Session 66: Statutory and GAAP Valuation and Regulatory Update

2019 LIFE & ANNUITY SYMPOSIUM

STAT and GAAP Valuation Regulatory Update

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May 21, 2019

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Antitrust Compliance Guidelines

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Agenda

- Life PBR Updates
  - VAWG's PBR Report and Recommendations
  - Update on Life PBR Amendments
  - Update on PBR Resources
- Other Statutory Regulatory Updates
  - Life RBC
  - VA Reserves and Capital
  - IUL Illustrations

Life PBR Updates

VAWG's 10/19/18 PBR Review Report

- VAWG's PBR Review Report outlines the review approach used for 2017 PBR filings, summarizes review findings, and suggests items companies should consider for 2018 filings.

Table 1: 2017 Life Insurance PBR Statistics (Reserves Shown are Post-Reinsurance Ceded)

Product Category	Number of Companies	Number of Policies	Face Amount (in millions)	Post-Reins Reported Reserve ($)	Average Policy Size ($)	Average Reserve per Policy ($)	Average Reserve per $1,000 ($)
Term	20	309,448	153,253	73,953,847	495,248	239	0.48
ULSG	6	7,388	4,297	140,879,000	581,588	19,069	32.79
Non-Par WL	3	17,906	270	592,000	15,074	33	2.19
Total	23*	334,742	157,820	215,424,847	471,468	644	1.37

*Some companies implemented PBR for several product categories.

Source: VAWG's 10/29/18 PBR Review Report

- To read a copy of the VAWG report and recommendations, visit https://www.naic.org/cmte_e_valuation_analysis_wg.htm and click on "Related Documents."

VM-20 Reserve Supplement Findings

- PBR filings consist of both a VM-20 Reserve Supplement for the Annual Statement and a VM-31 PBR Actuarial Report
- Observations and findings
  - For Term, the NPR was the highest reserve for 70% of the companies, and the DR was the highest for the rest. Some companies had a negative DR.
  - For ULSG, the highest reserve was split between NPR, DR, and SR.
  - Both Term and ULSG saw a wide range in per-unit NPR and DR across companies.
  - There were concerns about incomplete/inaccurate reporting, stemming at least partially from confusion regarding requirements. Expect improvements to Supplement design and/or instructions.

PBR Actuarial Report Findings

- Organization and communication
  - In many reports, material on a single topic was dispersed across multiple sections of the report.
  - In some cases, final assumptions and/or key points weren't obvious (unclear communication).
- Missing items explicitly required by VM-31
  - All reports were missing some of the items required by VM-31.
  - 21 items missing in at least one report, 13 of which were missing in 5 or more reports.
- Missing items not explicitly required by VM-31
  - VM-31 establishes minimum requirements, which include that "the PBR Actuarial Report must include documentation and disclosure sufficient for another actuary qualified in the same practice area to evaluate the work."
  - It was also noted that Actuarial Standards of Practice (ASOPs) apply to PBR work and communication and that information beyond the minimum VM-31 requirements may be needed to satisfy ASOP 41.
  - Table 3 in the findings lists 25 items not explicitly required by VM-31 and not included in many of the reports that the VAWG concludes are necessary to assess a company's implementation of PBR.

PBR Actuarial Report Findings

- Other noted methodology, modeling, or assumption issues
  - Inappropriate materiality standards
  - Lack of required support for simplifications and approximations
  - Incorrect numerator in the Stochastic Exclusion Ratio Test (SERT)
  - Improper aggregation of experience for determining credibility
  - Improper industry mortality for simplified issue business
  - Capping of exposure and/or claim amounts
  - Improper grading of company mortality to industry mortality
  - Issues with lapse assumptions and margins
  - Issues with expense assumptions and margins

Items companies should consider for 2019 Filings

- VAWG suggests companies develop approaches to convey information with the goal of providing information clearly so that the reader does not have to make assumptions or ask questions.
  1. Consider using graphs where appropriate
  2. Use tables to convey information in one place
  3. Provide spreadsheets where appropriate
  4. Leverage existing documentation
  5. Consider use of a few additional descriptive words for clarity
  6. Have an appropriate peer review done
  7. Consider ASOP 41 and the reader's ability to assess reasonableness

- Appendix 1 – Stochastic Exclusion Ratio Test Ratio Examples
- Appendix 2 – Grading Period Examples

Changes Coming to the 2020 VM

LATF ADOPTED AMENDMENTS FOR THE 2020 VM

- APF 2017-70 Methodology for Valuing Term Riders
- APF 2018-03 Clarifying Starting Asset Language
- APF 2018-06 Definition of Ordinary Life
- APF 2018-08 Life PBR Exemption Revision
- APF 2018-11 Clarify Details of Stochastic Exclusion Tests and Results
- APF 2018-15 Add Definitions to VM-01
- APF 2018-17 Aggregation of Mortality Segments for Credibility
- APF 2018-41 Move VM-02 Definitions to VM-01
- APF 2018-48 Clarify Handling of YRT Reinsurance Assumed, Term Riders and Paid-Up Term
- APF 2018-49 Update VM-20 Sec 3 to reflect adoption of APF 2017-88
- APF 2018-50 Require additional modeling system information
- APF 2018-51 Revision of VM-31 reporting requirements
- APF 2018-52 Revise NPR calculation to address substandard mortality
- APF 2018-54 Additional instructions for ULSG reserve reporting
- APF 2018-61 Clarify the VM-31 Definition of Credibility
- APF 2019-05 Clarify VM-31 Reporting Requirement

- APF 2019-44 Revise IUL crediting rate methodology for the DR scenario
- APF 2018-62 Disclose how comfort with the model was gained
- APF 2019-63 Clarify annual lapse rate in VM-20 3.B.6.c

March 2019 LATF adoptions

APF 2017-17 on Rider Methodology

Summary of Rider Treatment in 2020 VM	May value with base policy	Shall value with base policy		Shall value separate from base policy
	following reserve requirements for			
	base policy	ULSG policies	base policy	Term policies
A. Riders/supplemental benefits on non-life policies not in scope for VM-20, e.g. health, annuity, deposit-type, credit life, or disability products.	✓			
B. Supplemental benefits on life policies including WOP, ADB, GIO, or Conversion.	✓*			
C. ULSG and other secondary guarantee riders on life policies.		✓*		
D. Riders on life policies not addressed by B or C with any of the following attributes: 1. Rider does not have separately identified premium/charge. 2. Rider prem, charge, value, or benefits determined by ref. to base policy features/perf. 3. Base policy value or benefits determined by ref. to rider features/perf.‡			✓*	
E. Level term riders on base policy named insured(s) not addressed by D.				✓*
F. All other riders/supplemental benefits on life policies not addressed by B, C, D, or E.	✓*†			

** Follow reserve requirements under VM-20, VM-A and/or VM-C as applicable.*

† Election to include with the base policy shall be determined at the policy form level, not policy-by-policy.

‡ The deduction of rider premium/charge from contract value is not sufficient for a determination by reference.

APF 2018-62 on Gaining Comfort with Models

- APF 2018-62 made changes to the instructions for the Calculation and Model Validation subsection of the VM-31 PBRAR (VM-31 Section 3.C.2.e)
  - Added the requirement to include a thorough explanation of how the company became comfortable with the model (e.g., specific model controls, independent reviews performed, etc.)
  - Added the requirement to include tables showing numerical static and dynamic validations results and commentary on these results

Selected APFs that have been exposed

- APFs 2019-25 & 2018-42 – No capping of study exposures/amounts; provide details of credibility calculation (VAWG#12, 34)
- APF 2019-18 – VM-20 to use VM-21's updated revenue sharing rules
- APF 2019-21 – Specify the as of date for the 2008 VBT table is 1/1/08 (the as of date of the 2015 VBT table is already specified as 7/1/15)
- APF 2019-16 – Clarify mortality grading rules and eliminate the 15-year rule for grading advanced issue ages (VAWG#35, 36)
- APF 2019-23 – Recommend tables/templates for the PBRAR for documenting assumptions, margins, and company experience studies (VAWG#4, 6, 7)
- APF 2019-15 – Expands VM-31 3.C.11 Additional Information (VAWG#5, 18, 29, 30)
- APFs 2019-17&24 – YRT rates/modeling for ceding companies (VAWG#26)
- APF 2018-59 – Improve VM-51 non-AUW mortality experience collection
- APF 2018-57 – NPR adjustments when anticipated mortality > prescribed CSO

Selected APFs that have been exposed

- Additional VAWG APFs addressing disclosures:
  - APF 2019-06 – Disclosures for expenses (VAWG#20, 21)
    - Provide statement that expenses are fully allocated
    - Clarify whether commissions and acquisition costs are included in expenses
  - APF 2019-07 – Disclosures for substandard business (VAWG#11)
    - Provide proportion of business rated substandard and whether in the experience study
  - APF 2019-08 – Disclosures for Mortality Improvement start/end (VAWG#14)
    - Provide for both CEMR and AIT
  - APF 2019-09 – Disclosures for NAER details (VAWG#22)
    - Provide NAER path for each DR model segment and explain the pattern (esp. anomalies)
  - APF 2019-10 – Disclosures for SERT details (VAWG#28)
  - APF 2019-11 – Disclosures for A/E ratios (VAWG#11)
  - APF 2019-14 – Disclosures on availability of governance doc (VAWG#1)

Areas of Activity that *May* Generate Future APFs

- Individually underwritten business on a group chassis
- AUW fields for VM-51 experience reporting
- Conversions (e.g., allow DET certification)
- IUL with immaterial indexed AV (e.g., exemptions)
- Treatment of international business ceded into the US
- Treatment of modified coinsurance (e.g., clarify)
- Assumption correlation (e.g., clarify)
- Nonforfeiture/7702 (interest by regulators seems relatively low)

Update on PBR Resources

- Revised PBR section on NAIC.org's Industry Tab
  - https://naic.org/index_industry.htm
- Updated Academy PBR Practice web page
  - http://www.actuary.org/content/pbr-practice
- VM-20 Practice Note updated for 2018 VM
  - http://www.actuary.org/files/publications/VM_20_PN_051817.pdf
- New Academy Assumption Resource Manual
  - http://www.actuary.org/files/publications/PBR_Assumptions_Resource_Manual_012919.pdf
- Revised Academy Life & Health Valuation Law Manual
  - https://www.actuary.org/content/life-health-valuation-law-manual

Other Statutory Regulatory Updates

Life RBC Update

- The Longevity Risk Subgroup held public calls on 2/19/19 and 3/5/19 to hear and discuss an update from the Academy's Longevity Risk Task Force on their development of a longevity risk charge proposal.
  - The goal is to incorporate longevity risk into Life RBC
    - Reserves already reflect longevity risk via prescribed mortality assumptions and AAT
  - The scope includes payout annuities and pension risk transfers (VAs, DAs and LTC may be brought in later)
  - Proposed factors were calibrated using field test results (17 companies)
    - Working versions of anticipated factors ranged from 0.70% to 1.35% depending on the amount of in-scope reserves
  - The update discussed implementing updated C-2a mortality factors and the new C-2b longevity factors concurrently with the new C-2 covariance adjustment
  - The Academy's update report can be found in the materials for the calls available at the following link
    - https://www.naic.org/documents/cmte_a_e_longevity_risk_sg_190219_agenda_materials.pdf

VA Reserves and Capital - Background

- In 2013 the NAIC became concerned with VA writers' use of captives to access alternative reserve/capital requirements due to non-economic volatility in the statutory requirements.
- Oliver Wyman was engaged to study the issue via Quantitative Impact Studies and proposed framework changes in December 2017 to remove non-economic volatility.
- After a few tweaks by regulators, the final framework was adopted by the Financial Condition (E) Committee in July 2018.
- NAIC drafting groups have since implemented the framework into exposure drafts of reserve and capital requirements.

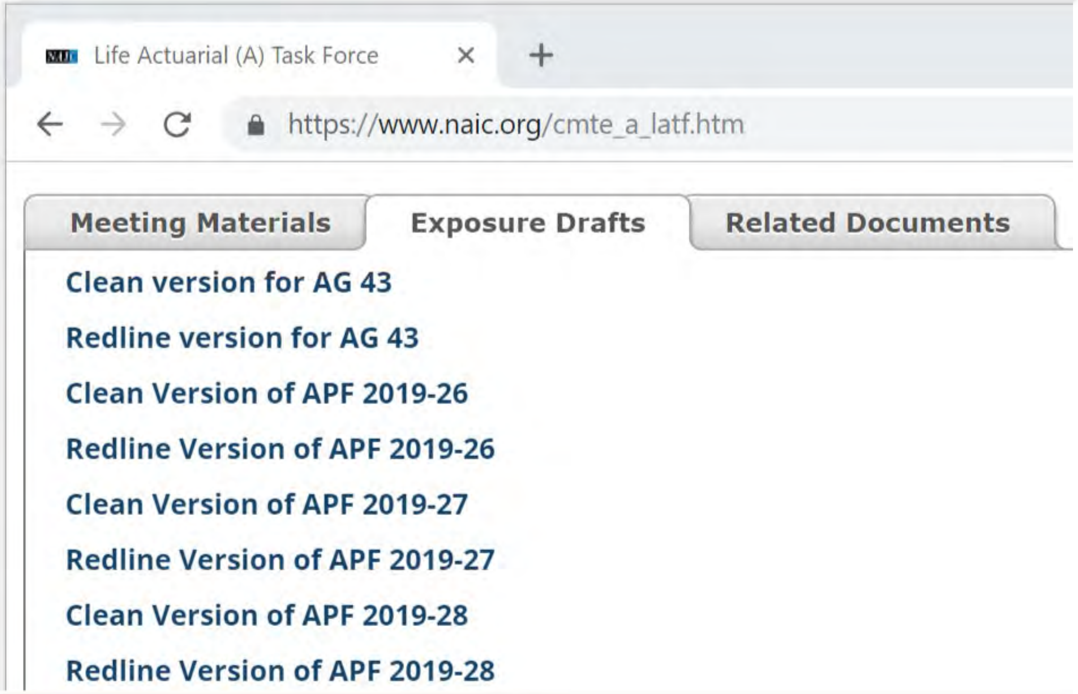
VA Reserves and Capital – Framework Goals

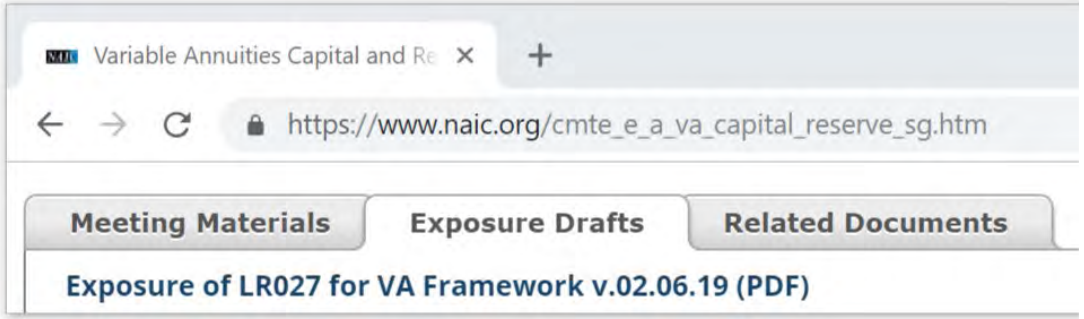
- Remove non-economic reserve volatility
- Remove non-economic volatility in statutory capital charges and resultant solvency ratios
- Enhance regulatory oversight of companies' actuarial assumptions via a reformed Standard Scenario
- Mitigate asset-liability accounting mismatch between hedge instruments and statutory liabilities
- Improve interpretability of framework results and simplicity of calculations
- Greater comparability across insurers and products
- Adoption in time for a 1/1/2020 effective date

VA Reserves and Capital – Exposures

Current exposure drafts are available at NAIC.org

- AG 43
  - Requirements for pre-2017 closed blocks
  - Now simply points to VM-21
- VM-01 (APF 2019-26)
  - Definitions
- VM-21 (APF 2019-27)
  - Reserve requirements for 2017+ issues
- VM-31 (APF 2019-28)
  - Disclosure requirements
- RBC C-3 Phase II LR027 Instructions
  - Capital requirements





IUL Illustrations

The IUL Illustration subgroup discussed 8 AG 49 questions on their 3/12/19 call

1. How should different IUL products be illustrated to demonstrate differences in product features, potential returns, and downside risk?
2. Should a higher risk/return IUL product be illustrated with higher credited rates than a typical IUL product?
3. Should there be a cap on illustrated credited rates?
4. Are illustrated loan charges/credits interacting as expected?
5. Any known concerns with illustrations of volatility-controlled funds?
6. Could extreme index credit multipliers lead to risk/return profiles like variable life, even though floored at RoP (net of charges/withdrawals)?
7. Should LATF address the issue of whether assumptions underlying IUL illustrations should be consistent with PBR and AAT assumptions?
8. Any relevant broader concerns also related to non-IUL life illustrations?

Other Statutory Regulatory Updates

- VM-22 Payout Annuities
  - Potential clarifications related to AG IX B and the 2017's revised methodology for maximum statutory valuation interest rates
- VM-23 Fixed Deferred Annuities
  - Academy working on proposals for a revised methodology for maximum statutory valuation interest rates and a framework for PBR
  - Could lead to changes but not until 2021 at the earliest
- ESG group at NAIC
  - May look into improving or replacing the currently prescribed ESG developed by the Academy
- Health
  - Medicare Supplemental Manual
  - LTC Update

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STAT and GAAP Valuation Regulatory Update

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IFRS 17 Insurance Contracts

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International GAAP: IFRS 17 Insurance Contracts and regulatory requirements

- IFRS is GAAP in many jurisdictions

- Some filers who prepare both US GAAP and/or IFRS are considering what is optimal given IFRS 17 and US GAAP LDTI and other changes
  - Can they change their external financial reporting basis?
  - Can they harmonize the implementations to be as efficient as possible?
  - What are the tradeoffs?

- Many questions remain such as: How will IFRS 17 be interpreted/adopted by regulators? What will be the capital impacts? How will it interact with global solvency requirements?
  - IFRS 17 policy choices such as taking the changes in the discount rate through P&L vs OCI can ultimately have real cash consequences through taxation regimes

IFRS Standards are required for domestic public companies

- IFRS Standards are required for domestic public companies
- IFRS Standards are permitted but not required for domestic public companies
- IFRS Standards are required or permitted for listings by foreign companies
- The IFRS for SMEs Standard is required or permitted
- The IFRS for SMEs Standard is under consideration

Source: https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/#profiles

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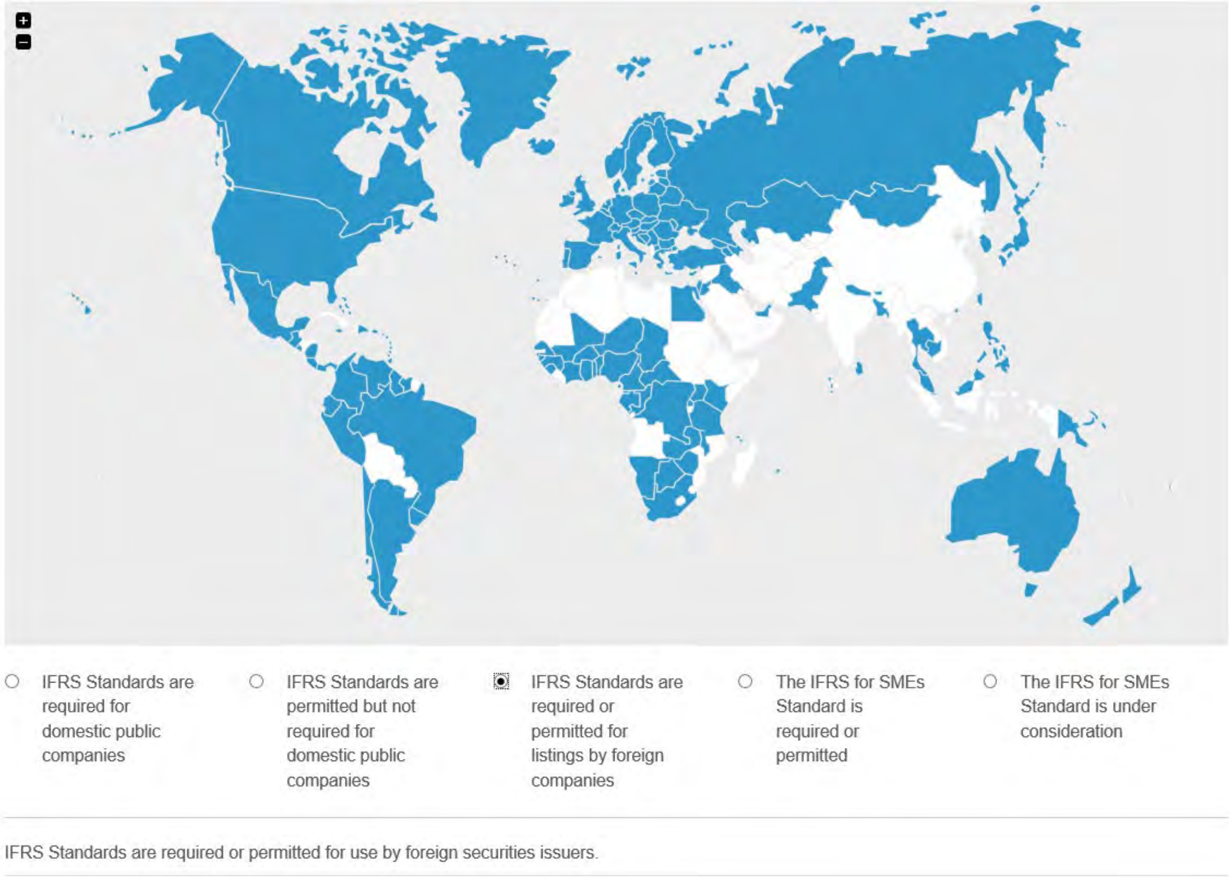
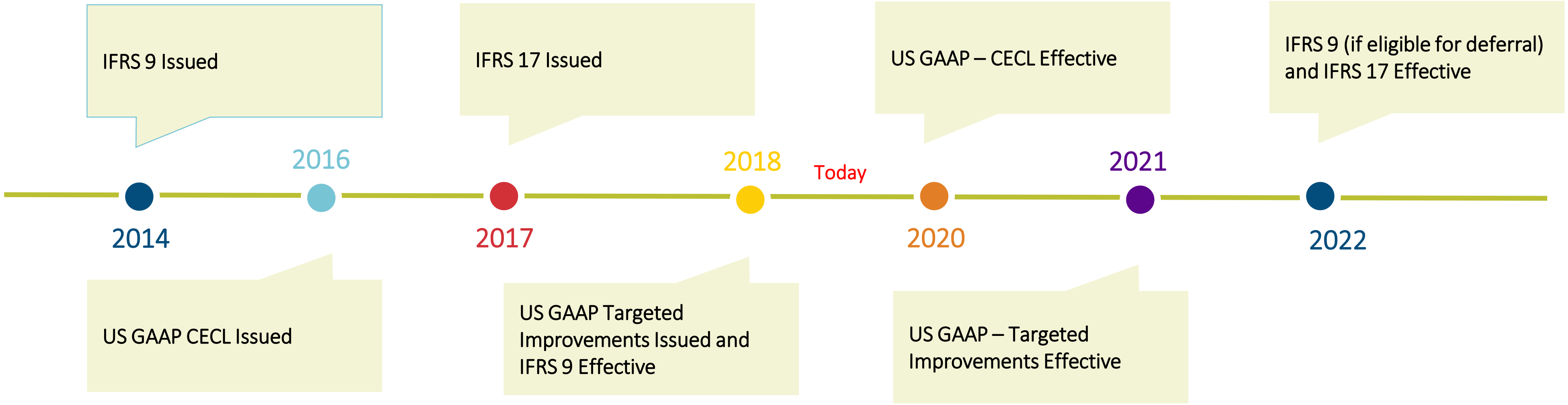


Source: https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/#profiles

Timeline



There is ongoing discussion regarding further delays to the effective date of IFRS 17 (and IFRS 9 if eligible for deferral) and US GAAP Targeted Improvements and removing reinsurance receivables from the scope of US GAAP CECL but this timeline is current as of April 19, 2019.

IFRS 17

- On November 14, 2018 the IASB:

"voted to propose a one-year deferral of the effective date for IFRS 17, the new insurance contracts Standard, to 2022.

The Board has also decided to propose extending to 2022 the temporary exemption for insurers to apply the financial instruments Standard, IFRS 9, so that both IFRS 9 and IFRS 17 can be applied at the same time."*

- The TRG submissions log at March 22, 2019 reflected 127 submissions received to date
- "The staff expect to publish an Exposure Draft of the amendments to IFRS 17 around the end of the first half of 2019"*

*from ifrs.org

(as of April 19, 2019)

IFRS 17

- April 9, 2019 IASB Meeting – Amendments to IFRS 17
    - The Board unanimously agreed with all staff recommendations
    - The Board commented they weren't aware of any insurers early adopting IFRS 17
    - Proposed amendments to IFRS 17 include
        - Deferral of the date of initial application of IFRS 17 by one year and deferral of the expiry date for the temporary exemption from applying IFRS 9 for one year
        - Changes to measurement (insurance acquisition cash flows relating to expected contract renewals, CSM allocation relating to investment components, reinsurance contracts held when underlying contracts are onerous)
        - Simplification of presentation
        - Scope exclusions
        - Increased disclosure requirements
        - Transition relief for business combinations and for the date of application of the risk mitigation option
- The next step will be for the Board to decide at the May 2019 Board meeting on the comment period for the Exposure Draft of the Amendments to IFRS 17

*from ifrs.org

(as of April 19, 2019)

IFRS 17 – Life and Annuity considerations and product development impacts

- A 20 minute update on IFRS 17 can’t be comprehensive so instead this is a focused discussion on some important considerations:

  - Discount rates
  - Guarantees
  - Transition including the use of acquisition transactions and EV data for FV calc
  - CSM including frequency of reporting (monthly, quarterly, and annually)
  - Policy for stand alone reporting vs consolidated group level reporting
  - Product development, pricing, how products might respond

IFRS 17 Amendments

- The Exposure Draft of the Amendments to IFRS 17 include some changes that will effect life and annuity including:

- Topic 3 – Insurance acquisition cash flows relating to expected contract renewals and related disclosure requirements
- Topic 4 – Contractual service margin allocation relating to investment components and related disclosure requirements
- Topic 5 – Extension of the risk mitigation option
- Topic 11 – Additional transition relief for the application of the risk mitigation option
- Topic 12 – Additional transition relief for the application of the risk mitigation option and the use of the fair value transition approach

Other topics: Global insurance capital standard, IFRS materiality, IFRS 9 Financial Instruments

Global insurance capital standard

Table 1: ICS and field testing timetable

DATE	MILESTONE
May 2018	Launch of 2018 Quantitative Field Testing
July 2018	Publication of ICS Version 2.0 CD and comprehensive ComFrame consultation
September 2018	Field Testing submissions due
October 2018	Feedback on ICS Version 2.0 CD and comprehensive ComFrame consultation due
April 2019	Launch of final round of ICS Field Testing
July 2019	Data due for 2019 Field Testing
IAIS 2019 General Meeting	Adoption of ComFrame, including ICS Version 2.0 for the monitoring period
Early-2020 to Late-2024	Five-year monitoring period
November 2024	Adoption of the ICS Version 2.0 for implementation as a group-wide consolidated PCR

p. 11 of IAIS "Risk-based Global Insurance Capital Standard Version 2.0 Public Consultation Document"

IFRS change to materiality definition

Trick or treat! On October 31, 2018 the IASB "issued amendments to its definition of material to make it easier for companies to make materiality judgements.

- The definition of material, an important accounting concept in IFRS Standards, helps companies decide whether information should be included in their financial statements. The updated definition amends IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.
- The amendments are a response to findings that some companies experienced difficulties using the old definition when judging whether information was material for inclusion in the financial statements. The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. The changes are effective from 1 January 2020, but companies can decide to apply them earlier.
- **Old definition:** Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements (IAS 1 *Presentation of Financial Statements*).
- **New definition:** Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

Source: https://www.ifrs.org/news-and-events/2018/10/iasb-clarifies-its-definition-of-material/

IFRS 9 Financial Instruments

- Consequences of sequential implementation of IFRS 9 and IFRS 17 versus a holistic simultaneous implementation
  - An example of the unintended consequences could be an increase in accounting mismatches rather than the opposite
- ALM, Valuation, and Financial Reporting considerations
- Often actuaries haven’t yet been included in the IFRS 9 implementation project so be sure to reach out to that team to align decisions between the IFRS 17 and IFRS 9 implementations to avoid any unintended consequences

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OLIVER WYMAN

GAAP TARGETED IMPROVEMENTS
AN OVERVIEW

MAY 21, 2019

Rob Winawer, FSA MAAA

MARSH & McLENNAN COMPANIES

GAAP Long Duration Targeted Improvements objectives

Revisions to simplify and enhance financial reporting

1 **Simplify amortization of deferred acquisition costs**

2 **Improve timeliness by recognizing changes in expected traditional and limited pay future liability payments**

3 **Simplify reporting of market-based guarantees through consistent fair value accounting**

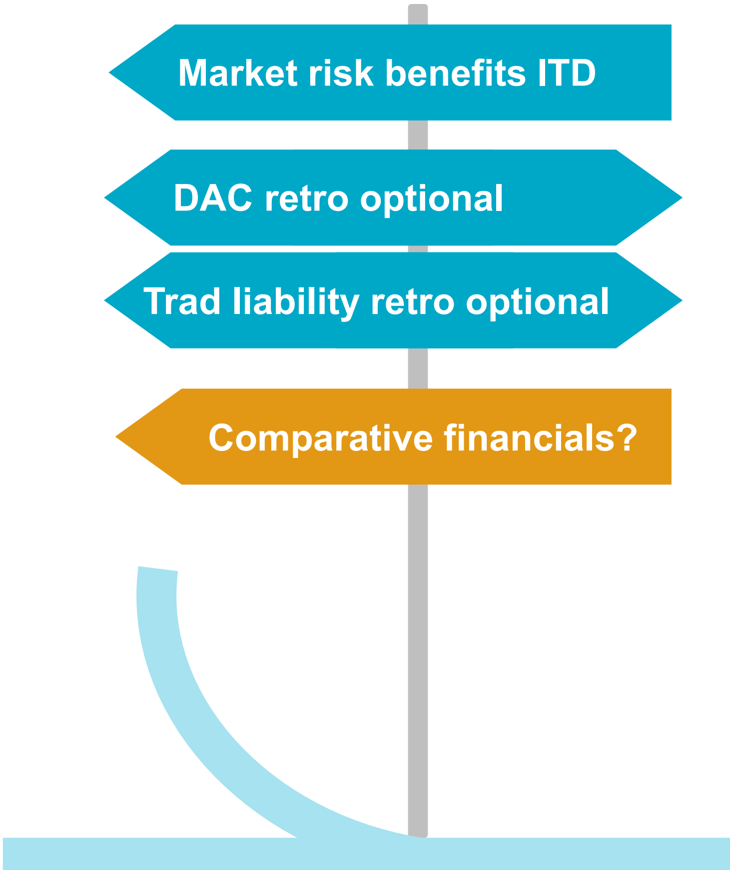
4 **Enhance effectiveness of required disclosures**

What's changing?

	DAC	Traditional liabilities	Market risk benefits	Disclosures
Term, WL, and LTC/DI	✓	✓	✗	✓
SPIA and Payout	✓	✓	✗	✓
FIA, VA	✓	✗	✓	✓
UL, DA, IUL, and VUL	✓	✗	✗	✓
Participating[1]	✓	✗	✗	✗
Short-duration	✗	✗	✗	✗

1. Provision for terminal dividend changes, as well.

One key choice for transition is whether to retroactively restate DAC and traditional liabilities on the opening balance sheet



Public companies start reporting 3/2021

Market risk benefits are remeasured inception to date

- Profit of hindsight allowed if data is lacking

Default transition approach for other than market risk benefits starts with existing balances

- Adjustment made for interest rates through AOCI
- Prospective transition using current assumptions

Companies have an alternative option to retroactively restate DAC and traditional liabilities

- Retroactive true up recorded through retained earnings
- Balances also adjusted for interest rates through AOCI
- Entity-wide issue year based decision
- Actual historical data required, which will challenge many companies

Addressing the need for comparative financials is not mentioned in ASU 2018-12

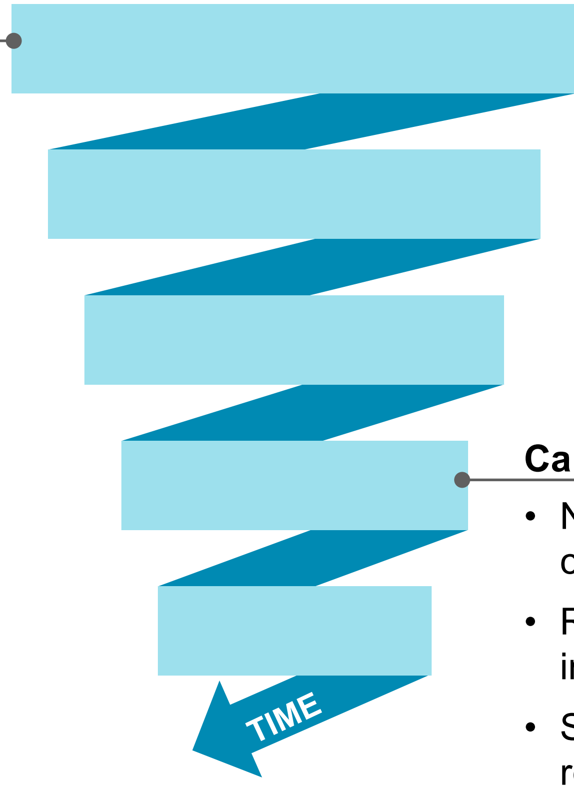
- Transition starting with the 1/1/2019 will allow for two years comparative financial data, but produces an overlap to actual reported

Some companies will find the transition balance sheet to be an opportunity to reshape financials

Capitalized costs now recognized using "straight-line amortization"

Amortization

- Amortized over expected term without interest
- Performed at individual contract level or may be grouped as long as it approximates individual
- Negative experience variance must be recognized immediately, positive are optional
- Assumption revisions recognized prospectively
- Shadow DAC no longer applies
- No longer subjected to impairment testing



Capitalization

- No change to definition of what's capitalized
- Recognized for capitalization only after incurred
- Sales inducements and unearned revenue treated similarly except in scope for impairment testing

Grouped approach most popular and is subject to company and auditor discretion

Liability changes for traditional and limited payment contracts

		Financial line item impacted	Targeted improvements	Prior standards
1	**Assumptions**	Earnings as re-measurement	• Best estimate assumptions with no PADs • At least annual review of assumptions with unlocking	• Original assumptions with PADs locked-in at issue
2	**Discount rate**	Other Comprehensive Income	• Upper-medium grade fixed-income instrument yields updated quarterly • Original discount rate part of all future calculations	• Similar to other assumptions, locked-in at issue • Based on company's earned rate
3	**Net premium ratio**	Earnings	• Excludes maintenance expenses • Original rate discounting • Sufficiency test at cohort level through net premium ratio 100% cap	• Includes maintenance expenses • Impairment testing performed at the aggregate block level including DAC

Impairment testing at the more granular cohort level increases likelihood of recognition event

Fair value of guarantee benefit lifecycle

Measurement phases

Fair value is simpler than the previous mixed approaches and more conducive to hedging

AT INCEPTION

Multiple market risk benefits are combined

Fair value will not always be zero

SUBSEQUENT

Can be negative (an asset) or positive (a liability)

Net profit from unused charges, behavior variances, volatility, and risk premiums

Instrument specific credit risk changes reported through other comprehensive income

DERECOGNITION

Deferred profit liabilty posted or loss recognized for market risk benefit in excess of liability

Gain results rarely for "non-performance“

Other comprehensive income is released

The new standards promote transparency and reduce conflicts between economic and GAAP priorities for ALM

Financials will become significantly more transparent
Example: Traditional products

Quarterly disclosures

- Disaggregated year-to-date liability roll-forward reconciled to income statement
- Disaggregated year-to-date DAC roll-forward reconciled to balance sheet
- Undiscounted expected future cash flows
- Actual experience compared to expected
- Amount of revenue and interest recognized
- Related reinsurance recoverable
- Weighted average liability duration
- Weighted average interest rate and method used
- Quantitative and qualitative information about net premiums capped at gross premiums

Additional annual disclosures

- Nature of deferred costs and information about inputs, assumptions, judgement, and methods used
- Information about inputs, assumptions, judgement, and methods used to measure liabilities for policy benefits and the effect of those changes on measurement

Other reporting considerations

- Liability remeasurement is a new line in the income statement, separate from disclosures in the notes
- Disaggregated liability and DAC roll-forwards from ending balance before transition to opening balance of earliest period presented on new standards
- Elective retrospective transition effects shown separately from mandatory “modified retrospective” application
- Qualitative and quantitative information about transition adjustments to retained earnings and AOCI, net premiums exceeding gross premiums, and premium deficiencies

Expanded and auditable actuarial inputs to financials require stronger infrastructure
Additional transparency may earn the industry higher average P/E

Financials will become significantly more transparent
Example: Market risk benefits

Quarterly disclosures

- Disaggregated DAC roll-forward including capitalization, amortization, and termination
- Disaggregated account balance roll-forwards along with average credit rates, cash values, buckets by guarantee and amounts in excess of guarantee
- Disaggregated market risk benefit roll-forward similar to fair value requirements including variances in: interest, equity, market volatility, actual behavior, and projected behavior. Asset and liability positions reported separately and guarantees in excess of account value shown

Additional annual disclosures

- Nature of deferred costs and information about inputs, assumptions, judgement, and method of amortization
- Information about inputs, assumptions, judgement, and methods used to measure liabilities market risk benefits and the effect of changes on measurement

Other reporting considerations

- Market risk benefits presented separately on the balance sheet and income statement with instrument specific credit risk below the line
- Disclosures must be in a manner that allows users to understand the amount, timing and uncertainty of future cash flows arising from the liabilities
- Groupings consider how information has been presented for other purposes, do not aggregate amounts from different reportable segments, and do not make disclosures for insignificant categories except in the reconciliation

Expanded and auditable actuarial inputs to financials require stronger infrastructure
Additional transparency may earn the industry higher average P/E

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