

Oracle LDTI Analyzer

Oracle provides a **comprehensive solution** to address the financial accounting requirements of U.S. Generally Accepted Accounting Principles (GAAP) long duration contracts and to **measure and report liability for future policy benefits** as per the new accounting standards.

Oracle Long Duration Targeted Improvement (LDTI) solution is built on Oracle's integrated Risk & Finance architecture and provides out-of-the-box capabilities for data aggregation, discounted liability calculations, measurement of market risk benefits (MRB), and amortization of deferred acquisition costs (DAC), while seamlessly integrating with Finance and Actuarial applications, enabling accounting, performance management, risk management, and reporting from a single platform.

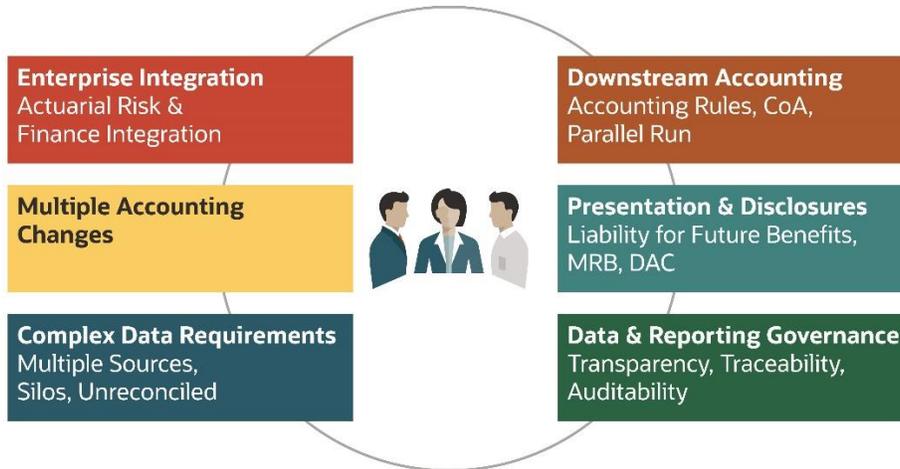
In August 2018, the Financial Accounting Standards Board (FASB) issued an update for accounting standards for long duration insurance contracts. The accounting standards update ASU 2018-12, addresses improvements to the timeliness of measuring liability for future policy benefits for specified long duration contracts, and made changes to deferred acquisition costs accounting, cash flow assumptions, recognition of instrument specific credit risk assumptions, and disclosure requirements.

But it does not come without its challenges to the insurance industry. Up until now, most insurers operated without a standard accounting regime; now they face numerous up-hill battles in upgrading their processes and systems to meet the new uniform requirements. The comprehensive requirements for measurement of insurance liabilities for future benefits will significantly impact business processes, while granularity of data and calculations will present challenges in aggregating and presenting the outputs for disclosures and management reporting.

So, what does this mean for insurers and other financial institutions that need to adopt LDTI?

Simply stated, it is time to redouble efforts to focus on data and its accuracy, aggregation, governance, transparency, and usability, so that Risk and Finance teams can focus on business rather than auditors and regulations.

LDTI CHALLENGES



Key Business Benefits

- Pre-built and flexible insurance data model minimizing operational impact
- Unified platform for finance and actuarial data enabling next generation analytics and business modelling
- Truer profit measurement and revenue recognition
- Profitability and pricing discipline—valuation of insurance liability for future benefits
- Data management—quality checks, metadata, and lineage
- Readily scalable to other insurance use cases
- Transparency, auditability, and traceability of calculations and reports
- Rapid accounting and reconciliation for faster close and reporting
- Capable of storing necessary volumes of historical and future calculations, present value, cash flows, etc.
- Process orchestration for control and governance
- Pre-built reports and disclosures
- Future proof platform to incorporate changes in regulations and processes

INSURANCE CONTRACTS

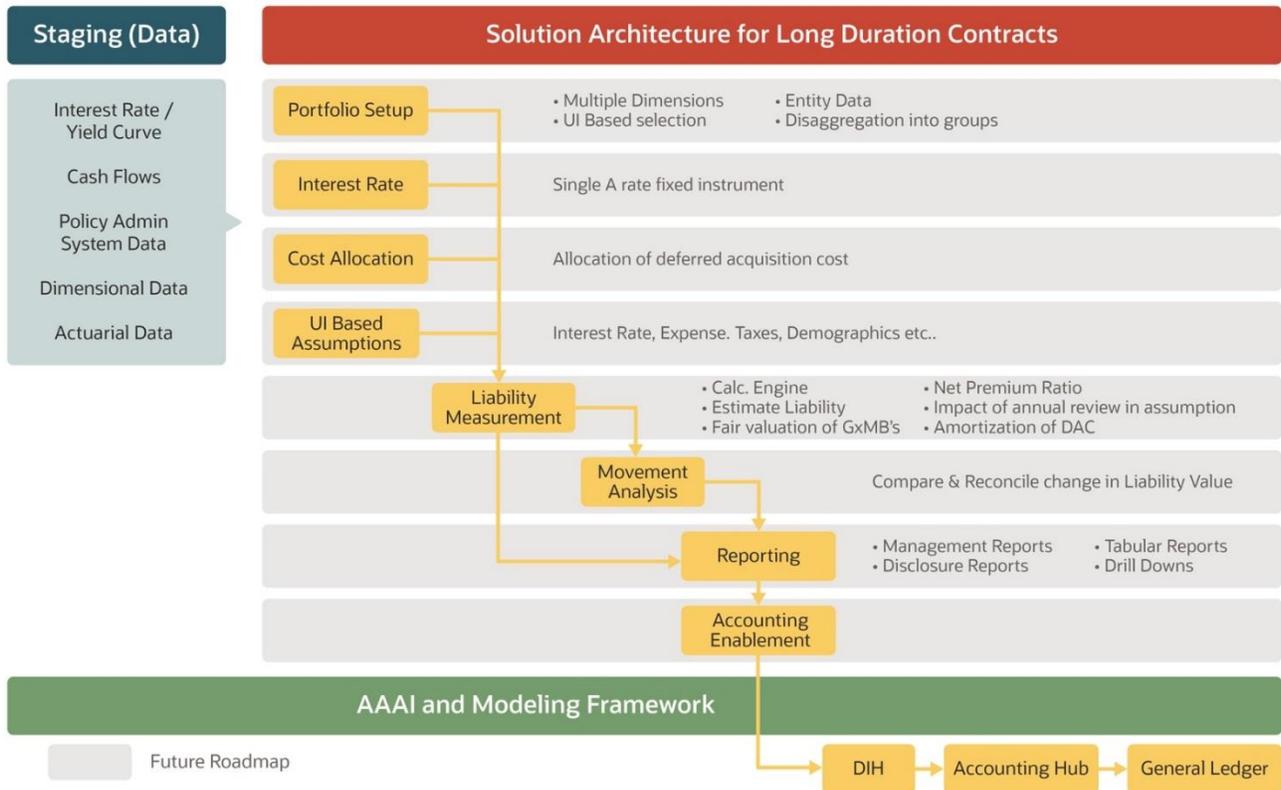
The standard introduces insurance contract measurement principles requiring:

- Recognition of changes to liability for future benefits in a more timely manner
- Discount rates that reflect the characteristics of liability
- Simplified amortization of deferred acquisition costs
- Measurement of all MRB associated with deposit or account contracts at fair value
- Recognition of changes to fair value in other comprehensive income attributable to instrument- specific credit risk fluctuations
- Assumptions for liability for future policy benefits no longer locked in, and on a current basis
- Cash flow assumptions for projecting gross premiums and expected policy benefits based on current estimates with no provision for adverse deviation
- Completely new accounting and disclosure requirements
- Overhauled financial statements

ORACLE WILL MAKE THE DIFFERENCE

A comprehensive solution that is also future ready

With its extensive experience in the financial services industry, Oracle provides a solution to address these challenges and make certain insurers can comply with the complex requirements comprehensively, on time with improved business modelling capabilities



INSURANCE DATA MODEL

Consolidate data from various source systems—Policy Administration, Claims Management, Actuarial, Market Data Providers, Enterprise Data, and more—and standardize it for the purpose of liability measurements. The model can be extended to serve as a unified platform for sourcing and provisioning insurance related Risk, Finance, and Actuarial data and to cater to various business use cases of an insurance enterprise—Policy, Claims, Transactions, Reinsurance, IFRS 9 and 17, Assets/Liabilities, Products, Actuarial, Market Data, Cash Flows, Reporting, and more.

DATA QUALITY AND RECONCILIATION

Validate input data through pre-configured business contextualized data quality checks and a reconciliation framework to ensure balances between transaction and analytical systems match before data is utilized for computing and reporting.

PORTFOLIO AGGREGATION

Aggregate contracts into portfolio(s) based on multiple dimensions like product, geography, currency, origination or effective date, policy term, coverage type, and more. Further, build cohorts to determine manageable LDTI groups for risk-adjusted cash flows, cash flow expense revisions, benefit liability determinations, and MRB.

MEASURE LIABILITY FOR FUTURE POLICY BENEFITS

Determine the liability for changes to future policy benefits by reporting period and contract groups leveraging the modified net premium ratio. Accommodate the disaggregated roll forward of cash flow liabilities. Utilize current best estimates without diverse deviation provisions for cash flow assumptions leveraged for expected policy benefits and gross premiums. Enable the accounting changes for the split between the profit and loss (P&L) and other comprehensive income (OCI) for changes in the liability due to modifications in financial assumptions. Analyze the impact on Insurance Service Results and Insurance Finance P&L to provide a complete insight into Insurance Revenue. Easily build new reports and dashboards for analysis, financial, or management reporting.

DEFERRED ACQUISITION COSTS

Amortize DAC on a constant-level basis for contracts over the term(s) of the expected policy period(s). These costs include unearned revenue liabilities and deferred sales inducement costs. Enable other amortization methods such as using face value of underlying contracts taking persistency of risk into consideration and roll-forward of DAC. Ensure that the amortization is consistent with assumptions used to measure the liability for future policyholder benefits.

MARKET RISK BENEFITS

Enable measurements at fair value for contracts that expose insurers but not insureds for other-than nominal capital market risk without protection. Recognize changes in fair value in income, or in OCI if the change was the result of the entity's own credit risk. Derecognize the MRB at the time of annuitization or when the policy account balance is withdrawn or extinguished. Show the MRB liability on the balance sheet and MRB amount changes in the income statement.

ACCOUNTING ENABLEMENT

Enable downstream accounting by defining consistent posting rules, events, and charts of accounts for Insurance Revenue and P&L. Maintain LDTI subledger(s) for reconciliation and transition, and achieve compliant and auditable accounting, reporting, and consolidation. Obtain visibility into the journal entries resulting from the accounting process, reconciliation to source, and any exceptions that require action before they are exported to any general ledger system of record (Oracle or non-Oracle). Get further insight by using business dimensions and transaction attributes that are outside the chart of accounts to build reports and analysis.

WORKFLOW AND CONTROLS

Support visual orchestration of workflows to view and control processes, input/outputs, mappings, and calculation logic.

EXTENSIBILITY TO OTHER REGULATORY REPORTING

Oracle delivers a unified platform for all analytical requirements in an enterprise without the need to build integrations between various point solutions. Data, results, and analytical capabilities are shared across applications giving the ability to scale up the same platform for other business use cases, while reducing incremental effort.

CLOUD DEPLOYMENT

Explore multiple deployment options ranging from on-premises – traditional infrastructure, Cloud at Customer—cloud machines, and public cloud.

ORACLE FINANCIAL SERVICES ANALYTICAL APPLICATIONS

Oracle Financial Services Analytical Applications (OFSAA) is a family of solutions for the global financial services industry. OFSAA is built on a commonly available analytical infrastructure consisting of a unified financial services data model, analytical computations, and the industry-leading Oracle Business Intelligence platform. These components are leveraged from application to application to ensure data consistency, traceability, and availability throughout the enterprise, thus offering a “unified” platform for an integrated Risk and Finance transformation required for achieving many of the complex regulatory and compliance requirements of the financial services industry.

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