

Early Discoveries and Lessons Learned in LDTI Implementation

Actuaries' Club of the Southwest
June 7, 2019



Early Discoveries and Lessons Learned in LDTI Implementation

Agenda

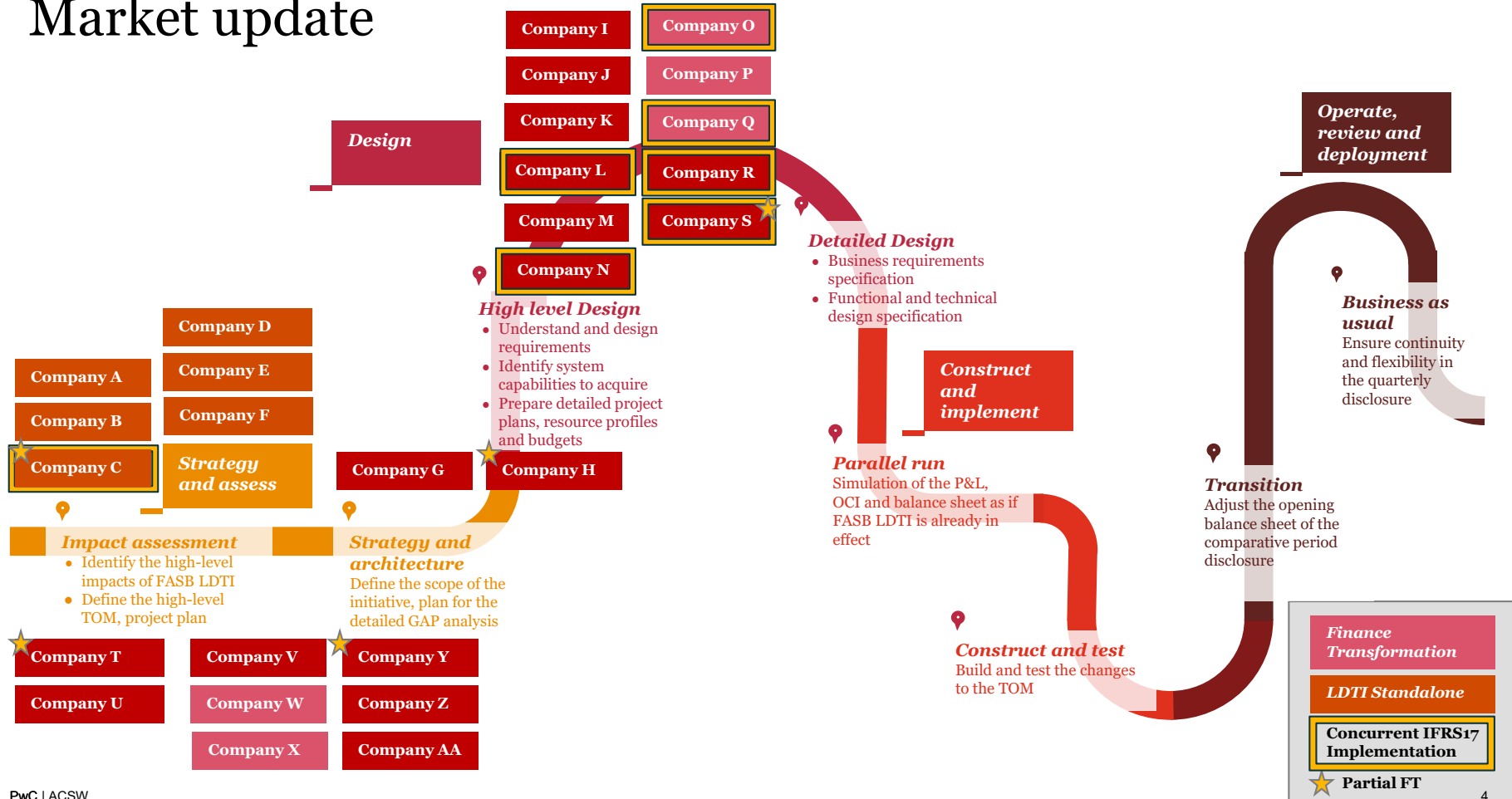
- Market update
- Recent LDTI survey results
- FASB outreach

Resources

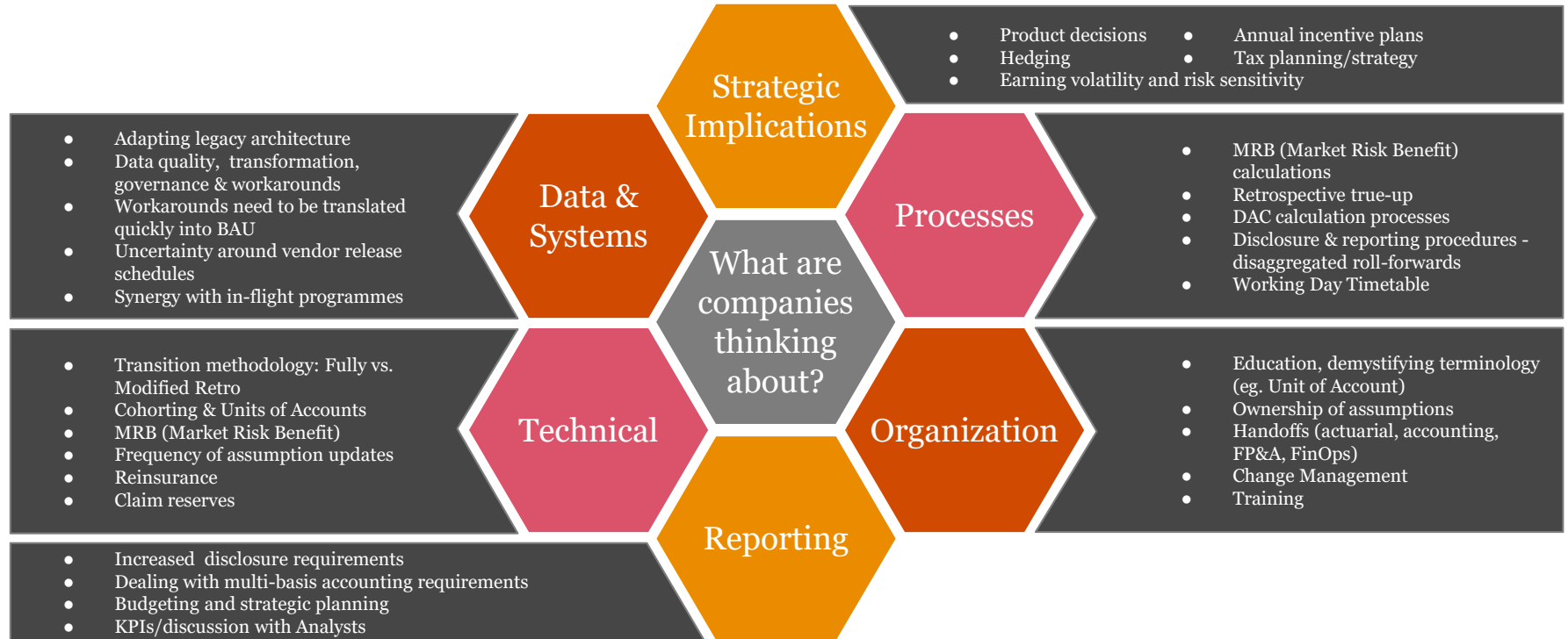
- PwC thought leadership

Market Update

Market update



Focus areas identified from projects to date



Key actuarial and accounting judgements

Liability for Future Policyholder Benefits	<p>Definition of unit of account (i.e. cohort, including reinsurance considerations)</p> <p>Approach to discount rate (i.e. development of curve, weighted average interest for annual cohorts, interest accretions, unobservable periods, lock-in methodology)</p> <p>Assumptions setting (granularity, alignment with other bases etc.)</p> <p>Timing of experience and assumption adjustment update</p> <p>An election to not update expense assumptions (e.g., termination and settlement costs)*</p> <p>Treatment of ceded vs. assumed reinsurance</p>
Market Risk Benefits	<p>Scoping of product features which qualify as MRBs</p> <p>Valuation methodology (i.e. use of option vs non-option (attributed fee) approach)</p> <p>Use of “hindsight” and determination of attributed fee and/or initial option cost for MRBs</p> <p>Non-performance risk assumption</p>
DAC	<p>Multiple methods exist to amortize DAC and reflect experience adjustments provided key principles</p> <p>DAC amortization basis for policies applying a grouped method for amortization purposes (e.g. amount inforce)</p> <p>Approach to amortization of cost of reinsurance/VOBA (i.e consistent with DAC?)*</p>
Transition	<p>Determination of modified retrospective vs full retrospective for FPBL and DAC*</p> <p>Treatment of DPL, where DPL was not previously recorded</p>
Presentation and disclosure	<p>Level of aggregation is reflected in disclosures</p> <p>Presentation of line items in rollforward disclosures</p> <p>Extent of disclosure and interaction with historical reporting (segments, Management Reporting)</p>

**Election explicitly required by LD11 to be made at the entity-level*

Industry technical issues under discussion

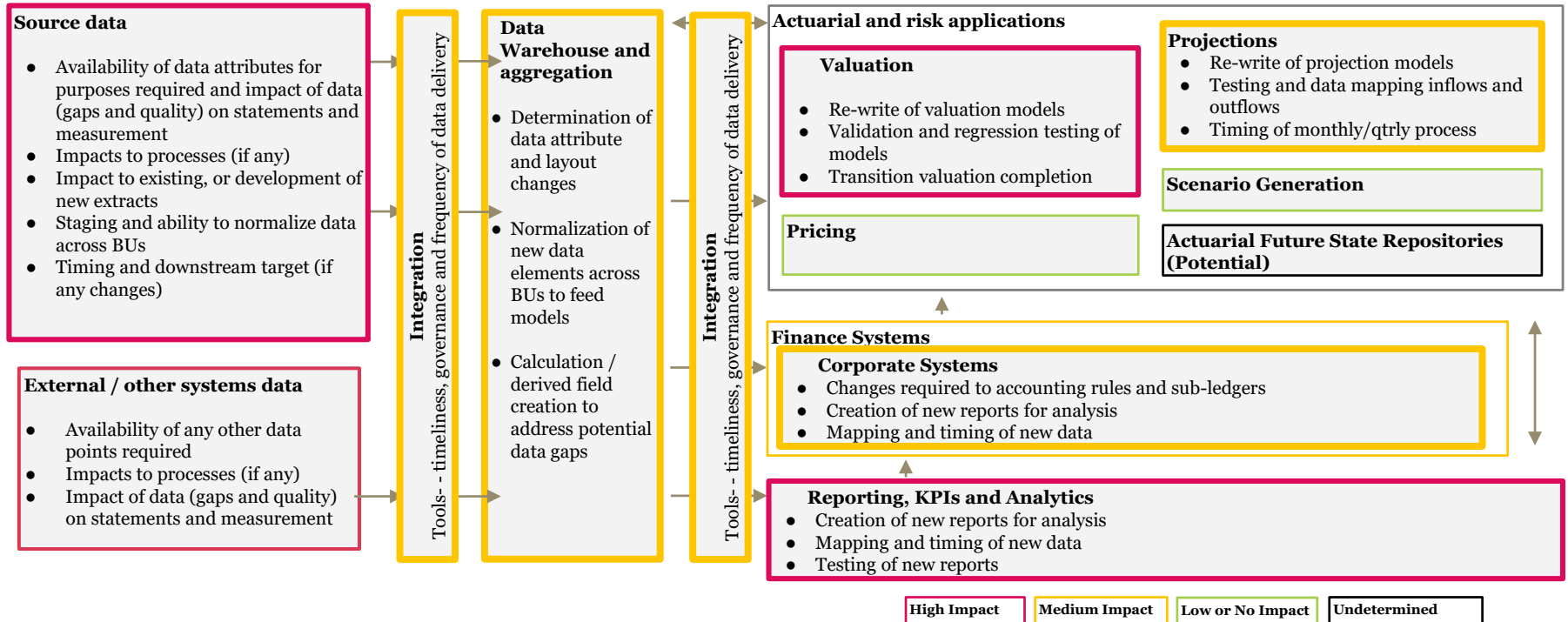
The Insurance Expert Panel of AICPA is working actively with The American Academy of Actuaries and The American Council of Life Insurers on a list of potential technical issues related to the Standard (see below).

Technical Issues

- 1 Claim Reserves - Claim reserves associated with long duration traditional insurance contracts, interaction with liability for future policy benefits.
- 2 Loss Recognition - Allocation of liability for future policy benefits to revised units of account at transition for blocks of business that had loss recognition prior to the transition date.
- 3 Market Risk Benefits – Scope (particularly general account products).
- 4 Market Risk Benefits - Considerations related to transition, including the use of hindsight.
- 5 Market Risk Benefits – Considerations related to attributed fees as discussed in FASB ASC 944-40-30-19C
- 6 Discount rate – Considerations related to use of a curve.
- 7 Discount rate – Transition considerations for limited payment contracts where a separate deferred profit liability is not recorded, and a breakeven discount rate was used.
- 8 Updating cash flow assumptions in the net premium ratio.
- 9 DAC Amortization related to grouped contracts, assumption updates and expected term of the contract
- 10 Other Intangibles Generated in a Business Combination
- 11 Reinsurance – Considerations for application of FASB ASU 2018-12 to reinsurance contracts.
- 12 Impact of FASB ASU 2018-12 on various shadow adjustments.
- 13 Presentation – Clarification of items within other comprehensive income as discussed in FASB ASC 220-10-45-10A(m) and 45-10A(m).
- 14 Transition -
 - a) Considerations for determining the balance for future policy benefits as discussed in FASB ASC 944-40-65-2c and 65-2d.
 - b) Changes in method for balances currently amortized using amortization methods similar to DAC.

Technology implications

Insurers are considering the end-to-end implications on their technology architecture when evaluating the process, systems, and data impacts and looking at options to modernize in strategic areas.



Recent LDTI Survey Results

LDTI Survey Key takeaways

- Virtually all companies **favor a delay of the implementation** deadline for Long Duration Targeted Improvements. The most common reasons are more time for testing and dry-runs, minimizing the use of temporary implementation solutions and concerns about the time it takes system vendors to develop their solutions.
- **60% of the companies now expect more work than they did when the standard was issued** in August 2018. A higher portion of companies expect to spend more than \$10m than in summer 2018 (43% vs 14%).
- **Implementation is seen as challenging**. 87% consider the timeline as challenging, 61% even as extremely challenging. Over 70% see actuarial processes as well as systems and communication of impacts to investors as challenging.
- 61% of the companies currently focus on creating an **implementation roadmap**. About half the companies have performed **impact assessments**.
- Without external help internal **resources would be insufficient for 78% of the companies**, in particular for actuaries. 26% report significant resource gaps.
- 74% of firms have **uncertainty** around the impact of LDTI on financial results and the business in general. The majority of firms expect to provide quantitative disclosure post HY 2020.
- **Agile** has become the preferred execution approach for those firms that have decided their approach.

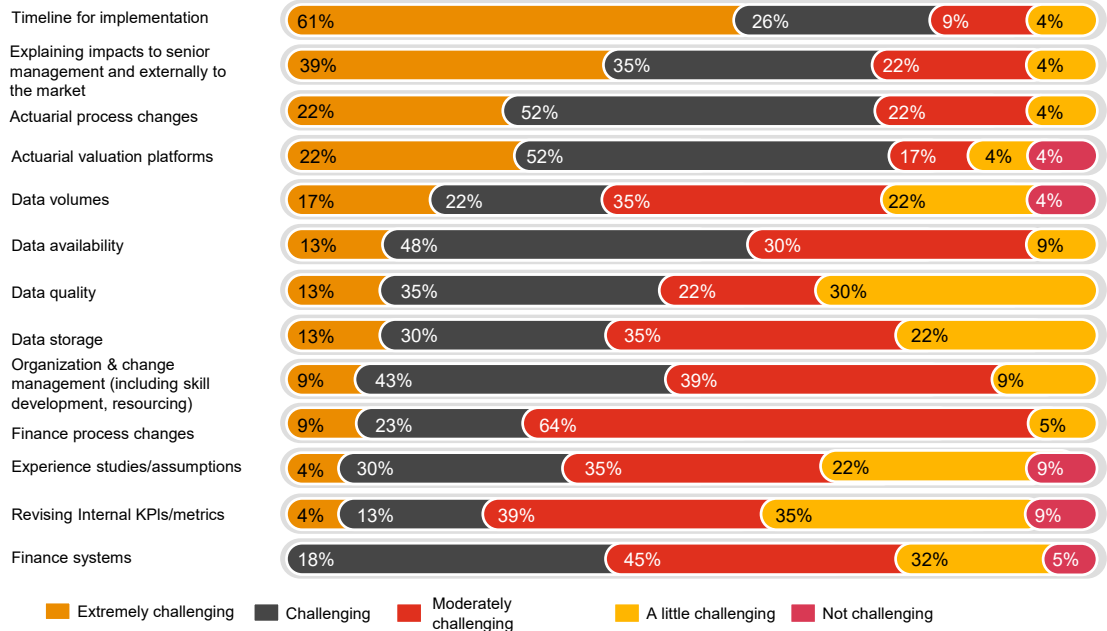


Implementation challenges

The implementation is still very challenging

- 87% consider the **timeline** as challenging. 61% feel it is even extremely challenging. This is very similar to responses in the 2018 LDTI survey.
- 74% consider **actuarial process** and **valuation system changes** to be challenging.
- 74% consider the **explanation of impacts** to management and investors as challenging, 39% even extremely challenging. The portion of companies who consider this extremely challenging has increased relative to the 2018 survey, where only 25% had selected extremely challenging.

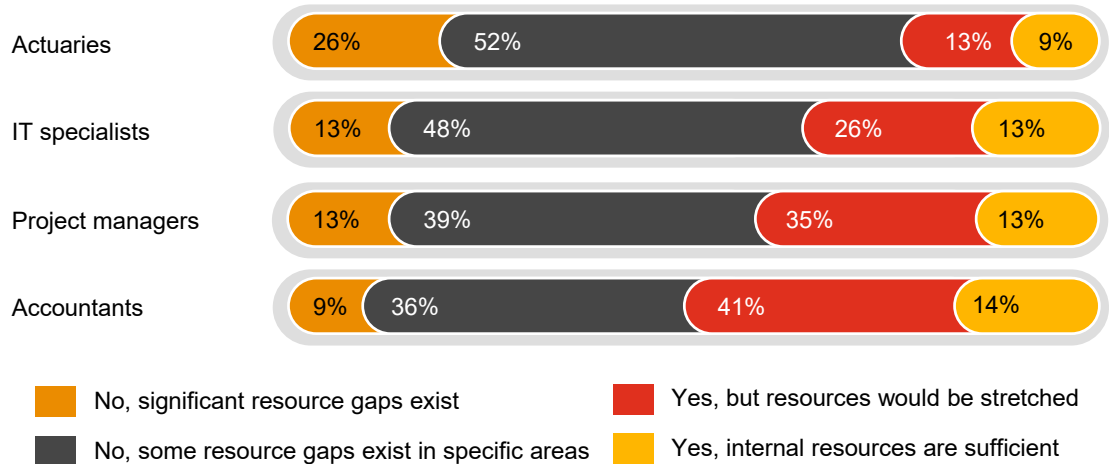
Implementation Challenges



Need for external resources

- Without external help internal **resources** would be **insufficient** for **78% of the companies**, in particular for actuaries. 26% report significant resource gaps.
- Over 50% report resource gaps also for IT specialists and project managers
- 45% report gaps for accountants.
- Only 10%-15% of companies state that internal resources for the four resource categories are sufficient and would not be stretched.

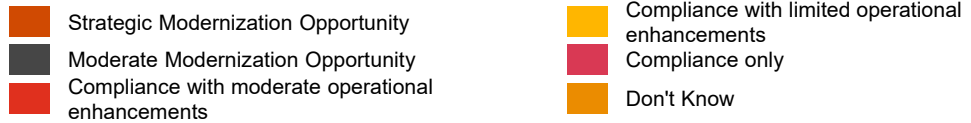
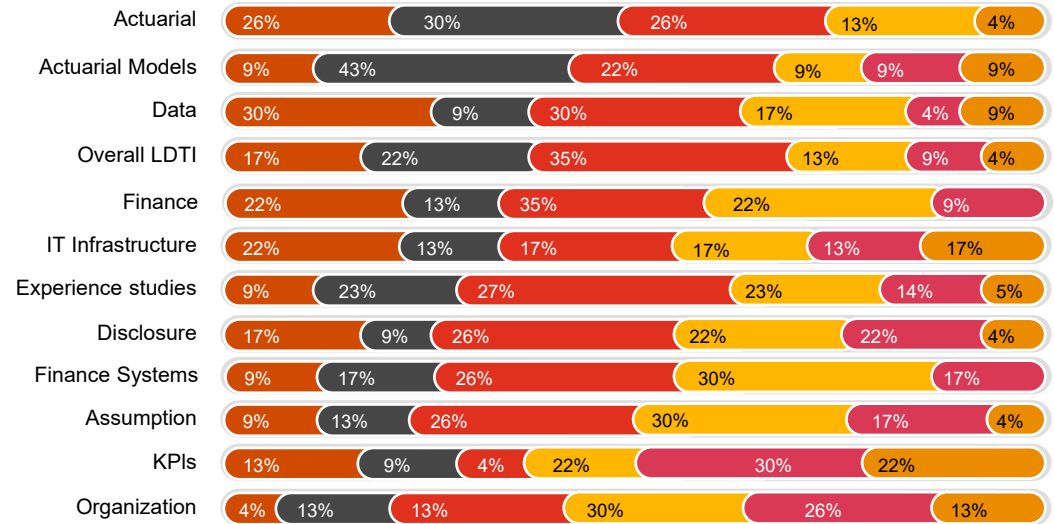
Does your company have sufficient internal resources to comply with LDTI without external help?



Compliance vs modernization implementation approach

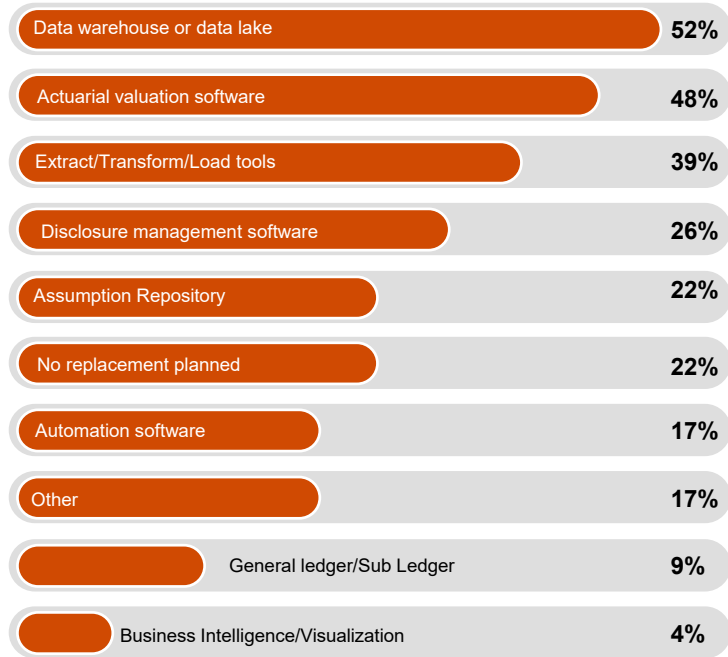
- About 60% of companies still have a **compliance focus** in general. This is a decrease from August 2018 where 75% responded with a compliance focus.
- The most interesting areas for **modernization** are **actuarial models** (50%) and **actuarial process** (55%).
- 30% of companies now see data as a strategic modernization opportunity compared to only 10% in the 2018 survey.

Implementation Approach: Compliance vs Modernization



Planned system changes

Deployment of new systems



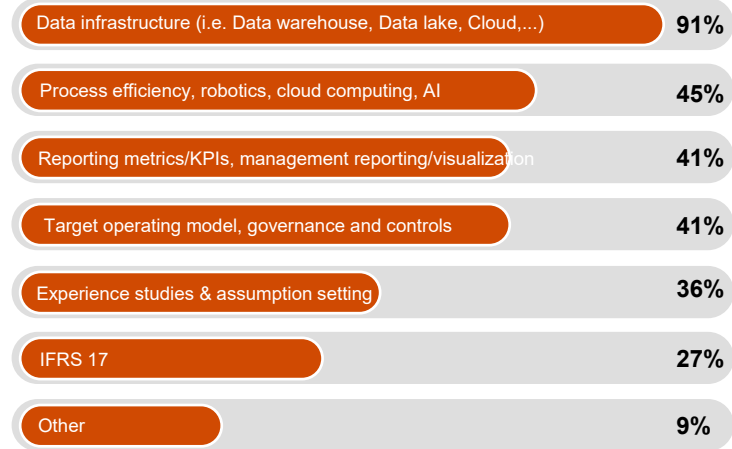
Data infrastructure and actuarial systems are the most common system deployments.

- 52% of companies expect to deploy new **data warehouse** or **data lake systems**.
- Unsurprisingly 48% plan to deploy actuarial valuation software
- 39% expect to enhance their data infrastructure with Extract/Transform/Load tools.
- 26% plan to deploy new disclosure management software.



Initiatives leveraged

Initiatives leveraged for LDTI



- Data infrastructure initiatives are leveraged by almost all respondents (91%). In summer 2018 68% of respondents intended to leverage data initiatives.
- About 40%-45% of companies leverage process efficiency, reporting metrics and target operating model projects.
- IFRS 17 is leveraged at 27% of companies. In summer 2018 only 9% had intended to do so.
- 36% expect to leverage experience studies and assumption settings initiatives. This is a decrease from the 59% reported in 2018.

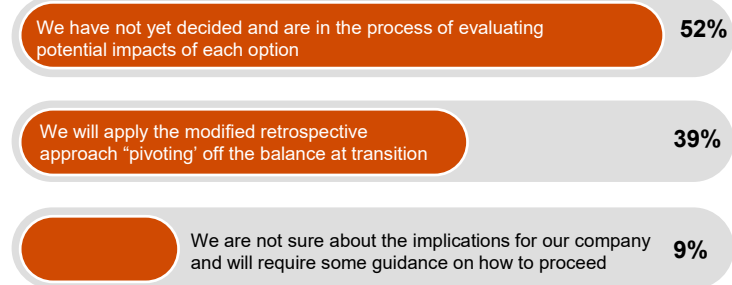


Early adoption and transition approach

Plan to adopt early



Transition approach



Early Adoption

- 91% of companies have decided to not early adopt. Not a single respondent is planning to early adopt LDTI.

Transition Approach

- 52% have not decided on the transition approach and are in the process of evaluating the impact of the various options.
- 39% will apply the modified retrospective approach.
- 9% are unsure and will require some guidance.



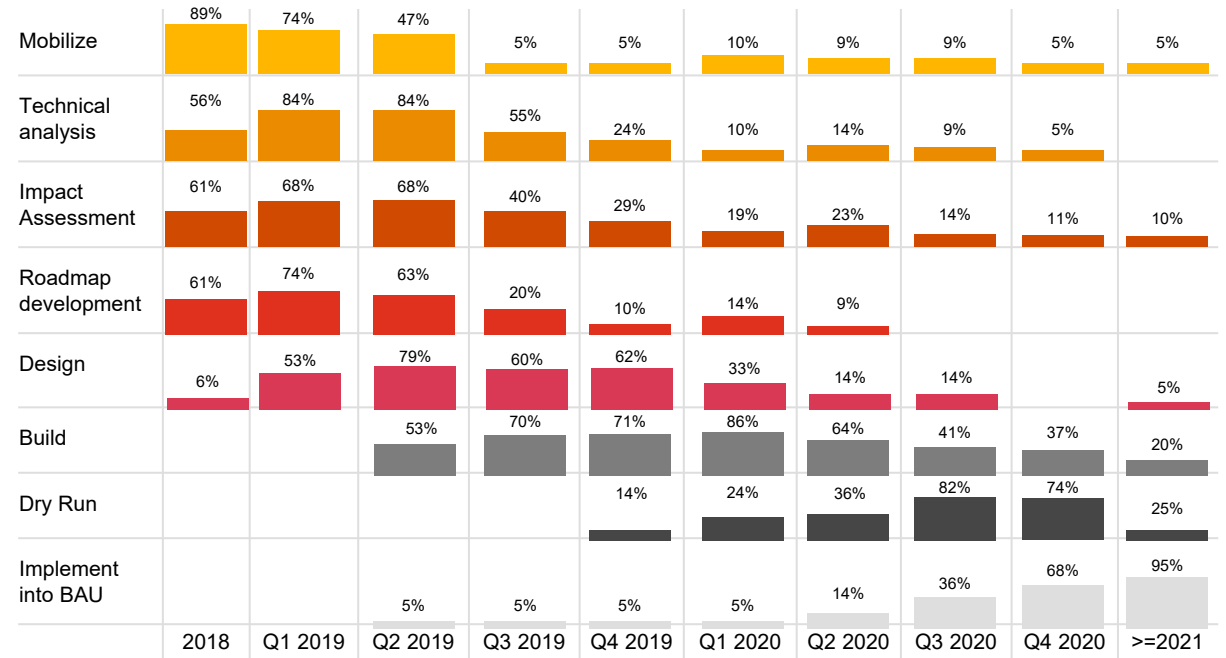
Project time plans

The **time plan** windows for the various project stages are similar to 2018 survey.

The following summarizes the time windows for the stages where more than half of the companies will be engaged in

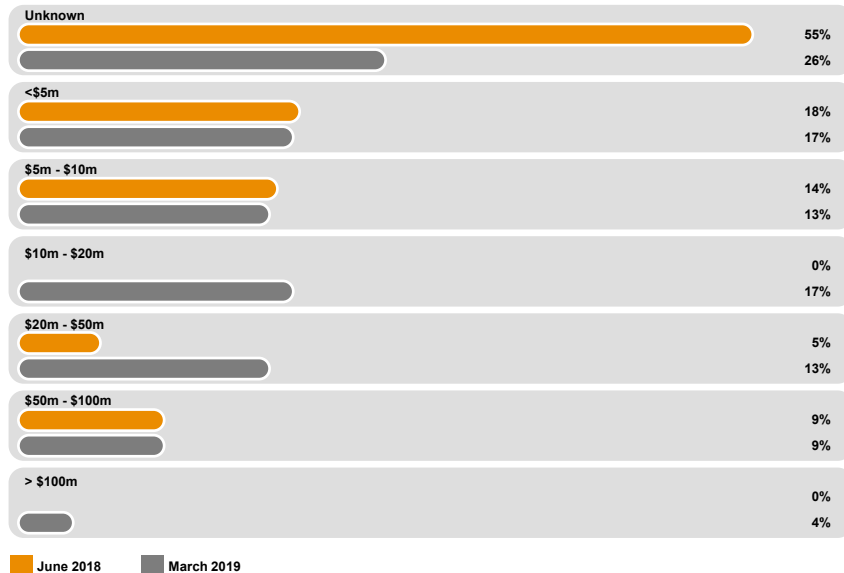
- Solution design: Q1 2019 - Q4 2019
- Build: Q2 2019 - Q2 2020
- Dry runs: Q3 2020 - Q4 2020
- Implementation into BAU: Q4 2020-2021

Breakdown by Stages – Percentage of companies



Total cost and budget

Estimated Budget of LDTI implementation



- 26% of companies intend to spend more than \$20m, 17% between \$10-\$20m and 30% less than \$10m.
- 26% of companies don't have a budget estimate yet.
- A higher portion of companies expect to spend more than \$10m than in summer 2018 (43% vs 14%).



Model validation and dry runs

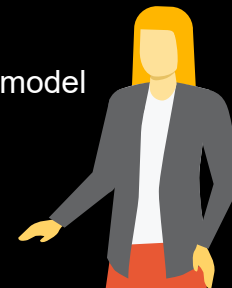


Dry Runs

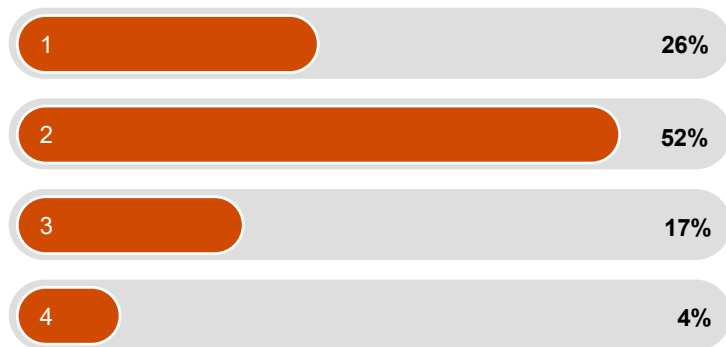
- 52% of respondents plan 2 dry-runs.
- 26% expect just 1 dry-run.
- 21% intend to perform more than 2 dry-runs.

Model Validation

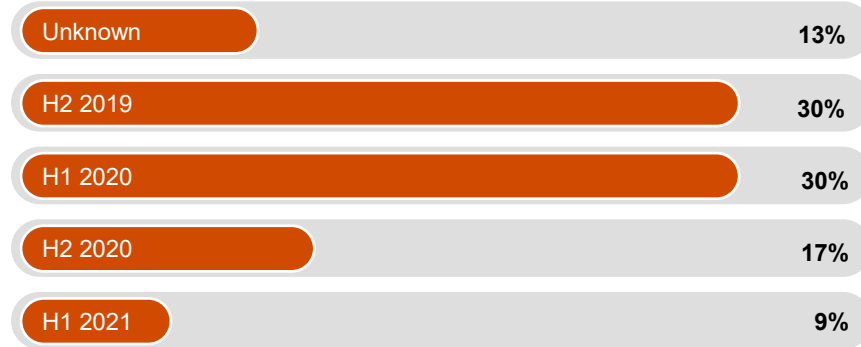
- 60% of companies are planning to start model validation in H2 2019 and H1 2020.



Expected number of dry runs



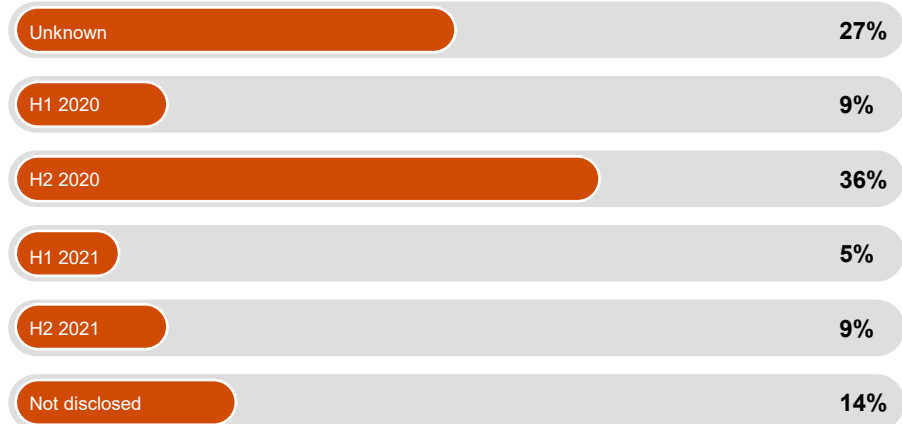
Expected start of model validation



Investor communication

- 36% of respondents are planning to communicate financial impacts in H2 2020.
- 27% do not have a plan yet.

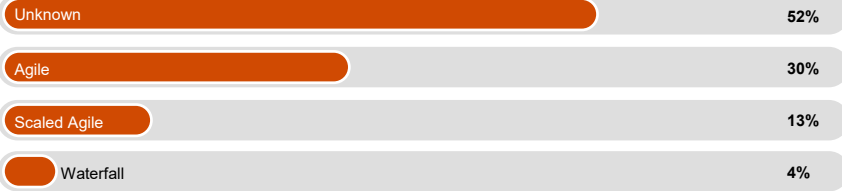
Expected communication of financial impacts to investors



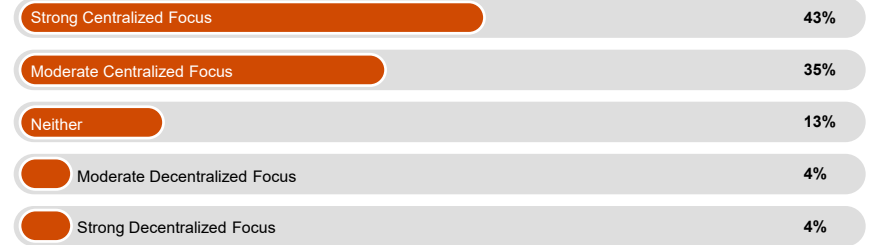
Project execution approach

Agile has become an important project execution approach.

- 43% of companies report **agile** or scaled agile as the **favored project execution** approach.
- 52% of companies did not know the project execution approach. 4% reported a waterfall approach.



Centralized vs decentralized project execution approach



Most companies approach LDTI in a centralized manner

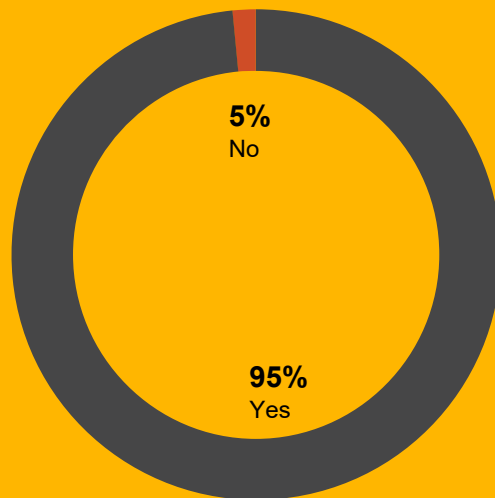
- 78% of companies favor a centralized project execution approach. 43% have a strong centralized focus.
- In summer 2018 71% reported a centralized focus.

Desire to defer implementation date

95%

of companies would prefer the FASB to delay the implementation date.

Would you prefer the FASB to delay the implementation date?



Reasons to delay implementation date

91%

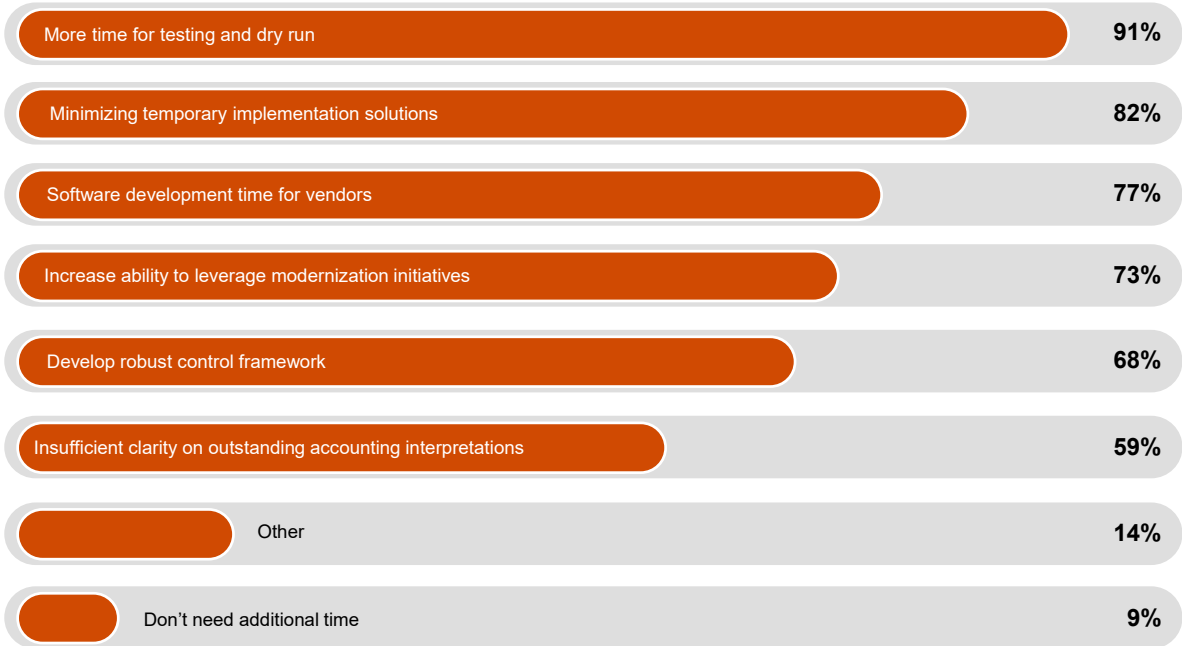
of respondents would like to have more time for **testing and dry-runs**.

82% would like to **minimize** the need for temporary implementation solutions.

77% are concerned about the time it takes software vendors to develop their solutions.

73% have the desire to leverage modernization initiatives.

Reasons for FASB to delay implementation date



FASB Outreach

FASB outreach

01

To decide whether a deferral of LDTI is needed, FASB has met with several insurers to better understand the challenges

02

The focus of the discussions so far is centered around operational challenges faced by insurers, less about technical accounting hurdles

03

Companies were asked to provide tangible and specific operational details of concerns and how a deferral would alleviate them

04

FASB showed interest in what companies would do with 1 year deferral and when it will be too late to change direction if a deferral is granted

05

FASB met with several companies in April and May and has said they can consider deferral in July. They asked for a list, by mid-June, of issues needing resolution or clarification before companies can implement the changes.

PwC thought
leadership

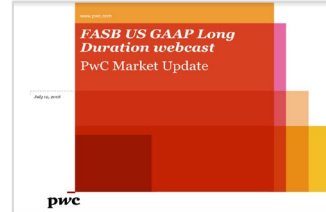
PwC thought leadership



[LDTI 2018 Readiness Survey](#)



[LDTI 2019 Readiness Survey \(available to survey participants only\)](#)



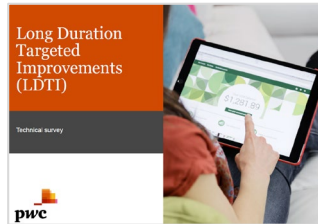
[US GAAP Long Duration Webcast: PwC Market Update](#)



[FASB LDTI: Early Discoveries & Lessons Learned Webcast](#)



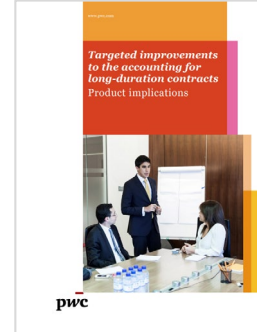
[Technology/Vendor Showcase](#)



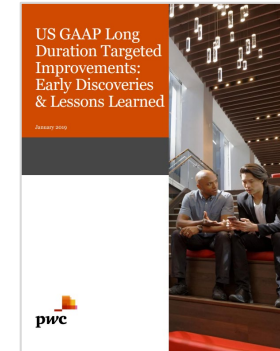
[LDTI 2019 technical survey \(available to survey participants only\)](#)



[PwC Updated In Depth](#)



[LDTI Product Implications](#)



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