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Actuarial & Insurance Solutions

Long Duration Targeted Improvements

Background

Long-Duration Targeted Improvements (LDTI) is the most significant change in accounting policy for US (re)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 reinsurance contracts with four key focus areas:

1. **Actuarial Assumptions:** Where assumptions were previously locked in throughout the lifetime of a contract, (re)insurers must now review assumptions at least annually and update projected cashflows accordingly. This will require 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. (Re)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 in an organized manner across all operational functions of the business.
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 internal & external reporting deadlines, 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

(Re)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 & informed approach to reporting under LDTI, providing real value and improved communication to stakeholders, placing your company in good market standing.
2. Understanding LDTI data requirements and working with you to help reconstruct data systems, improve control efficiency and removing legacy, outdated processes.
3. Creating 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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