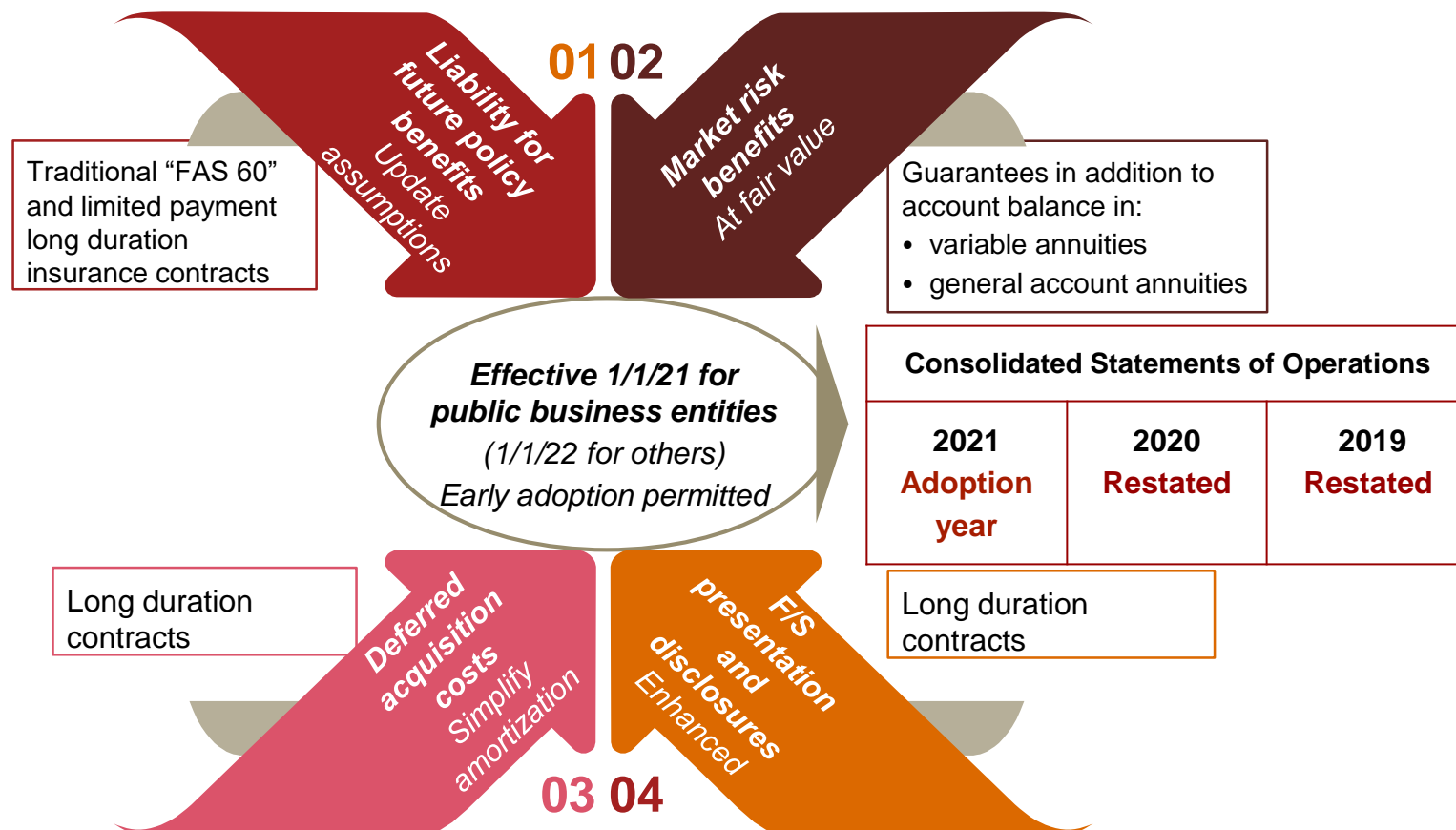


FASB Targeted Improvements

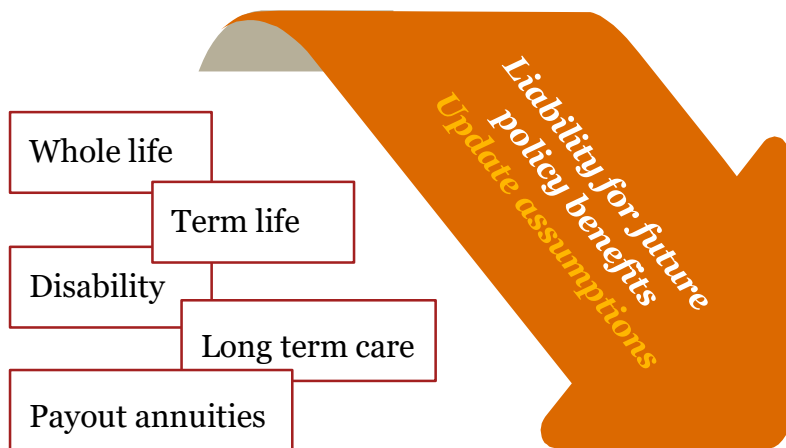
ACSW– 2018 Fall Meeting
November 8, 2018

Summary of Changes

FASB LDTI Overview of Changes



FASB Long-duration targeted improvements – Liability for future policy benefits



**Participating contracts are excluded*

Measurement assumptions

- Assumptions must be reviewed/updated at least annually on retrospective basis (but updating other expenses is policy choice)
- No more PAD
- Premium deficiency test replaced with net premium ratio capped at 100%
- Annual cohort limitation: contracts from different original issue years cannot be grouped

Discount rate assumptions

- Upper-medium grade (low credit risk) fixed-income instrument yield (single “A”)
- Discount rate updated at each reporting date through OCI

Transition

- "Modified retrospective" transition approach
 - Pivoting off of the balance at transition



PV future benefits - existing 1/1/19 liability

PV future gross premiums

= revised net premium ratio for 2019

- Discount rate NOT reset for purposes of calculating future net premiums and interest accretion at transition
 - Same annual cohort limitation applies
- Option to elect a “full retrospective” transition approach if necessary criteria are met

FASB Long-duration targeted improvements - Market risk benefits (MRBs)

Measurement

- Fair value with changes through income
 - Except that changes to instrument-specific credit risk recognized in OCI

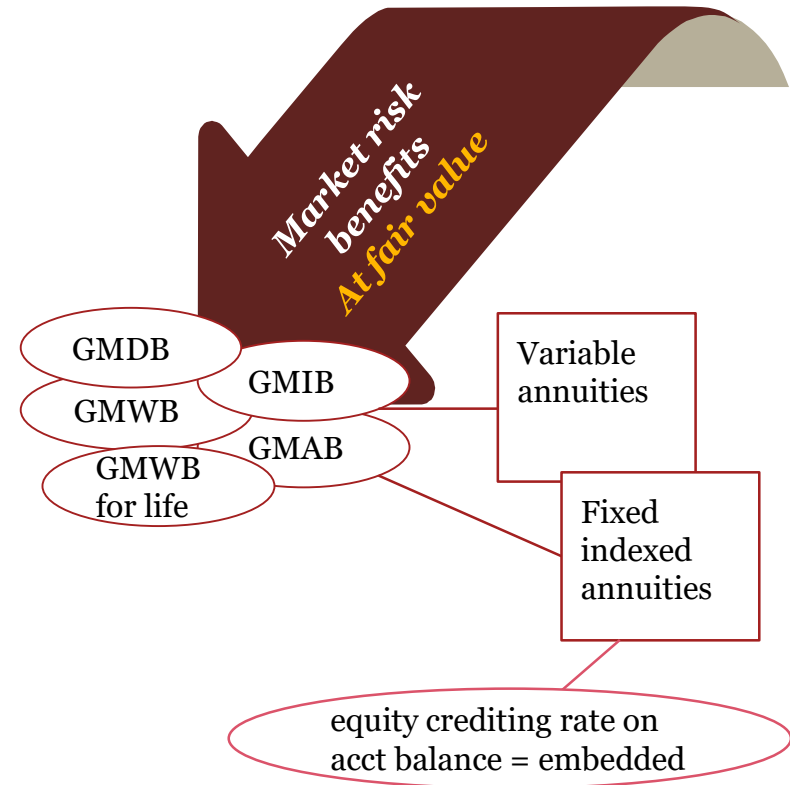
Scope

IN

- All types of GMXBs:
 - In variable annuity separate accounts
 - In general account annuities
- Annuitization interest rate guarantees if other than nominal

OUT

- Minimum interest rate guarantees on account balance
- Variable life insurance benefits
- No lapse guarantees on universal life



Transition

- **Retrospective application:** *If assumptions in prior period unobservable or otherwise unavailable and cannot be independently substantiated (e.g., to calculate “attributed fee” at contract inception), may use hindsight in determining assumptions*

FASB Long-duration targeted improvements – DAC amortization

| Year | Insurance in force | Amortization |
|-------------------|--------------------|--------------|
| 2021 | \$1,000 | 16 |
| 2022 | 1,000 | 16 |
| 2023 | 1,000 | 16 |
| 2024 | 1,000 | 16 |
| 2025 | <u>1,000</u> | <u>16</u> |
| Total | 5,000 | |
| DAC | 80 | 80 |
| Amortization rate | 1.6% | |

Scope

- All long-duration insurance contracts (except investment contracts that use effective yield method)

DAC amortization

- Principles-based amortization: constant level basis over expected life of contract, independent of profit emergence
- No impairment test
- No interest accretion
- Accrue and amortize acquisition costs only as incurred

What about other balances similar to DAC?

- Deferred sales inducement costs and U/L unearned revenue liability
- Other balances often amortized like DAC (business combination intangibles and cost of reinsurance)?

Transition

- Apply new amortization method to existing DAC balances at transition date (after removing shadow DAC adjustment from AOCI)
- Except where full retrospective method adopted for liability for future policy benefits.

*Deferred acquisition costs
Simplify amortization*

FASB Long-duration targeted improvements - Presentation and disclosure

Presentation requirements

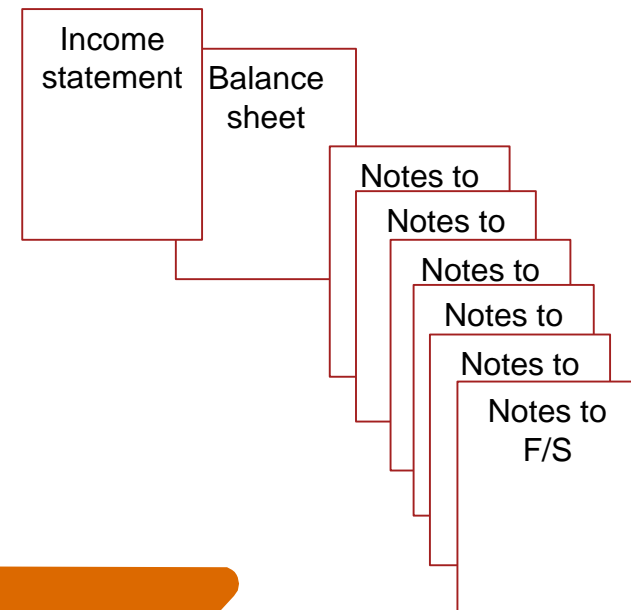
- Impact of updating assumptions for liability for future policy benefits separately presented in P/L
- MRB separately presented in B/S with changes in fair value separately presented in P/L and OCI

Disclosure requirements

- For annual and interim reporting periods:
 - Disaggregated rollforwards and reconciliations to B/S amounts
- For annual reporting periods and as required under ASC 270 for interim reporting:
 - Information about inputs, judgments, assumptions and methods, changes during the period, and effect of those changes
 - Qualitative and quantitative discussion about adverse development
 - Premium deficiency methodology utilized and the liability recorded for participating insurance contracts (including closed block) and U/L contracts

Transition

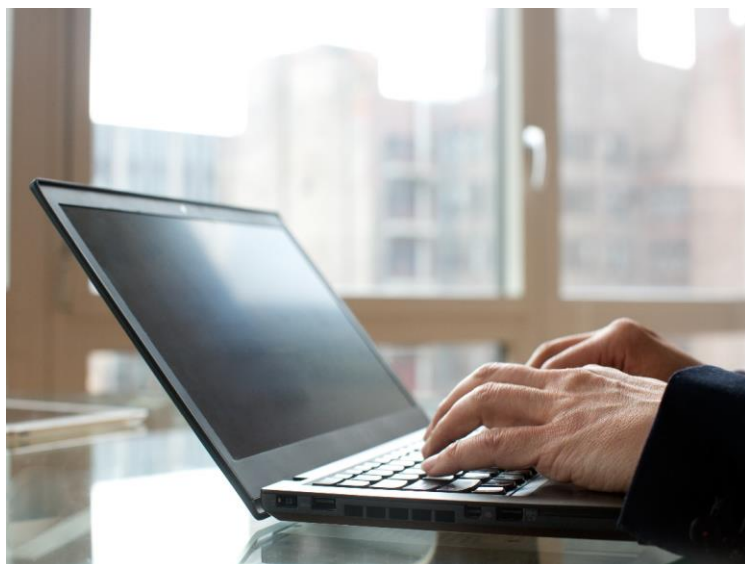
- Disaggregated rollforwards of pre-adoption transition date balances to post-adoption transition date balances
- Qualitative and quantitative information about the effect of transition adjustments



F/S presentation and disclosures Enhanced

PwC LDTI Survey

PwC's US GAAP long duration targeted improvement survey 2018



The Financial Accounting Standards Board (FASB) issued the targeted improvements to the US GAAP accounting for long duration contracts on Aug 15.



The purpose of the survey is to provide an overview how insurance companies are reacting to meet the new requirements.



All answers are self-reported and PwC has not altered or validated company responses. The survey was conducted after the June 6 meeting of the FASB.



24 life insurers responded to the survey.

Key Takeaways

01

Nearly all firms will adopt the proposed changes even if they doubt they will achieve FASB's objectives

02

The change will have significant implications across an insurers operations both in terms of its internal operations and the way it presents itself externally

03

Firms expect significant challenges in meeting the proposed timeline to implement the changes

04

Most firms are taking a compliance focused approach with strategic modernization in some key areas such as actuarial modelling

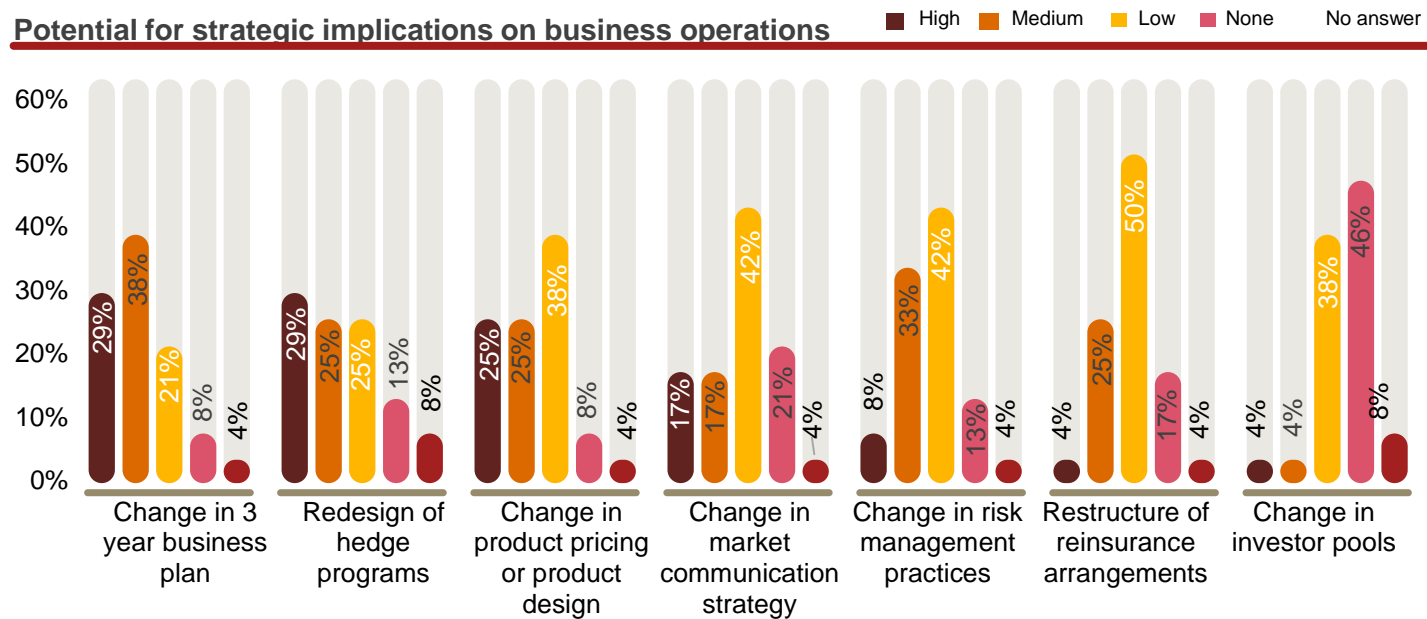
05

With its far reaching implications we believe that firms should seek to leverage the significant investment required to meet LDTI changes as a catalyst to deliver better capabilities and greater insights across its operations and stakeholders

Strategic Implications

- US GAAP LDTI will change the strategic landscape for insurers. Over 75% of companies believe there will be some level of change to their company's 3yr business plans, market communication strategy, product design/pricing, risk management strategies, hedging programs and reinsurance agreements.
- Over 50% of insurers rated the strategic implications on their 3yr business plans, product design/pricing and hedging programs either medium or high.

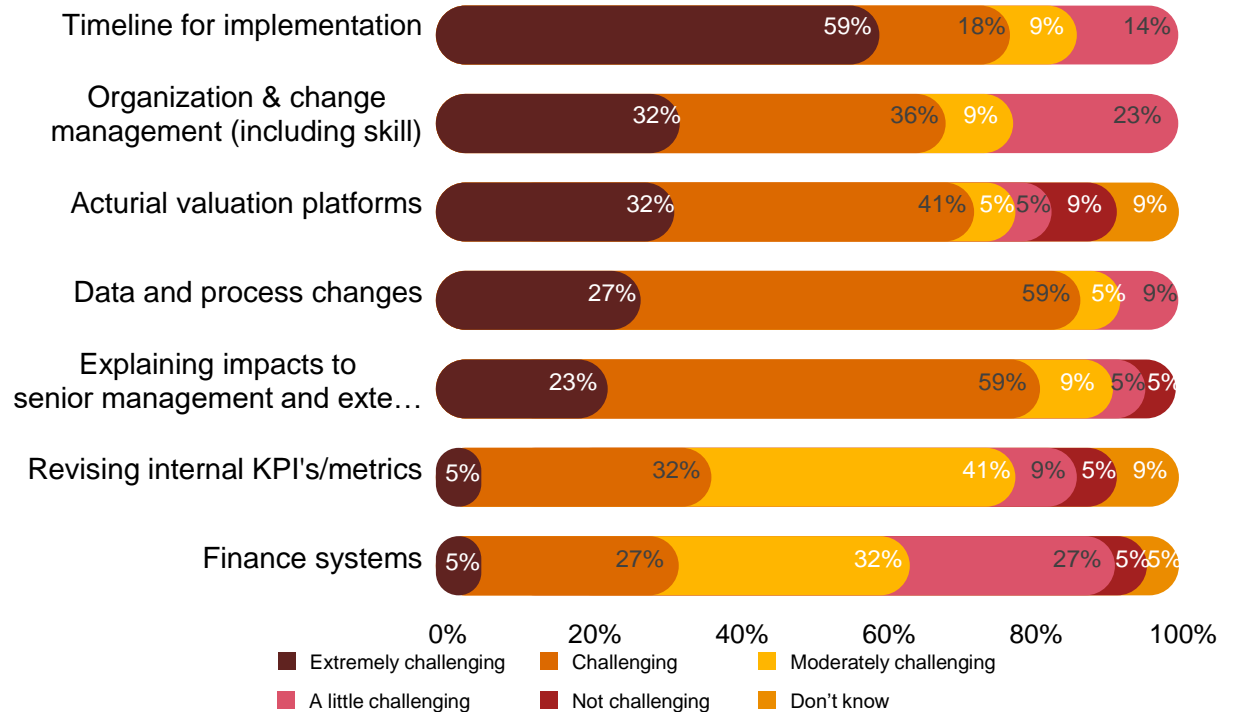
Potential for strategic implications on business operations



Implementation Challenge

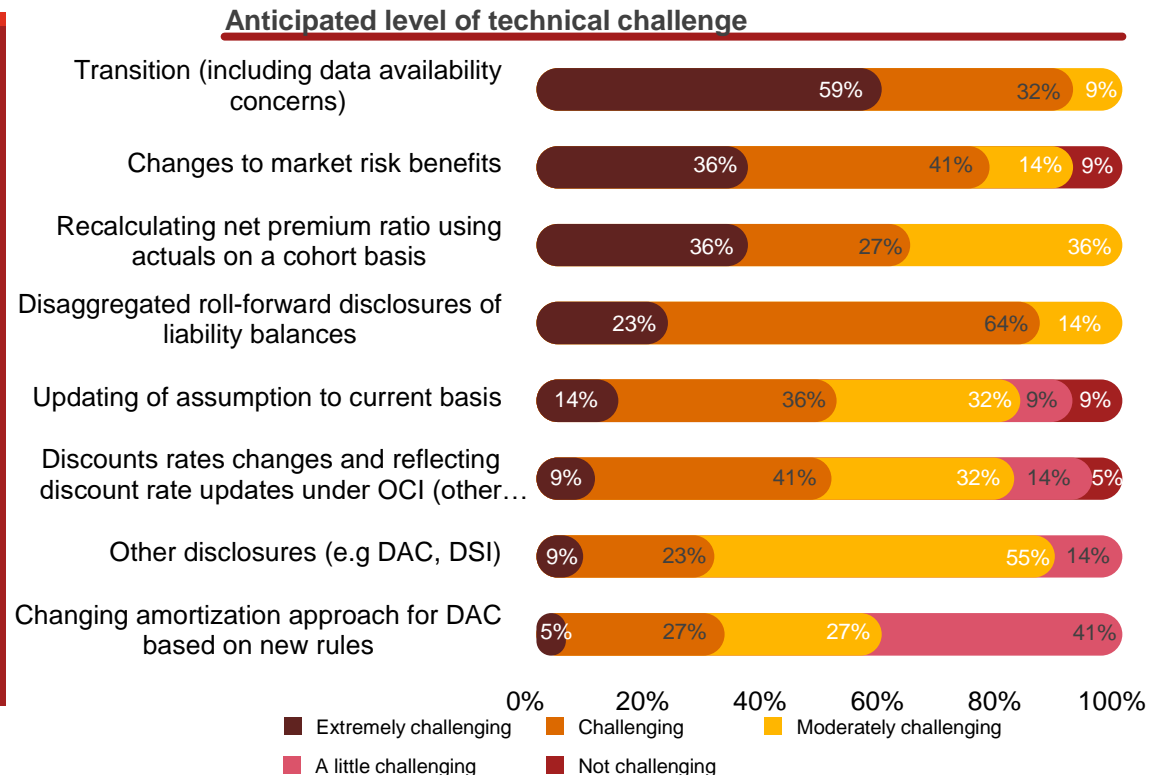
- All companies believe that the timeline to adoption will be challenging to some degree, of which 59% of companies believe it will be extremely challenging and a further 27% believe it will be at least moderately challenging.
- Over 70% of companies believe that the implementation across actuarial systems and data & processes will be challenging or extremely challenging.
- Over 80% of insurers believe that explaining impacts to senior management and the market will be challenging or extremely challenging

Anticipated level of implementation challenge



Technical accounting implementation challenges

- Not surprising respondents indicated that the proposed changes are technically challenging.
- Over 65% of companies rated the changes to Market Risk Benefits, disaggregated roll-forwards, recalculating Net Premium Reserves on a cohort basis and transition as either extremely challenging or challenging.
- The least challenging change appears to be the new DAC methodology.

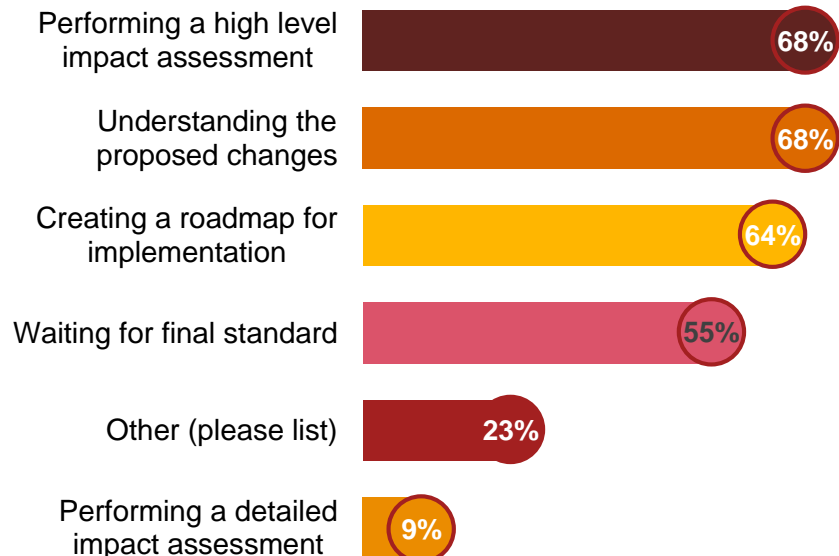


Current areas of effort

- 60-70% of companies focusing their current efforts on understanding the proposed changes, performing a high level impact assessment and creating a roadmap for implementation.
- Only 9% are already performing a detailed impact assessment

Current focus area

Which of the following are the main focus areas of your current efforts with respect to the FASB's proposed changes for Long Duration Contracts?

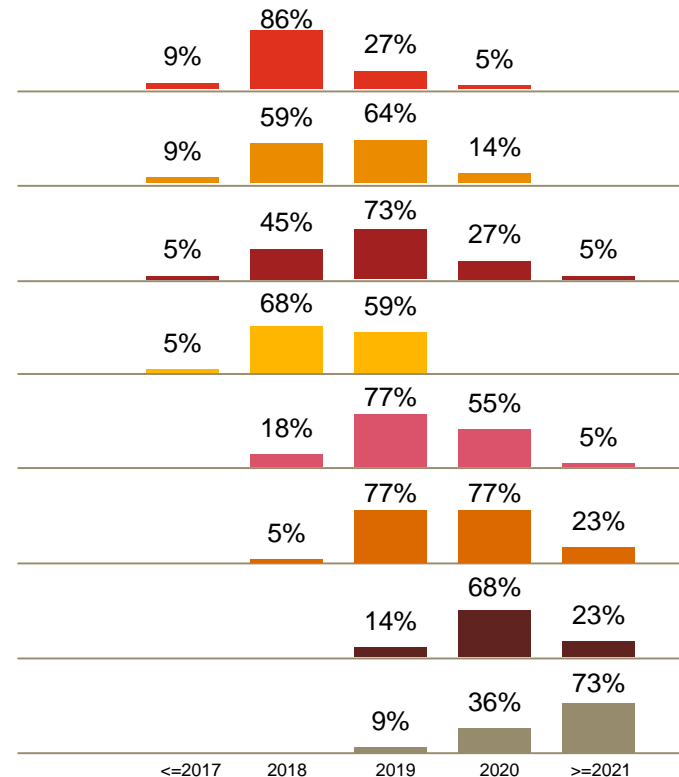


Timeline

- The overwhelming majority of companies (86%) plan to mobilize there LDTI projects during 2018
- It is surprising that the bulk of companies (73%) will only complete impact assessments during 2019, giving a very short implementation period to design, build, implement, test and dry run systems over the latter part of 2019 and 2020 before go-live reporting in 2021 for public entities.
- 73% of companies plan to implement LDTI into BAU in 2021.
- Companies planning to build and perform dry-runs in 2021 are mostly mutual companies and have a go-live reporting in 2022.

Breakdown of companies engaged in project stage

Percentage of companies



Further information

Get the latest insights on insurance modernization and visit us online:

<https://www.pwc.com/us/en/insurance/insurance-modernization.html>

PwC Summaries of FASB Meetings:

<https://www.pwc.com/us/en/cfodirect/industries/insurance/iasb-fasb-insurance-contracts-project-meeting-summaries.html>

Other PwC thought leadership:

<https://www.pwc.com/us/en/cfodirect/issues/insurance-contracts.html>

Thank you

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