

# MOODY'S

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GAAP EARNINGS  
CHALLENGES – SEAC 2024

# Agenda

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**Aggregation**

Sum things happening here

2

**Limitation**

Ceilings and floors and opening doors

3

**Fluctuation**

The only constant is change

4

**Attribution**

I demand an explanation!

5

**DISconnection/REconnection**

Claims and first dates

6

**DAC**

Keeping it in line

# Aggregation

## Cohort challenges

- Don't know liability at individual level
- Subsidization of policies
- Meaningful reporting groups (subcohorts)
- Reinsurance Treaties
- PRT deals
- Disabled Lives

## Potential solutions

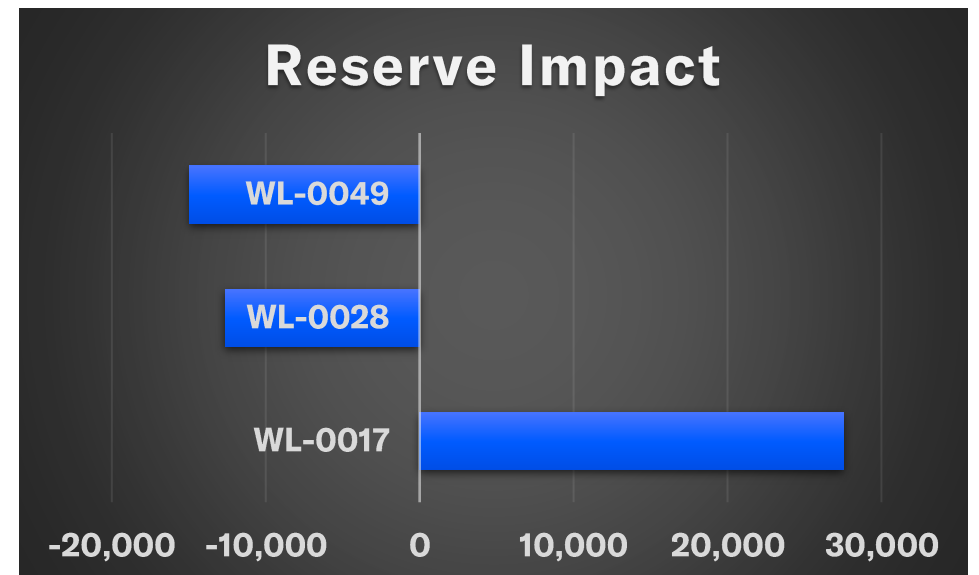
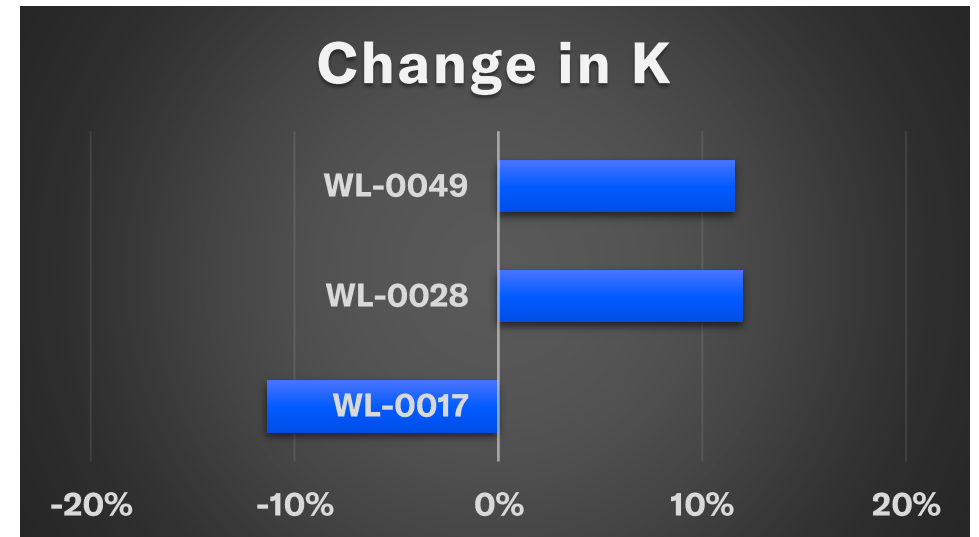
- Using FAS60 as proxy
- Policy level allocations
- Reporting runs vs management runs
- Study the aggregation affect
- Follow FAS97 approaches

# Example of Cohort Impact

| COHORT                 | Policy       | PV Gross Prem     | PV Val P          | Policy K   | FAS 60 Ben Rs     |
|------------------------|--------------|-------------------|-------------------|------------|-------------------|
| Whole Life 2014        | WL-0017      | 242,677.34        | 134,228.27        | 55%        | 70,278.88         |
| Whole Life 2014        | WL-0028      | 105,336.70        | 82,855.68         | 79%        | 46,861.60         |
| Whole Life 2014        | WL-0049      | 128,959.95        | 100,914.09        | 78%        | 48,444.07         |
| <b>Whole Life 2014</b> | <b>TOTAL</b> | <b>476,974.00</b> | <b>317,998.03</b> | <b>67%</b> | <b>165,584.54</b> |

| COHORT                 | Policy       | PV Gross Prem     | PV Val P          | Cohort K   | PROXY Res         |
|------------------------|--------------|-------------------|-------------------|------------|-------------------|
| Whole Life 2014        | WL-0017      | 242,677.34        | 161,792.71        | 67%        | 42,714.43         |
| Whole Life 2014        | WL-0028      | 105,336.70        | 70,227.86         | 67%        | 59,489.42         |
| Whole Life 2014        | WL-0049      | 128,959.95        | 85,977.46         | 67%        | 63,380.70         |
| <b>Whole Life 2014</b> | <b>TOTAL</b> | <b>476,974.00</b> | <b>317,998.03</b> | <b>67%</b> | <b>165,584.54</b> |

- More noise with onerous policies
- Other noise due to methodology/discounting



# Limitations

## Ceiling (100% K-factor) and Floors (No negative LFPB)

- Can skew financial impact
- Adverse mortality, but no change in reserves?
- Can show up with certain product types
- No more loss recognition (always in loss recognition)

## Potential solutions

- Produce unfloored and uncapped results
- Produce line items for effective of flooring/capping
- Sub-cohort analysis to manage target block profitability

# Extra Information

- View at cohort and sub-cohort levels
- Projections and Point in Time
- Isolate change in liability vs OCI

**[-] US GAAP ASU 2018-12 Pricing Cohort - 2017WL -**

**[-] Liability For Future Policy Benefits - Period I**

Period End - LFPB K-factor

- LFPB K-factor - uncapped

- LFPB at DR

- Unfloored LFPB at locked DR

- Unfloored LFPB at DR

# Fluctuations

## No Longer Apples to Apples

- 'Basis' changes from new assumptions
- Updates to Net Premium Ratio due to actuals
- Multiple moving pieces

## Potential solutions

01

Take a period  
specific point  
of view (lock  
k-factor)

02

Limit  
movements  
to one time  
per year

03

Build a  
walkthrough  
approach

# Attributions and Allocations

## Disclosures and Roll-forwards

- Done on component basis (PVB and PVP) not liability basis
  - MRB for annuities
- DAC (over lifetime) and LFPB (reflects history) disconnect
- Disclosures isolate
  - Assumptions (but not granularly)
  - Experience
  - New business
- Interest rates separately disclosed
- Actuarial vs accounting

## Potential solutions

- Attribution runs
  - Order matters
  - Covariance
- Source of Earnings Approach
  - Building blocks
- Drill down capabilities
  - A to E



# Analysis

## Attribution Approaches (Assumptions)

### Accumulative

- Period Start
- PS + **New Mortality (Q)**
- PS + Q + **New lapse (W)**
- PS + Q + W + **Interest**
- Period End

### Incremental

- Period End (swap **mortality** only)
- Period End (swap **lapse** only)
- Period End (swap **interest** only)
- Covariance

## Source of Earnings – use constant k

### Expected

- **Claims (from revalued)**
- **Release of PV** on expected decrement
  - Split by decrement

### Actual

- **Claims (from actuals)**
- **Release of PV** on actual decrement
  - Split by Decrement

To reconcile to GAAP income need to consider expenses and commission, investment income and interest.

# Run rabbit run

5-10x more runs per valuation cycle

| Approach                 |              |                                 |                     |                      |                      |                   |                  |                  |                      |  | No. of Runs |
|--------------------------|--------------|---------------------------------|---------------------|----------------------|----------------------|-------------------|------------------|------------------|----------------------|--|-------------|
| FAS 60                   | Period End   |                                 |                     |                      |                      |                   |                  |                  |                      |  | 1           |
| LDTI Disclosure          | Period Start | Assumption Change               | New Business        | Experience Change    | Discount Rate Change |                   |                  |                  |                      |  | 5           |
| Disclosure + Attribution | Period Start | Assumption Change               | Mortality Update    | Lapse Update         | New Business         | Experience Change | Death Experience | Lapse Experience | Discount Rate Change |  | 9+          |
| Disclosure + SOE         | Period Start | <b>Revalued = Basis for SOE</b> | <i>New Business</i> | Experience (actuals) | Discount Rate Change |                   |                  |                  |                      |  | 5           |

# DIConnection/REconnection

## Disabled Lives and Reinsurance

### Disability and Long Term Care

- No separate liability for incurred claims, IBNR, ICOS, etc.
  - How to allocate IBNR to cohorts
- No separate assumptions for projection recovery rates
  - Seriatim disabled may vary
- Claim costs? Negative ALR?

### Reinsurance

- Treaties are different 'cohorts'
  - New Locked Rates
- COR vs Ceded LFBP

## Potential solutions

- Sub-cohorts
- Isolate disabled lives only
  - Claim cohorts vs Reporting Cohorts
- Building blocks approach
- Drill down capabilities

# DAC

## Getting it straight

- Amortization basis changes alter slope of 'straight line'
- Isolating Deferable Costs
- Grouped vs Seriatim approaches

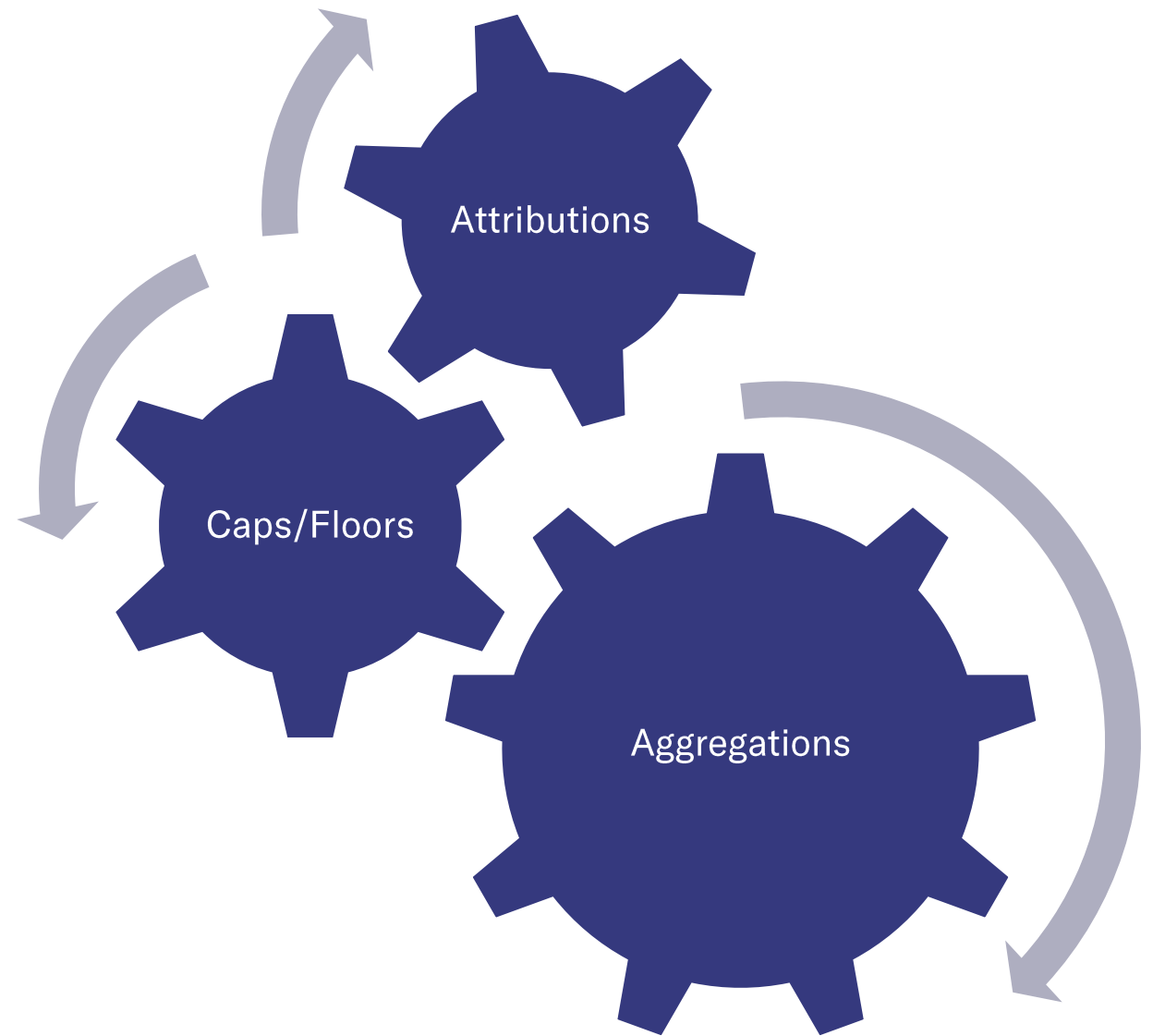
## Potential solutions

- Independent analysis
- Amortization Base Change vs. Scheduled Change

# Putting it all together

Potential to use artificial intelligence to narrate all movements?

Focus on biggest movers



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