

Ind AS 117 - Implementation Challenges

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Agenda

1. Context and Approach to Categorisation
2. Solve Hard Challenges
3. Resolve Soft Challenges
4. Dissolve Messy Challenges
5. Key Takeaways

The Regulatory Timelines. Implementation Stage is Set

Pre August 2024	August 2024	March / April 2026	First 2 Years
Mission IFRS at IRDAI, Proforma Submission initiated. Various IFRS Sub-Committee Constituted. Ind AS 109 already notified	MCA notifies Ind AS 117 Insurance Contracts, converged with IFRS 17	IRDAI exposure draft and consultation paper, followed by the amended Actuarial, Finance and Investment Functions regulations. Rollout Announced on 1st April	Ind AS financial statements to IRDAI, with IGAAP-based Schedule II information still published for immediate rollout. Forbearance can be opted in first year.

What Changes for a General Insurer?

Area	IGAAP	IndAS 117
Top Line	GWP; earned premium via UPR	Insurance revenue as coverage is provided; GDPI leaves the face
Unexpired risk	UPR plus premium deficiency reserve	LRC (PAA or GMM) plus loss component for onerous groups
Claims	OS + IBNR/IBNER, undiscounted, implicit margins	LIC: discounted best estimate plus explicit risk adjustment
Acquisition cost/Attributable & Non Attributable Expenses	Commission expensed upfront. Attributable and non Attributable also expensed upfront	Expenses segregated into Attributable and Non-Attributable. IACF deferred over coverage
Reinsurance	Netted within the revenue account	Measured separately; shown as a separate asset and P&L line

Four Kind of Challenges / Problems

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Hard Solve

What it is?
Bounded and well defined. Models and tools can close it.

IndAS 117 Example
Building the discount curve. G-Sec base; extrapolation and an illiquidity premium

Response
Method paper, build, test, benchmark.

Soft Resolve

What it is?
Human behaviours and trade-offs. Involves value of time and how much willing to pay. Only good enough answers.

IndAS 117 Example
The dual-book quarterly close; actuarial runs v/s deadlines, new hand-offs between finance and actuarial.

Response
Joint Ownership, clearly defined hands-off with control totals, & rehearsed close

Messy Dissolve

What it is?
Values and beliefs. People disagree on what is the problem.

IndAS 117 Example
Prudence vs neutrality: the board sees conservative reserves as protection; IndAS 117 ask for neutral estimate + RA.

Response
Reframe; agree the principle before any number

Wicked All Three

What it is?
Hard, Soft and Messy colliding. Fixing one kind can worsen another.

IndAS 117Example
Price Increase cap of 10% on Senior Citizen.

Why Wicked Problem
A price the insurer doesn't fully control, stakeholder with different objectives, and a standard that now makes the economics clearly visible.

Framework Reference : Wicked Problems: How to Engineer a Better World by Guru Madhavan

Challenges by Type and Order

	FIRST-ORDER: implementing the standard	SECOND-ORDER: running the business
Hard Solve	Discount curve, RA, PAA tests Cohort data, treaty mapping, subledger Transition and reinsurance mechanics	Plan projections of LRC, LIC, loss components Analysis-of-change and KPI engines Pricing with RA and cost of capital.
Soft Resolve	Actuarial–finance ownership Skills, dual-book close, audit readiness Stakeholder understanding Judgement thresholds: triggers, RA level, IP	Planning cycle and MIS adoption Incentives from GWP to profitability Underwriting, claims and channel behaviour
Messy Dissolve	Two truths: Ind AS vs IGAAP Prudence vs neutrality Readiness vs regulatory timeline	Growth culture vs visible losses Social mandate vs profitability TP tariffs and investor narratives

Measurement mechanics to solve – Position Papers

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PAA Eligibility Test
Profit Signature under GMM & PAA for long term motor TP, Home & Engineering

Discount Curves & Unwinding of Discount
G-sec base, extrapolation + illiquidity premium for long-tail LIC. Unwinding through OCI / FVTPL. Ideally need to be consistent with IndAS 109

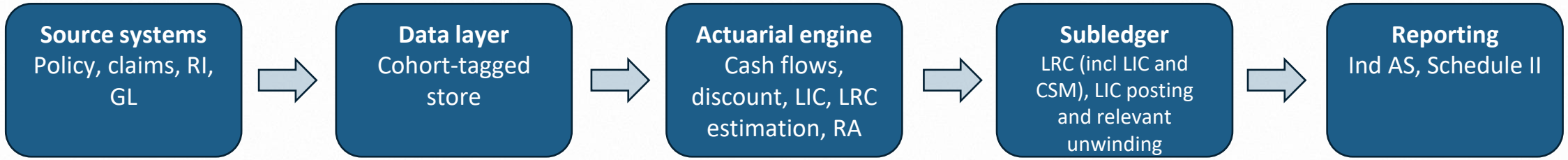
Risk adjustment engine
Bootstrap, cost-of-capital model or fixed percentage, converted to a disclosed confidence level

Expense allocation
Attributable vs non-attributable split; ULAE inside LIC; IACF deferral.

Reinsurance held
Separate groups, PAA tests for risks-attaching treaties, loss-recovery component.

Transition calculations
Full retrospective, modified retrospective or fair value by cohort.

Data and Systems to build



Cohort granularity

Triangles and premium data by portfolio and annual cohort.

Policy-to-treaty mapping

Link every policy to the treaties and facultative cover that protect it.

Automated reconciliations

Monthly actuarial-to-GL and IGAAP-to-Ind AS bridges, not spreadsheets.

New Engines / Platforms to be built

Capability	What it must do
Plan projections	Revenue, service result, LRC, LIC and loss components by cohort
Rate scenarios	Yield-curve shocks through LIC, finance expense and OCI/FVTPL
Analysis of change	New business, experience, assumptions, unwind, RA release
Pricing models	RA and cost of capital in technical prices
KPI engine	Combined ratio and segment results on the Ind AS basis

Often unbudgeted: the year-end valuation & reporting engine gets built; the planning and pricing engines may not.

How to Solve Hard Challenges

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Specify

What to do?
Method Papers: PAA eligibility, discount curve and IP, RA Level, expense attribution, onerous triggers

Policy Choices: OCI / P&L Options, acquisition costs, grouping granularity

When completed
Each judgement documented and co-signed by CFO, AA and other relevant stakeholders

Build

What to do?
Cohort level data layer reconciled with GL, with policy to treaty mapping Engines for cash flows, discounting, RA and loss components; sub-ledger posting.

When Completed
One automated run from source data to disclosures, with data lineage

Test

What to do?
Parallel runs, and dry run closes alongside IGAAP. Back test reserves and RA releases; sensitivities to rates, inflation and RA levels. Hard Closes during forbearance period

When Completed
Stable results over two or more dry runs; every movement explained by analysis of change

Govern & Benchmark

What to do?
Compare with peers, global IFRS disclosures. Independent Model validation, change control, annual recalibration

When Completed
Output and documentation accepted by Auditors / independent reviewers. Validation findings closed

Watchout

Developing before methods are agreed || Permanent Spreadsheets ||
Testing the numbers only and not the close process || No option of recalibration ||

Implementation trade-offs

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Actuarial–Finance ownership

Who prepares the LIC, RA and loss component? Who owns the forward-looking assumptions? Who owns the final number?

Skills and retention

A thin pool of IFRS 17 experience, in demand by insurers and consultancies.

Close time vs quality

Two years of dual books lengthens the quarterly close.
Higher overheads
Monthly Close for Internal management Reporting

Judgement and Thresholds

Onerous triggers and RA level: no right answer however needs a strong documentation.

Build vs buy

Vendor speed and dependence vs in-house control and fit.

Audit readiness

Joint auditors testing actuarial judgement in depth for the first time.

Business Behaviours to change

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Planning Cycle

Earlier start, actuarial engines in the loop, joint AA–CFO sign-off. Monthly Actual vs Budget / Plan comparison and Course correction

Performance Reviews

Managers to consider service result and analysis of change, not IGAAP P&L

Incentives

Scorecards move from premium volume to profitability (calculated differently), within EoM limits.

Underwriting

Price discounts tied to technical price including RA; deeper discounts needs referral. New Business Strain not material.

Claims & Reinsurance

Capture claim stage, legal status, and expected payment dates (especially for long tail). Impact on Capital Relief quota share reinsurance.

Channels

Commission linked to renewal and profitability.
High upfront payouts tested against renewal retention; weak channels hit profit. CLV assessment

How to Solve Soft Challenges

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Name Owners

RACI covering critical function for every judgement;

AA owns IBNR, ULR for unexpired portion
CFO owns forward looking expense assumption
Discounting / unwinding numbers owned by?

Build, Document and then iterate

Develop an acceptable model / engine in first year;

Document key assumption including ULR assumption along with the quantitative and subjective basis assumption

and then plan refinements after.

Rehearse

Dry-run closes and plan cycles before they count.

Auditing Actuary / Statutory Auditor reviews the assumption document and assess the defensibility of assumption quality.

Reward

Balanced scorecards that pay for the new behavior

Owner

An executive sponsor who own the program at a level higher than project team. Soft challenges does not generally resolve within a project team.

How hard challenges turn soft challenges

Problem	Hard part: solve	Soft part: resolve
Onerous contracts	Calculate the loss component	Agree the trigger, monitor various components and then act on it
Risk adjustment	Run the percentile or CoC model	Choose and defend the confidence level
Discount curve	Build and validate the curve	Hold the method when results disappoint
Expense allocation	Run the cost-allocation model	Get departments to accept their numbers
Dual books	Automate the reconciliation	Decide which numbers management steers by

Every technical answer lands on a person who must accept it. Plan for that second step from day one.

Messy Challenges – First Order, Second Order and Response

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IMPLEMENTATION – First Order

Two Truths
IndAS for investors; IGAAP for solvency, EoM. Which one is for performance?

Prudence vs Neutrality
Implicit reserve prudence becomes an explicit, disclosed RA

Global vs Local Fit
A foreign parent's IFRS method vs what suits Indian products.

STRATEGY – Second Order

Growth vs Profit
Market Share culture meets upfront losses; cross-subsidies become visible.

Social Mandate
Health Schemes, Senior citizen Health insurance, govt-set TP Premium rates may look onerous.

Investor Narrative
GDPI and combined-ratio habits vs a new P&L story

RESPONSE – Dissolve

Reframe
From compliance project to Management Lens

Agree the end state before discussing the numbers

Principle agreed early with the board

Increase disclosure and discussion with stakeholders

Six questions to diagnose

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1 Would perfect data end the argument?

Yes: hard or soft. No: messy.

2 Is it about how, or about what for?

How: soft. What for: messy.

3 Still disagree after agreeing the facts?

Yes: messy.

4 Can a manager settle it with a trade-off?

Yes: soft. Needs board or regulator: messy.

5 Is the other side slow, or wrong-headed?

Slow or resistant: soft.
Wrong-headed: messy.

6 Does it come back after being decided?

Often a messy problem treated as soft.

Significance of Correct Diagnosis

The wrong diagnosis means endless meetings, or wasted board time.

Capacity and Parallel Regulatory Changes

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CAPACITY BAU and Ind AS on the same people

BAU continues, IRDAI returns and treaty renewals continue.

Same people, two jobs: the close team also builds Ind AS, with two years of dual books.

Limited bandwidth: little time to weigh PAA, RA, OCI and transition choices.

Key people: thin talent pool, attrition, advisor reliance.

REGULATION IN PARALLEL IRDAI, alongside Ind AS

Commission and EoM (draft, Sep 2026): EoM limit from 30% of GWP to 20% of GDPI over five years; commission caps by product and channel.

Risk-based capital: QIS 1 (2023) and QIS 2 (March 2025 data); current solvency rules continue; go-live not announced.

Ind AS effect: lower acquisition costs; onerous triggers and plans to re-run.

Income Tax Implication Not Considered

What helps Easier said than done | Each competes for the same scarce people, Executive Committee oversight and board time |

Ring-fence and backfill

A core Ind AS team, with BAU roles backfilled.

Decision calendar

A few policy choices per board meeting, each with impact analysis.

One cost model

EoM on GDPI and Ind AS attributable expenses, reconciled.

Build once for RBC

Best estimates and RA that can also feed risk-based capital.

Key Takeaways

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1. **Implementation of Ind AS 117: more than a technical challenge**
   Hard, Soft and Messy Challenges collide

2. **Solving hard (technical) challenges is necessary but not sufficient.**
   PAA, Discounting, RA, OCI, transition arrangement, technological infra, process and documentation

3. **Second-order effects outweigh first-order ones in impact and value**
   Planning, Monitoring, Performance Review, Incentives, Underwriting, Channels

4. **Diagnose Correctly Before Responding**
   Solve Hard, Resolve Soft and Dissolve Messy, each with the right owner

5. **Capacity and Parallel Regulatory Changes Are the Binding Constraints**
   BAU, shared teams, EoM and commission reforms, RBC.

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Key Takeaways

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1 Implementation of Ind AS 117: more than a technical challenge
Hard, Soft and Messy Challenges collide

2 Solving hard (technical) challenges is necessary but not sufficient.
PAA, Discounting, RA, OCI, transition arrangement, technological infra, process and documentation

3 Second-order effects outweigh first-order ones in impact and value
Planning, Monitoring, Performance Review, Incentives, Underwriting, Channels

4 Diagnose Correctly Before Responding
Solve Hard, Resolve Soft and Dissolve Messy, each with the right owner

5 Capacity and Parallel Regulatory Changes Are the Binding Constraints
BAU, shared teams, EoM and commission reforms, RBC.