

Six hard realities of the 2021 LDTI timeline

The timeline dictated by the FASB Targeted Improvements to the Accounting for Long-Duration Contracts (LDTI) has a go-live date of January 2021, which means that insurers need to address these six hard realities to make sure they are ready to meet the new requirements:



METHODOLOGY

Accounting policy decision-makers cannot make decisions in isolation – too many constraints need to be considered. There are also too many decisions and not enough time to fully evaluate all of them. Do the work to pick the right battles.



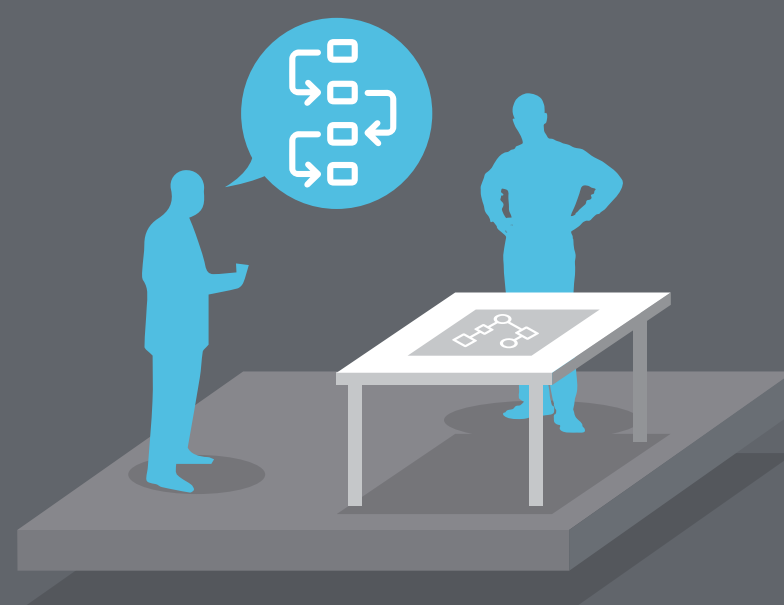
DATA

New data requirements mean that IT needs to help. Start early with IT, get what you can ASAP, set the plan to get the rest, and develop a crisp view of how it will come together.



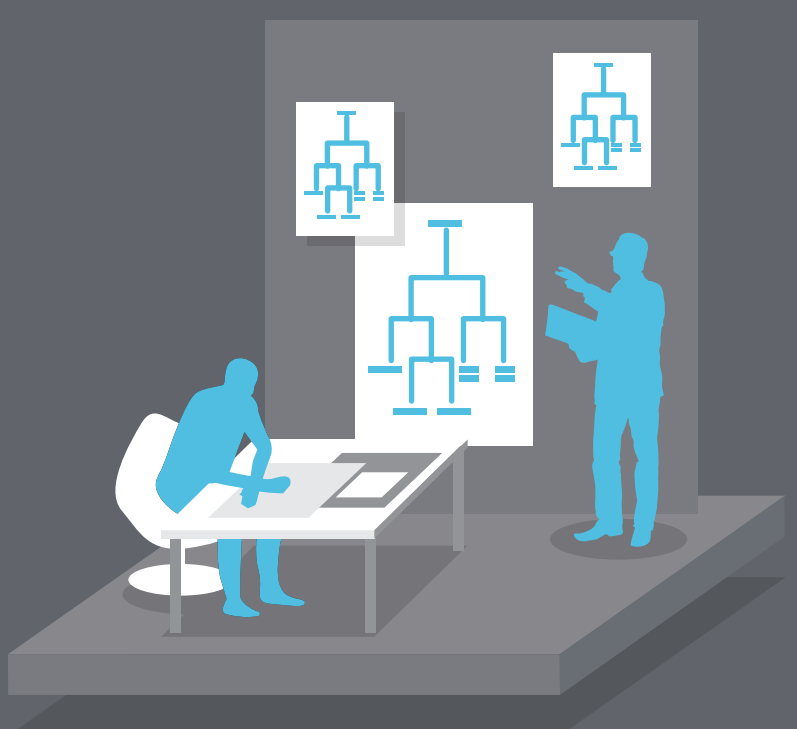
CALCULATIONS

If your vendor has not already delivered LDTI functionality, contingency plans need to be developed. Waiting and hoping is not an option.



OPERATIONS

With multiple workflows that need to be addressed – transition processes, point-in-time valuations, rollforwards and disclosures, unlocking processes, etc. and all associated controls – operational aspects of LDTI can't wait for accounting policy to be finalized. End-to-end work needs to happen now.



GOVERNANCE

Factors are gone. Models and assumptions are in. If you haven't established model governance before—it's needed now. Assumption development processes also are required. Establish both ASAP.



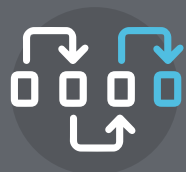
RESOURCES

Even for the companies who are best prepared for LDTI, this is a big job. Few have the staff and the expertise to tackle LDTI alone. Remember there are limited resources and they are getting stretched across LDTI and IFRS 17 projects, so there is the risk you may not get the help you need.

What does it mean?



Implementation will too often be compliance-focused rather than strategic.



Companies will need to make methodology decisions without full information.



Work will need to move forward without perfect vision into the final state.



Companies will need to be selective in where they spend their time evaluating methodology options.



The desired end-state likely won't be achieved by the go-live date, and it will take significant diligence and endurance to pursue the desired outcome after compliance has been met.



High costs for controls and compliance, and sub-optimal financial outcomes, are very real concerns.