Top Issues

LDTI and IFRS 17 implementation synergies

April 2019

www.pwc.com/us/insurance
The August 2018 issuance of new reserving requirements for USGAAP reporting ("LDTI") has a timeline that aligns with IFRS17 implementation. Because both FASB and the IASB approaches address similar considerations, companies that need to dual-adopt are finding opportunities for synergies as they refine their approach to implementation. They’ll be able to align policy decisions while simultaneously adopting both standards without needing to worry about two full implementation plans.

System synergies

Both the IASB and FASB standards rely on best estimate cash flows (or probability weighted cash flows) that may be similar or equivalent for projection purposes. A key area of focus in the planning stages is identifying the extent to which cash flows can be leveraged for dual purpose. In particular, for best estimate assumptions that generally represent the mean of a company’s experience – and where data indicates symmetry in the distribution of the assumption – companies will be able to leverage a common assumption set for LDTI and a common cash flow set for projection purposes.

An example of this is the setting of a mortality assumption. Most studies will indicate a symmetrical distribution and most companies will set their best estimate as the mean of the experience. The resultant cash flow projection for mortality purposes will be appropriate both for IFRS17 and LDTI modelling purposes. Depending on the asymmetry of the risk profile, other, similar assumptions can include lapses, morbidity, and premium persistency. In this context, asymmetry identifies situations where the distribution of the assumption is not symmetrical, which indicates that a mean assumption may not (though it could) be the same as management’s best estimate assumption.
For insurers designing system solutions for use post-transition, they should strongly consider the use of a reliable database solution to store the cash flows at the seriatim projection level so that one projection can be used for multiple purposes, such as for IFRS17, LDTI, or planning. Definition at the seriatim level will allow companies to combine the results in whatever way necessary for any particular analysis. This drives the second large potential synergy, which concerns the definition of “unit of account.” LDTI prescribes a unit of account no less granular than the issue year of the contract; this is similar to the IFRS17 unit of account, which also proscribes crossing issue year. IFRS17 further subdivides the unit of accounts by portfolio definition. In order to minimize effort, implementation plans should ensure that the IFRS17 unit of account can be combined easily into the less granular LDTI level. Flexible data solutions will allow this combination of cash flows to the relative unit of account and minimize the amount of rework needed to support the new standards.
Reporting synergies

Under the new frameworks, we expect that management reporting requirements will increase because of the demand for additional insights. Furthermore, the new required roll-forward disclosures will increase the amount of analysis and the number of model runs. Analyzing these disclosures and determining a management reporting framework will allow actuaries to design, automate, and minimize the number of runs needed to perform these roll-forwards and analysis. For example, LDTI prescribes that the assumption unlocking should occur at the beginning of the quarter, when an assumption is unlocked. Under IFRS17, the order of operations for roll-forward are not prescribed outside of CSM amortization. As such, in order to minimize the number of runs required, companies should determine if assumption unlocking for IFRS17 also should occur as of the beginning of the quarter. Similar synergies would exist for updates for actual experience; ensuring a consistent order of operations will be vital to minimizing the number of required runs.

Some synergies will be limited in scope due to the fundamental differences in the standards. For example, because of differences in contractual terms, contract boundaries will be fundamentally different between IFRS17 and LDTI. However, there is still an opportunity for synergy, in particular where cash flows are the same but the boundary is limited due to repricing or other features. In this case, companies should be able to modify LDTI cash flows to become IFRS17 cash flows using modifiers in a database rather than separate model runs or new model runs. There will be similar considerations for cash flow elements that are part of one standard but not another. For example, although maintenance expenses will not be part of the LDTI best estimate cash flow stream, an optimized model may consider including maintenance expense assumptions and loading them into a central database because they would be needed for IFRS17 and planning purposes. A modifier could be applied in database form in order to capture the LDTI cash flows needed.

Other Approaches

This system agnostic process map graphically summarizes synergies:
LDTI Synergies with IFRS 17/9

While the requirements are significantly different between the accounting changes proposed by FASB and IFRS 17, the impacts on the technology architecture have similarities. All of these changes will likely require updates to existing systems, data, and processes.

Items like input data, projection modules, and reporting elements all can be leveraged on a combined basis to maximize the impact and minimize the cost of implementation. Other items we’ve already mentioned, in particular data warehousing and aggregation, are particularly open to consolidation since so many data elements are common across the regimes.
Conclusion

Companies should take a hard look at their implementation plans to determine if they’re taking advantages of the many ways to optimize implementation. The key goal is to implement these new standards in a cost-effective fashion, limiting the amount of reworks and time needed to reconcile the results of the two standards.
For more information

Rich de Haan
US Actuarial Leader
+1 646 471 6491
richard.dehaan@pwc.com

David Honour
Actuarial Principal
+1 646 471 1696
david.honour@pwc.com

Alexandre Lemieux
Actuarial Director
+1 312 298 3216
alexandre.lemieux@pwc.com

PwC director Eric Trowbridge also contributed to this report.

www.pwc.com/us/insurance

At PwC, our purpose is to build trust in society and solve important problems. We’re a network of firms in 158 countries with more than 236,000 people who are committed to delivering quality in assurance, advisory and tax services.

Find out more and tell us what matters to you by visiting us at www.pwc.com.

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PwC does not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2019 PwC. All rights reserved. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.