



Adoption of ASU 2018-12 Lessons Learned

2023 – Public Company Filers



Agenda

- ❑ Financial Reporting Close
- ❑ Data
- ❑ Management Reporting
- ❑ Internal Controls
- ❑ Tips for Implementation



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Financial Reporting Close

Financial Reporting Close

- ❖ Delays in the close schedule
- ❖ Subsidiary reporting issues and delays
- ❖ Delays in information from TPAs
- ❖ Model refinements into Q1 2023
- ❖ Late adjusting entries



- ❖ Continued resource constraints
- ❖ Key resource turnover
- ❖ Late hires or additions to the team
- ❖ Competing statutory reporting deadlines

Q1 2023 LDTI Challenges

- ❖ Challenges to explain the capped vs. uncapped cohorts related to the net premium ratio (NPR)
- ❖ Challenges to explain fluctuations of and comparability of certain financial statement captions and new disclosures impacted by the adoption



- ❖ New valuation systems created some challenges in obtaining the detail required by financial reporting
- ❖ Manual processes and controls slowed the close process

Financial Reporting Close continued

- ❖ Executed multiple parallel runs (i.e., quarterly dry runs for the restated 2021 and 2022 periods in advance of adoption)
- ❖ Dry runs of restated periods prepared in advance of the required adoption date



- ❖ Hired third-party consultants for specific workstreams in the adoption process
- ❖ Dedicated specific resources to the implementation process (outside the normal course of business)

Q1 2023 LDTI Successes

- ❖ New required disclosures were helpful in the interpretation and explanation of results
- ❖ Disclosures gave more clarity of what drove the changes in reserves



- ❖ Years of advanced preparation
- ❖ Collaborated with the auditor throughout the implementation process
- ❖ Included all impacted departments of the company in the project plan

Data

Data Challenges - Disclosures

Disclosures

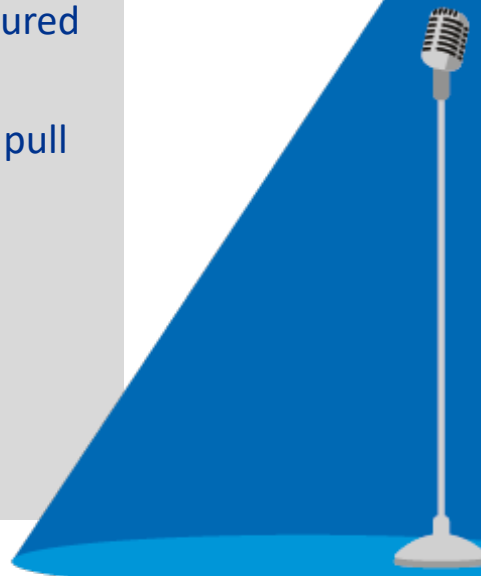
- Compiling the required disclosures took a significant amount of effort
- Required more resources than originally anticipated
- Obtaining the granular level of detail required for disclosures
- Increased the internal dialogue as management worked through their understanding of the results
- Challenges related to how to disclose specific items that are not explicitly included or illustrated in the FASB taxonomy. Examples of some of these items are model updates, flooring of the LFPB reserve, foreign currency impacts, etc.
- Confusion related to the transition period vs. on-going required disclosures



Data Challenges - Reporting

Reporting

- Configured reports and automating of reporting
- Appropriately tagging and/or determining appropriate attributes of data to be used by financial reporting
- Obtaining the required data and specific attributes from subsidiary reporting and/or TPAs
- New system implementations and modernization
 - Historical administrative systems data not configured to feed new modernized systems
- Requirements of the disclosures were challenging to pull accurately and created new steps in the financial reporting processes, for example; calculating:
 - The average duration for separate accounts
 - The cash surrender value for separate accounts

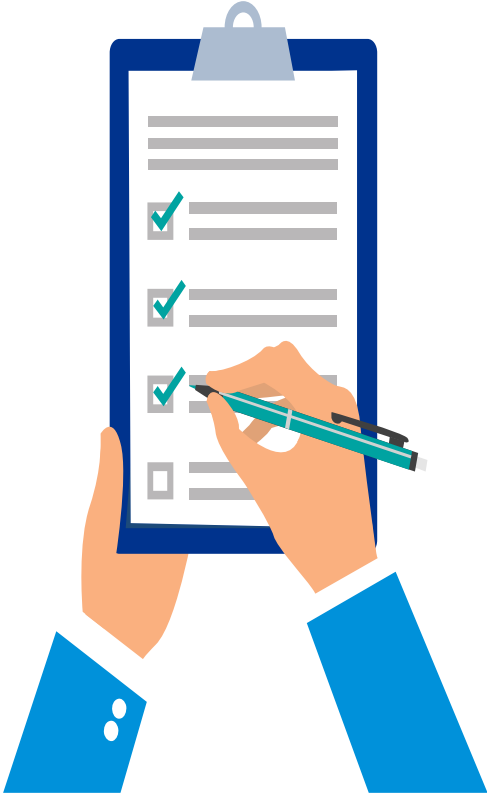


Data Challenges – Actuarial

Actuarial

- Lags and delays in obtaining required data for assumed business (e.g., in force, actual experience, etc.) from cedants
- Some noted they struggled with how to cohort contracts with cash flows in different foreign currencies
- Designing and creating the output of the valuation systems into the granular level of detail required by the new disclosures
- Inclusion of IBNR/ICOS in the integrated LFPB reserve
- Process for flooring the LFPB reserve
- Challenges related to MRB identification and valuation, including;
 - Additional effort from seeking and exhausting all avenues to find available historical data before defaulting to the hindsight approach
 - Evaluating if certain contract features met the definition of an MRB
 - Calculation of the attributed fee ratio

Data Successes



Successes

- Perform dry runs of the transition adjustments and disclosures
- Perform dry runs of restated prior quarters and periods
 - Processes, controls and disclosures
- Integrate internal control design into the implementation plan
 - Process flows
 - Application controls, including system generated reports and system calculations (incorporating required attributes)
 - Manual controls
- Integrate the design and source of disclosures into the implementation plan, i.e., create a ledger-based disclosure source
 - Determine attributes required by the disclosures to integrate into the implementation plan and process flow(s)
- Management engagement of third-party advisors early in the process

Management Reporting

Management Reporting Challenges

Internal

- Incorporating LDTI into Quarterly result materials
 - Lack of sufficient comparable periods to understand trends
 - Level of disaggregation that results are presented to senior management
- Increased discussion on AOCI due to interest rate volatility through the adoption period
- Run off and/or closed blocks of business applied simplifications
- New non-GAAP measures
- Refinement of existing non-GAAP measures

KPIs

- Budgeting
- Incentive compensation metrics
- Increased refinement of existing KPIs
- Persistency and claim variances impacts on quarterly earnings
- Benefit ratio excluding remeasurement (new KPI)
- New language incorporated into existing KPIs related to NPR movements, capping, flooring, and AOCI impacts



Internal Controls

Internal Controls



Challenges

- Precision and documentation related to the assumption unlocking controls
- Granularity of controls related to experience studies
- Reconciliation controls for data used in experience studies
- Ensure controls were designed and implemented to incorporate all relevant attributes and granularity of disclosures
- Lack of comparable periods and expectations for variances or changes in components
- Significant volume of new controls as a result of the LDTI adoption
- Ensuring all components and attributes were properly addressed



Successes

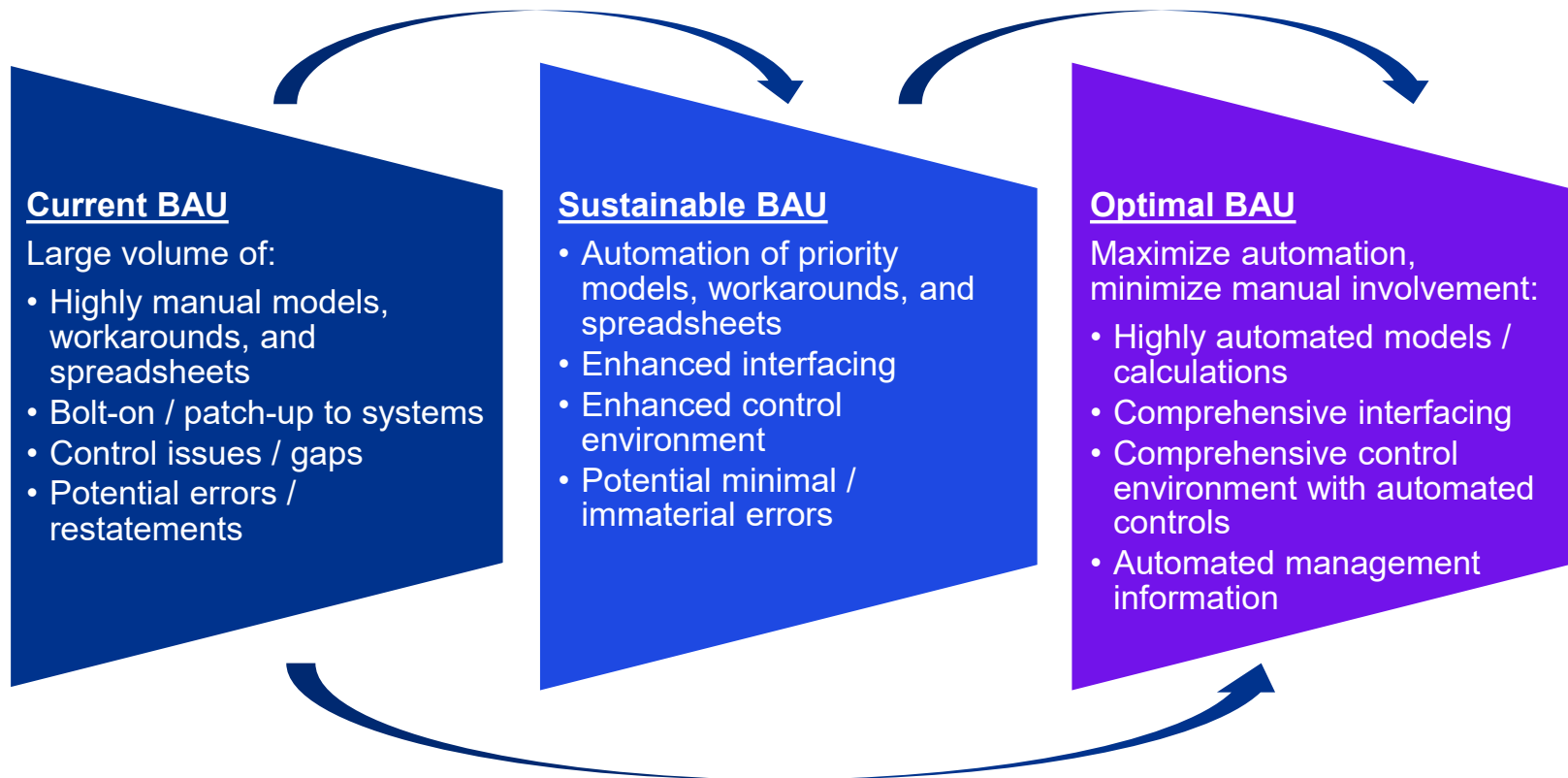
- Fresh lens approach; improve upon legacy controls and use the new accounting standard adoption as an opportunity to rethink and improve overall control framework
- Legacy controls leveraged for LDTI purposes where appropriate and/or revise legacy GAAP controls to incorporate new attributes required for LDTI
- Modernization of processes and data
- Involve internal audit early in the process and begin drafting and fine-tuning flowcharts and controls throughout the LDTI journey even if the process is not fully established (do not wait until the end)
- Ensure controls are identified and designed related to new system generated reports and incorporate new attributes

Tips for Implementation

Tips for implementation

- Start the process as soon as possible
- Not a compliance exercise, overall transformation of the business and processes
- Draft a comprehensive project plan that is cohesive between departments and working groups
- Designate a PMO that has a strong accounting background and is familiar with GAAP LDTI concepts
- Dedicate specific resources to the implementation of LDTI
- Establish a formal decision-making process to incorporate approval and/or sign off from all required parties to avoid changes or re-work
- Execute parallel and/or dry runs of processes and controls to incorporate the end-to-end process
- Perform dry runs related to required disclosures
- Build time into the project plan for the data flow between departments, i.e.; actuarial, administrative processes (i.e. application, premiums, claims etc.), management reporting, and general ledger systems to facilitate an efficient and effective process flow and identify any system and/or data limitations
- Dedicate time related to the aggregation of data and potential complexities of pulling and grouping data as it is a time intensive process, especially with multiple administrative systems
- Refine transition adjustments and disclosures early in the process
- Complete model enhancements prior to the implementation year
- Educate key stakeholders in advance of adoption
- Engage external auditor throughout

What we are seeing now (2023 reporters) and the potential paths ahead



Optimization Activities and ROI

Activities



Deploy new digital solutions



Modernize legacy systems & applications



Unify siloed digital experiments



Automate & orchestrate existing processes or design new processes



ROI



Transformation velocity increases with **faster** development speed



Universal orchestration layer across organizations, processes technology and data















Bridge the talent gap of high tech professionals by enabling a new group developers

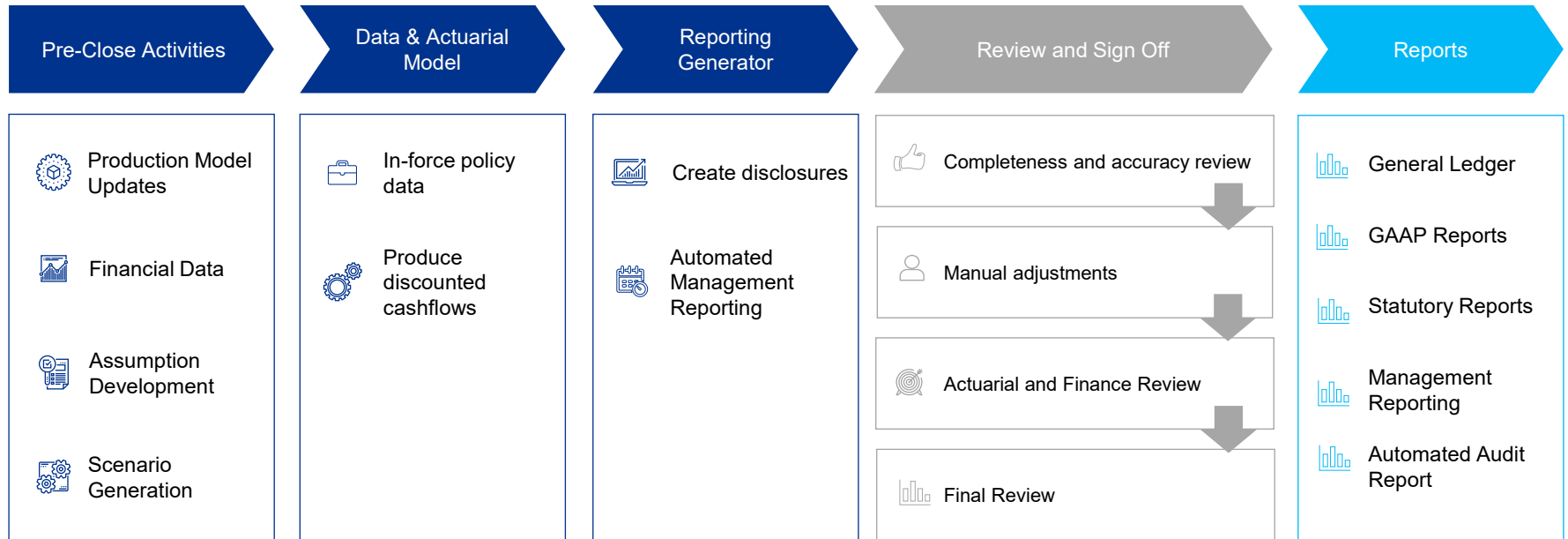


Reduce tech debt as it can add a digital layer on top of existing systems and build new applications fast

What will success look like?

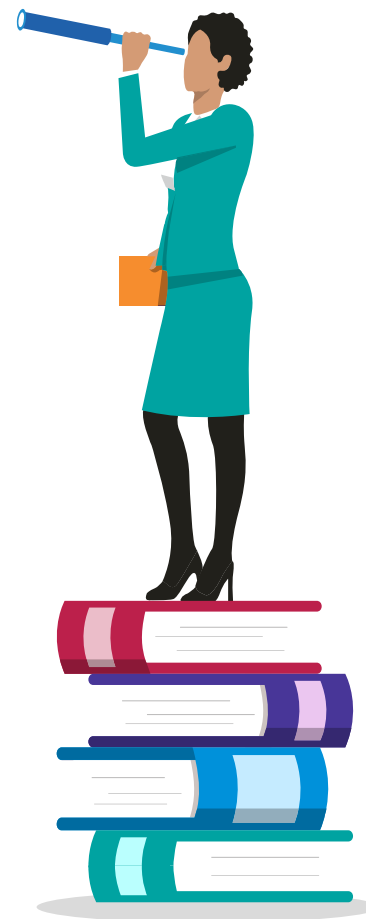
From		To	
Limited, rules based process automation		 Enable new technology	 Automate everything
Disparate data sets, reactionary analysis		 Manage and monetize data	 Serve as strategist
Task focused workforce, limited digital acumen		 Flexible On-Demand Workforce	 Lead enterprise performance
Large, global business services centers		 Boundary-less delivery	 Everything as a service

Close Calendar Overview



Future Improvements

- Automate processes, controls, and reporting
- Refine what constitutes an interim unlocking event
- Enhance, standardize, and refine management reporting
- Refine and streamline management discussion and explanation of quarterly results and impacts
- Improve the close process related to subsidiary reporting and requirements of data needed at the consolidated level
- Continue to refine KPIs related to LDTI
- Enhancing the design of controls specifically related to the precision and documentation of management review controls related to the assumption unlocking and experience studies
- Continue to refine non-GAAP measures impacted by LDTI



Thank you



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