

PRIVATE COMPANIES LDTI ADOPTION JOURNEY

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Agenda

- 1 Overview and key changes under LDTI 10 Mins
- 2 LDTI Implications to Insurers 10 Mins
- 3 Path to LDTI Readiness 15 Mins
- 4 Lessons from Public Companies 10 Mins
- 5 Panel discussions, Q&A and Conclusion 15 Mins



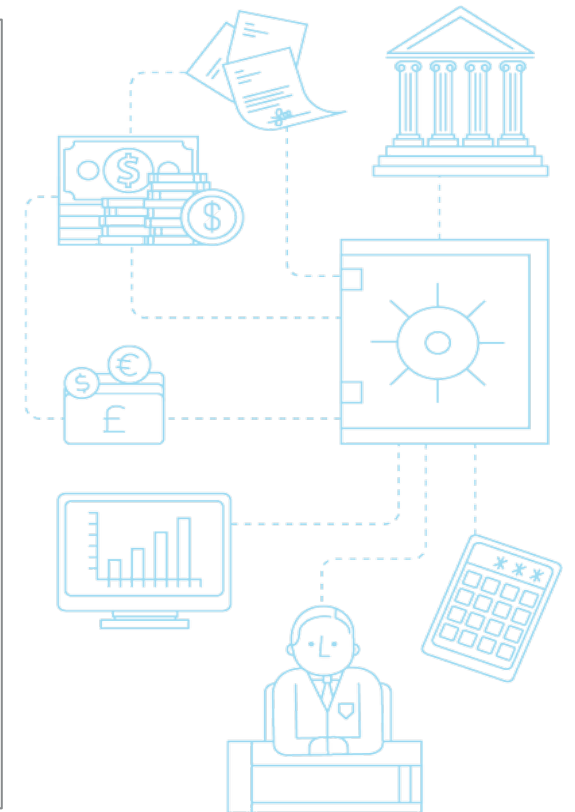
OVERVIEW AND KEY CHANGES UNDER LDTI

What is the FASB's intent behind LDTI

The Financial Accounting Standards Board (FASB) issued an update to Topic 944 through Accounting Standards Update (ASU) 2018-12, known within the insurance industry as Long Duration Targeted Improvements (LDTI)

Overview...

- The objective of LDTI is to improve and enhance the financial reporting of long-duration contracts
 - More timely recognition of changes in actual cash flows and assumptions for traditional long duration and limited payment contracts
 - Simplification of methods to amortize DAC
 - Improve accounting and consistency for certain market-based guarantees
 - Improve insight of users of financial statements into the impact of insurer's experience and assumption changes to financial results
- LDTI was effective on January 1, 2023 for most SEC filers, and must be adopted on January 1, 2025 for other insurers issuing financial statements under US GAAP.



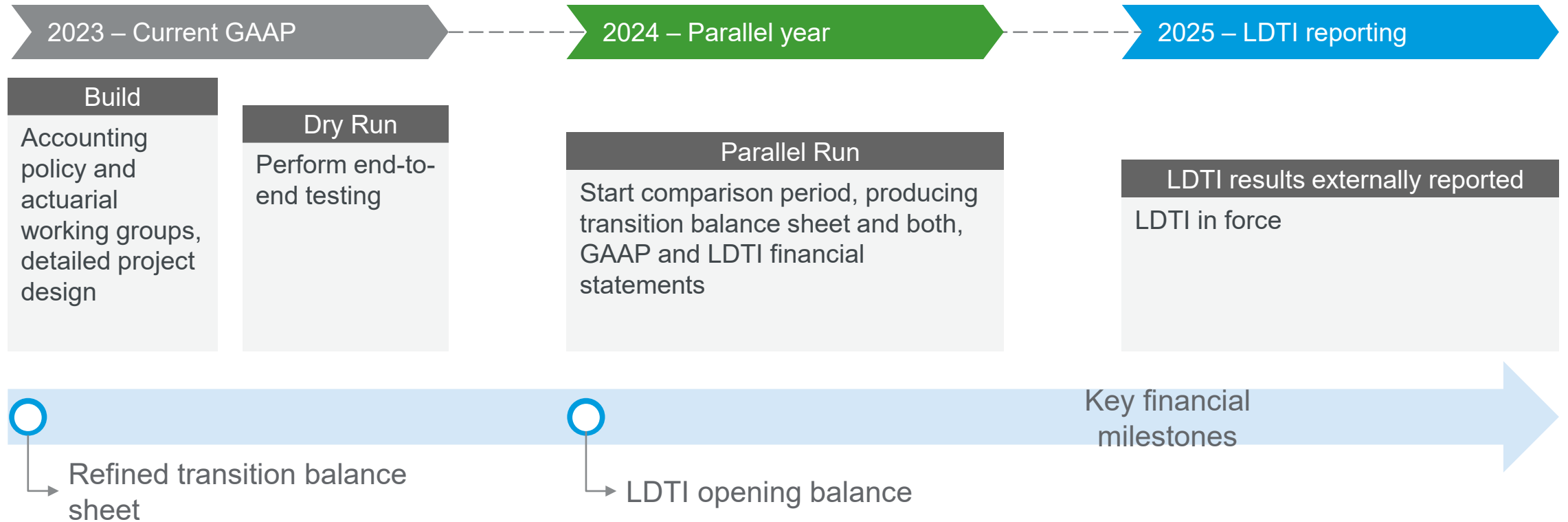
What's changing under LDTI?

#	Key Areas Impacted	Current	Future	Potential Financial Statement Impacts
1	Liability for future policy benefits	<ul style="list-style-type: none"> Original assumptions remain “locked” at issue of a contract Discount rate is the insurer’s expected investment yield 	<ul style="list-style-type: none"> Assumptions should be updated periodically (at least once a year) Discount rate that reflects the characteristics of liability (single A rate) Increased granularity in calculations 	<ul style="list-style-type: none"> Assumptions changes now reflected in reserves Discount rate volatility reflected in OCI
2	Definition and measurement of market risk benefits (MRB)	<ul style="list-style-type: none"> Different measurement models exist 	<ul style="list-style-type: none"> Measured at fair value 	<ul style="list-style-type: none"> Volatility in earning due to the MRB fluctuations based on market or policy holders’ behaviors
3	Amortization of Deferred Acquisition Costs (DAC)	<ul style="list-style-type: none"> Amortized based on EGP/EGM 	<ul style="list-style-type: none"> Amortized on a constant level basis 	<ul style="list-style-type: none"> Removal of shadow DAC adjustments Can no longer serve as an offset to movements in liabilities
4	Presentation & Disclosures	<ul style="list-style-type: none"> Limited useful information 	<ul style="list-style-type: none"> Enhanced disclosures with disaggregated roll-forwards and other quantitative & qualitative information 	<ul style="list-style-type: none"> Separately present the remeasurement gain or loss Separately present the MRB change in fair value due to instrument-specific credit risk in OCI













LDTI IMPLICATIONS TO INSURERS

Timeline of LDTI




Example LDTI implementation road map

Phases	Key Activities	2019	2020	2021	2022	2023	2024	2025
Planning	<ul style="list-style-type: none"> Project set up Understanding standards Initial impact assessment 							
Analysis & process design	<ul style="list-style-type: none"> Methodology discussion Impact analysis Systems and process design 							
Implementation	<ul style="list-style-type: none"> Implement new processes and systems Transition approach ready LDTI transition (public companies) 							
Testing & integration	<ul style="list-style-type: none"> Complete LDTI implementation Complete dry run Defect remediation LDTI transition (non-public companies) 							
LDTI reporting & maintenance	<ul style="list-style-type: none"> Go-live Monitoring & maintenance Enhancement 							

Transition date

Effective date

 SEC filers (public companies)

 All other entities (non-public companies)

LDTI implementation challenges

Implementation challenges for insurers moving to adopt LDTI are plentiful and include:

Strain on resources and limited expertise in developing and reviewing accounting implications for LDTI

Systems, data, and process design/solution selections and implementation

Strain on actuarial function due to number of models to be updated, documented and validated

Strain on internal controls resources due to the increased volume of controls testing to be performed prior to production

Time consuming management reporting and explanation

Developing effective project and resource plans to build towards implementation



PATH TO LDTI READINESS

The A,B,Cs of a successful LDTI transformation

Transformation Framework



Expected Results

Gain agreement with key stakeholders on vision and objectives. Ensure alignment with other significant initiatives

Important to regularly reconfirm alignment on process and initiatives to ensure shared understanding of changing objectives and requirements

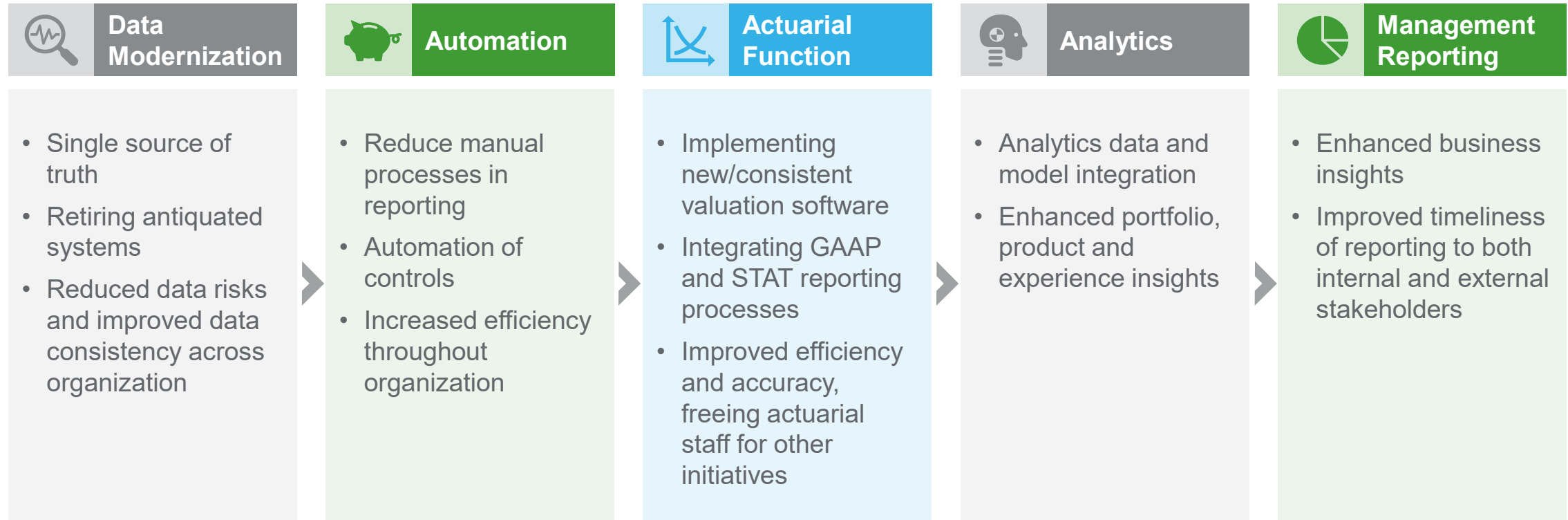
For changes required under LDTI insurers should understand:

- The materiality of the change and whether more cost-effective approximations will be sufficient to meet compliance, and
- If any additional value can be realized if the scope of the change is expanded beyond LDTI compliance

Many insurers have utilized LDTI as a launching point to significantly modernize their operations (e.g. systems, controls, data) in order to see strategic and operational advantages following implementation

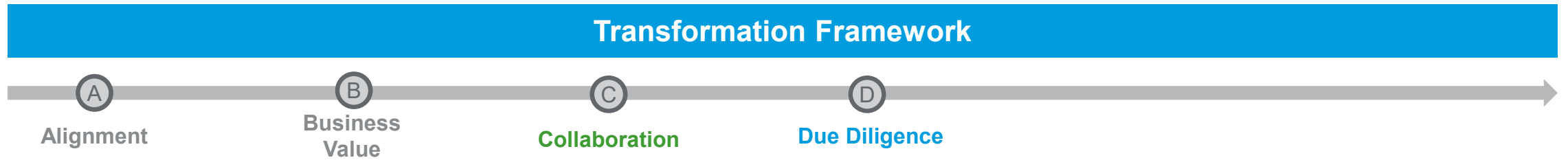
Business value opportunities

AREAS WHERE INSURERS HAVE EXPANDED LDTI IMPLEMENTATIONS TO ENHANCE BUSINESS VALUE



← LDTI linked process improvements can span all core business functions →

The A,B,Cs of a successful LDTI transformation



Expected Results

LDTI implementation will draw resources and expertise from across the insurer's operations. It is imperative that these resources work collaboratively for an effective and timely implementation.

Create accountability across the organization to ensure impacted resources are pushing towards the same implementation objectives. Appropriate incentives should be utilized to ensure that the LDTI implementation is appropriately prioritized across the organization.

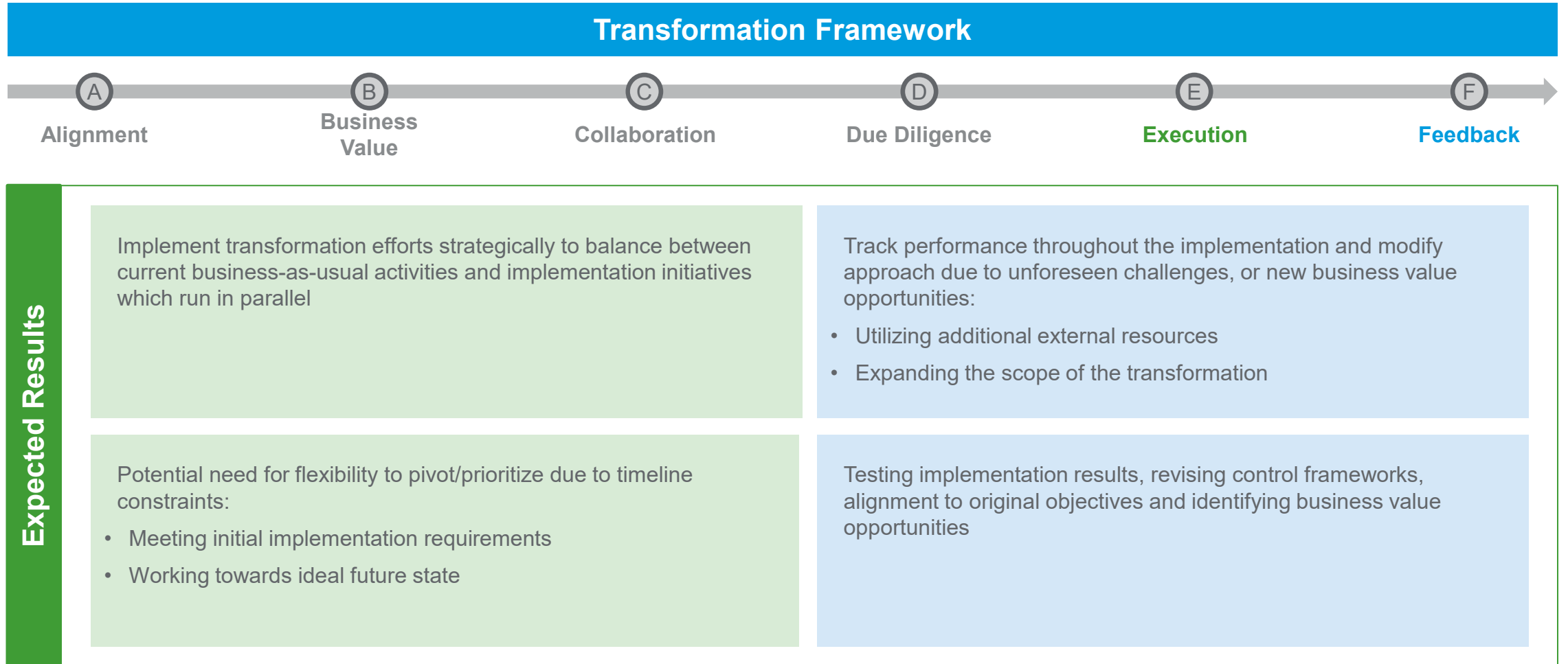
Areas of focus:

- LDTI compliance requirements for your business
- Future business-as-usual objectives and ideal landing point
- Planning around implementation resource constraints (i.e. regular reporting processes, other initiatives, etc.)

From a risk management perspective:

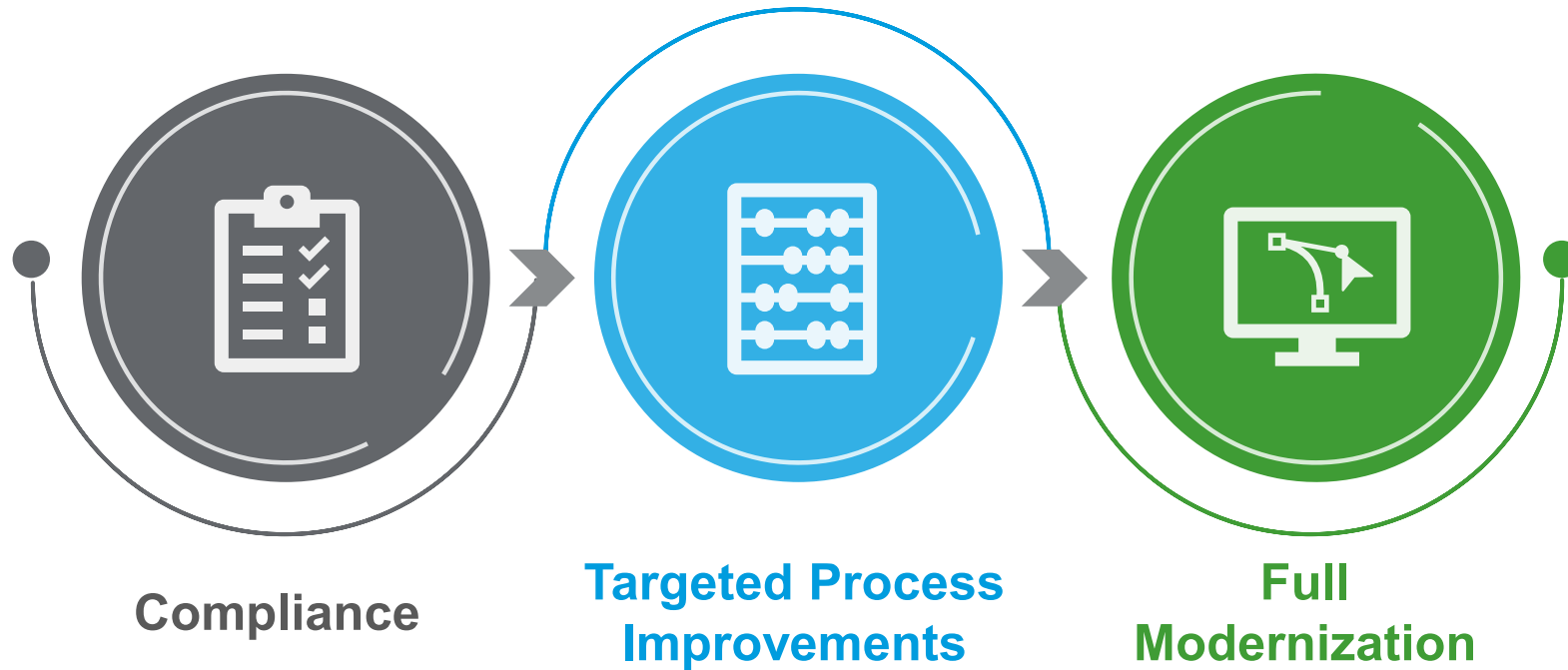
- Where could we encounter roadblocks and other implementation challenges?
- Can we mitigate those risks by planning for contingencies, or prioritizing higher risk initiatives

The A,B,Cs of a successful LDTI transformation (cont.)



Execution - strategic approach to LDTI implementation

Many insurers are taking a strategic approach to their LDTI implementation which provides flexibility to achieve business goals and objectives while complying with the new standard



Biggest opportunities:

Modernize actuarial models and assumptions

Finance and actuarial data integration

Refine process to perform better FP&A functions and understand results



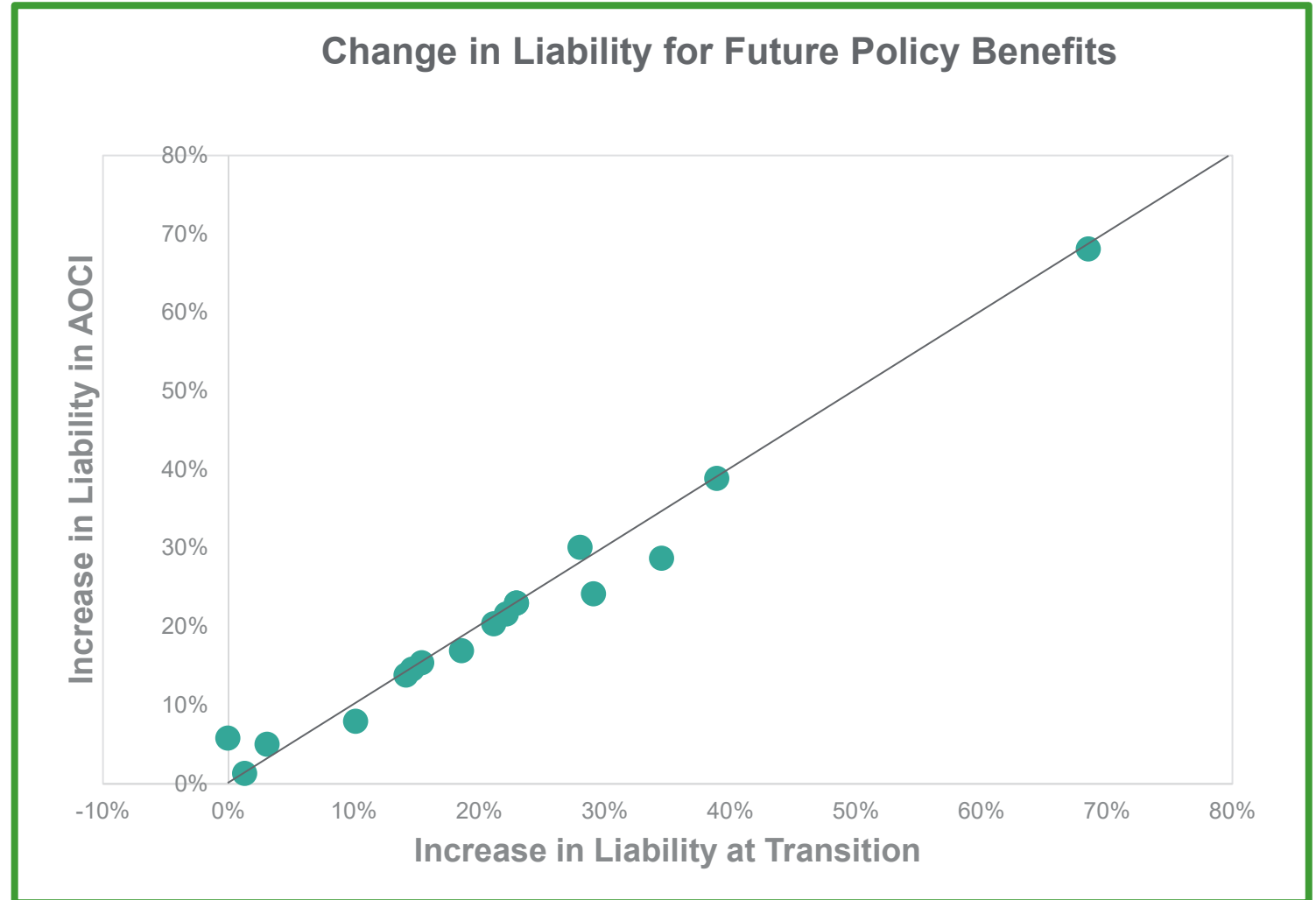
LESSONS FROM PUBLIC COMPANIES

Transition liability impacts (LFPB)

Public companies saw significant increases in LFPB:

Low interest rates in 2021 drove the liability movements

Interest rates as of your transition date will be an early indicator of liability movements



Single A corporate yield rates

Single-A US Corp Index Effective Yield

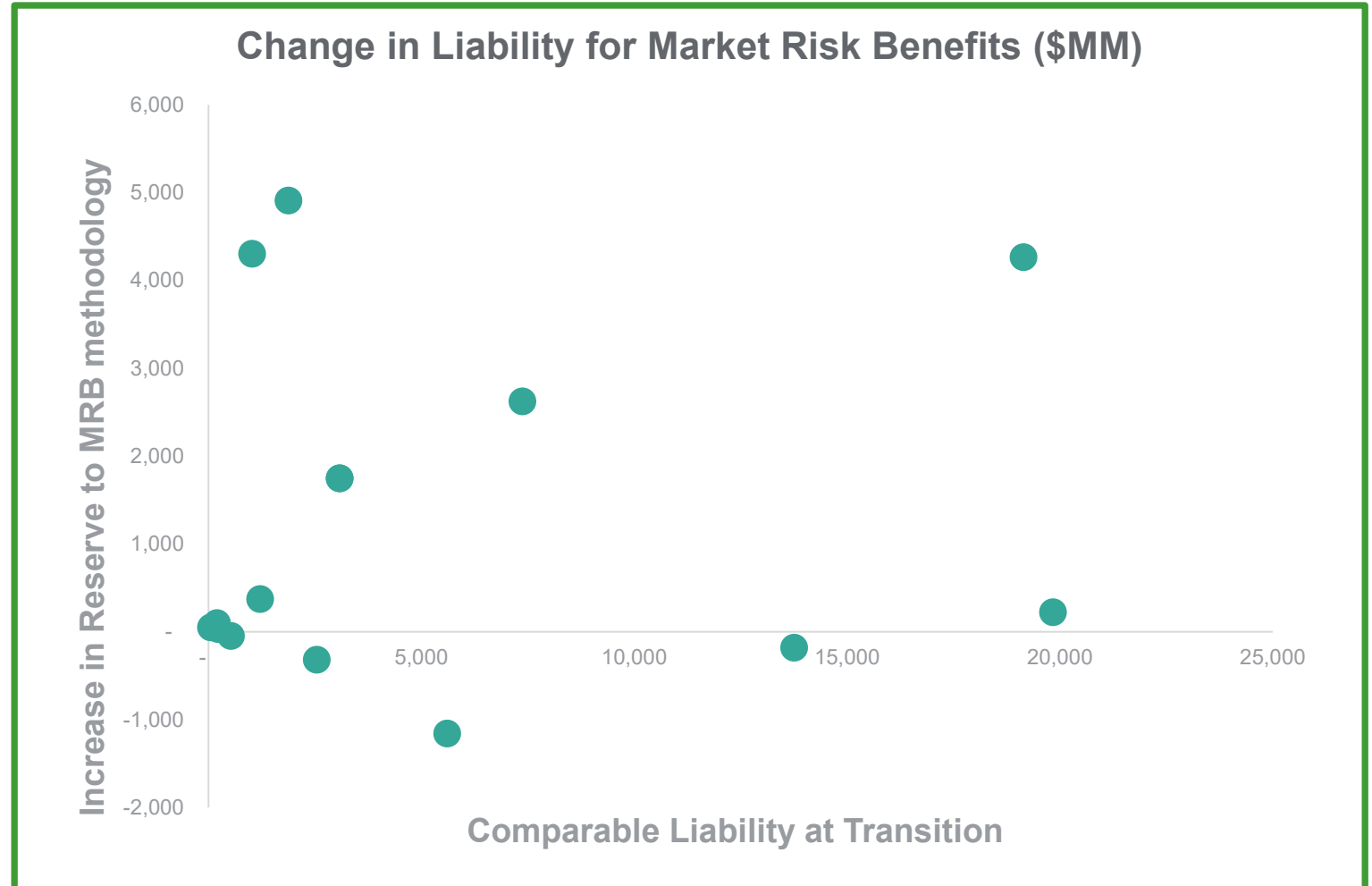


Transition liability impacts (MRB)

Public's saw less significant increases compared to LFPBs

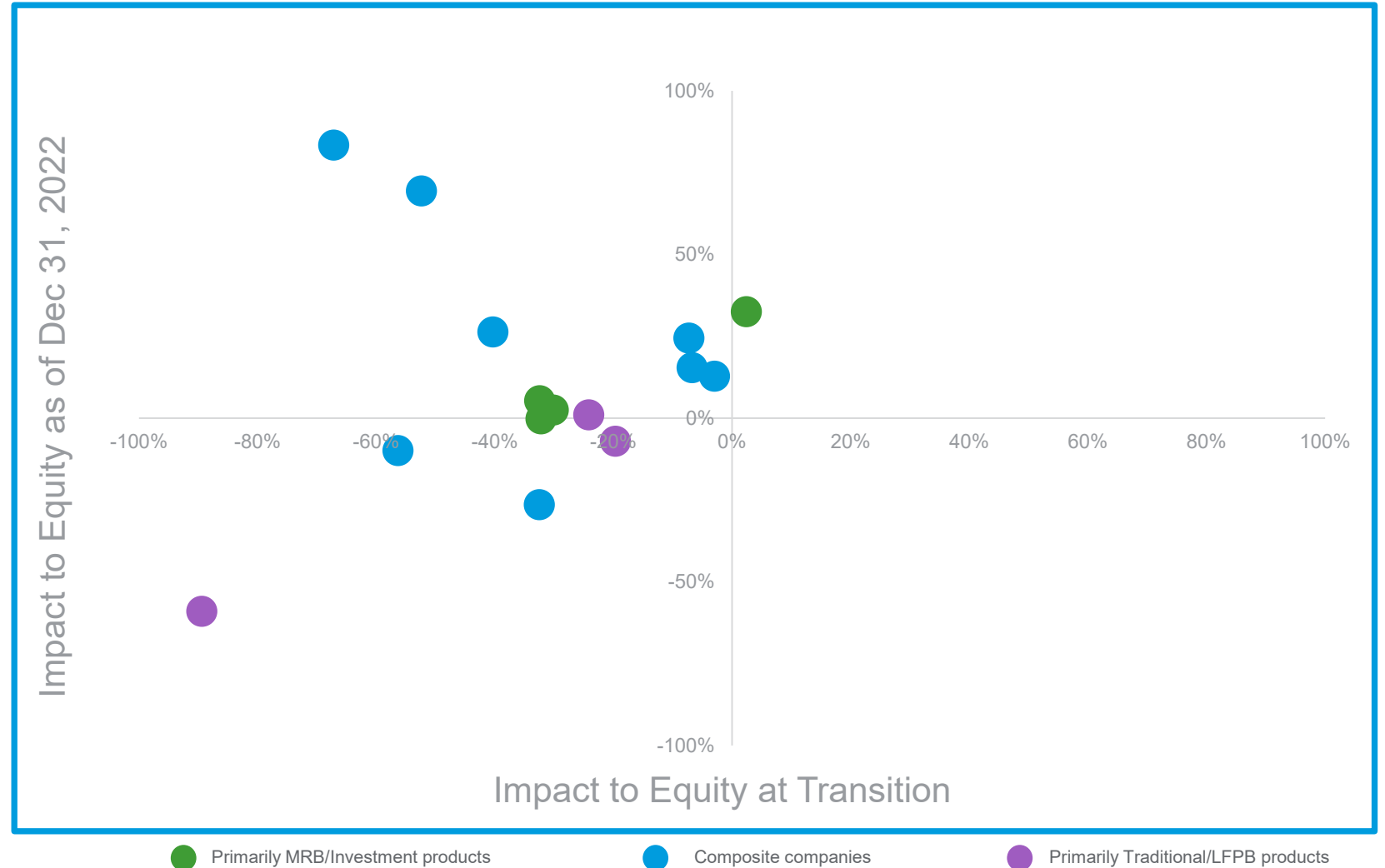
MRB impacts largely negative at transition

More volatile across the industry based on individual circumstances



Equity impacts from LDTI

Public companies saw significant reductions in equity at transition date, which then reversed for many issuers between transition and adoption date



Equity volatility under LDTI

These graphs detail the equity impact both pre/post LDTI utilizing December 31, 2020 as the baseline for 15 public companies





PANEL DISCUSSION

Appendix: Thought leadership

A white paper was developed by the launch team and posted to RSM's US and Canadian sites earlier this year.



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YOUR TIME AND
ATTENTION

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