

Actuarial & Insurance Solutions

Long Duration Targeted Improvements

Background

Long-Duration Targeted Improvements (LDTI) is the most significant change in accounting policy for US insurers in recent decades. LDTI became effective January 1, 2023 for SEC filers, whereas the effective date for non-public insurers is January 1, 2025.

The standard aims to make financial statements more comparable and transparent. The improvements look to modernize the accounting model under US GAAP for certain long-duration insurance contracts with 4 key focus areas:

1. **Actuarial Assumptions:** Where assumptions were previously locked in throughout the lifetime of a contract, insurers must now review assumptions at least annually and update projected cashflows accordingly. This will require a more onerous controls and documentation in the assumption setting process.
2. **Deferred Acquisition Cost (DAC):** DAC accounting will be overhauled, requiring insurers to adopt a straight-line basis over the life of the contract. Insurers will also need to track and disclose the movements in DAC as they emerge.
3. **Market Risk Benefits (MRB):** Products with benefits that meet the definition of MRB will be measured at fair value. There will be additional disclosure requirements for these products. Without clear, prescriptive guidance on what contract features are in or out of scope, this change is expected to be a significant challenge to entities with non-traditional products.
4. **Disclosures:** There will be enhanced and more detailed disclosure requirements under LDTI. This will give rise to a need for an increased depth of detail in company's audit trails.

These focus areas represent significant changes and will each require substantial amounts of time and resources to understand, adapt and roll out the new requirements.

Key Challenges

As you progress with your LDTI implementation roadmap, you will likely face some challenges as you adjust and improve data, processes, systems and reporting where necessary over the next year. Some of the key challenges faced by our clients include:

1. Managing the increased level of data and any system adjustments that are required as a result of cohorting and disclosure requirements.

2. Ensuring LDTI is integrated across all operational functions of the business. Ensuring a coordinated and organized approach is adopted.
3. Communicating these changes and educating stakeholders to understand the presentational differences and how the underlying economics have changed under LDTI.
4. Understanding the reasons for increased volatility in the balance sheet and income statement results due to changes in assumptions and deferred acquisition costs.
5. Meeting key reporting deadlines, both internal and external. Ensuring decisions are made timeously to avoid reporting delays.
6. Maintaining an appropriate audit trail, with adapted controls, more thorough documentation and reporting processes.

Opportunities with Deloitte

Insurers who tackle these changes with the right toolkit can position their business in good stead for the future. As LDTI implementation reshapes businesses and balance sheets, those who act earliest can leverage opportunities to grow their business. Deloitte can assist with:

1. Building a structured and informed approach to reporting under LDTI, providing real value and improved communication to stakeholders, putting your company in good standing in the market.
2. Understanding LDTI data requirements and working with you to help reconstruct data systems, improve control efficiency and removing legacy, outdated processes.
3. Creating the appropriate actuarial modelling processes, giving you the opportunity to automate reserving processes, speed up reporting and leverage new technologies to free up resources.
4. Uncovering opportunities to acquire new blocks of business, companies, or implement new strategies and ventures as the market repositions themselves and their balance sheets.
5. Leveraging regulatory intersections with IFRS 17 and streamlining your business across both regulatory regimes where needed.
6. Helping you understand the pricing and ceding implications when working with IFRS reporters.

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Eric has over 15 years of experience working with (re)insurance and financial services entities on internal and external audit and advisory projects.

He has a range of experience across the (re)insurance industry covering external audit and various accounting advisory projects.

Specifically, Eric leads the external audits of several Bermuda based life and annuity reinsurers, including several U.S. facing block life reinsurers. Eric's accounting advisory experience covers a range of topics including consolidation, share-based compensation, purchase accounting, tax accounting analyses, and IFRS 17 accounting implementation.

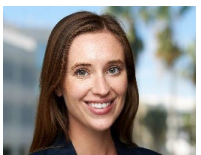


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Clayton is a Director in the Actuarial & Insurance Solutions (AIS) practice of Deloitte's Bermuda office. He specializes in regulatory advisory services related to IFRS, GAAP, and Bermuda EBS, and has led in-depth actuarial audits on life reinsurers performing assumption appropriateness reviews, model validations, and independent recalculations of complex reserves.

Clayton currently serves Bermuda and international clients and has led several projects for life (re)insurers in Bermuda in relation to EBS and Bermuda capital modelling, IFRS 17 impact assessments and implementation, and regulatory advisory services for new companies on the island.

Prior to joining Deloitte, Clayton held multiple roles in a large global life insurer for 9 years, including group valuation and pricing, and model risk governance and validation.



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Nina is a Director in Deloitte's Actuarial & Insurance Solutions practice. She currently serves Bermuda and international Life (re)insurance clients on a variety of actuarial functions including IFRS 17 and LDTI readiness, actuarial valuations, transaction pricing and restructuring and audits of long-term (re)insurers and pension funds.

Prior to joining Deloitte, Nina held roles in capital and risk management, IFRS 17 application, solvency reporting and statutory valuations at a South African-based consulting firm. She has experience in a broad range of long-term insurance products and services.



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Juvaine is a manager in the Actuarial & Insurance Solutions practice at Deloitte and has over 8 years experience providing actuarial services in the life, health and pensions industries. He is a Fellow of the ASSA and holds the CERA designation.

Juvaine has experience working with a large US Reinsurance company with a Bermuda entity to implement LDTI within their business and works together with the Deloitte US team to seamlessly bring our expertise together for our client.

He has prior experience at EY South Africa, working across a variety of life insurance projects across IFRS 17 implementation and audits, due diligence exercises, Head of Actuarial Function support roles and audits of large multi-national insurers and reinsurers.