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Transforming FP&A amid  
regulatory changes

**Post-LDTI/IFRS 17 opportunities to drive  
the next generation of FP&A practices**

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# Introduction

Financial planning and analysis (FP&A) is one of the most important functions of an insurance company, yet one of the most chronically underfunded activities. It is tasked to provide strategic business insights and help the company plan, forecast, and budget to support business decisions. It also performs the ongoing assessment of the financial health of the company based on key benchmarks and performance metrics. Due to the long-duration nature of life insurance and annuity products, such benchmarks and metrics are often tied to one or more valuation and accounting bases, hence any changes to the relevant basis would have an impact on FP&A activities.

Changes in accounting regimes have accelerated the long-overdue need for insurance companies to update outdated valuation systems and models. Over the past few years, companies across the globe have collectively invested more than a billion dollars to implement solutions and adapt to the wave of the largest changes in the history of insurance accounting including Long-Duration Targeted Improvements (LDTI) and International Financial Reporting Standard (IFRS) 17.<sup>1</sup> Adopters as of January 1, 2023, have finally shifted their focus away from compliance as the implementation journey is behind them. However, insurance companies now have the time, space, and resources to process the profound impact the new accounting regimes have on financial storytelling, performance measurement, and management, thus posing challenges as well as opportunities, especially for the FP&A function in a post-LDTI/IFRS 17 world.

# Fundamental questions

As the external environment evolves and regulation brings about new accounting regimes, the primary purpose of the FP&A function becomes elevated. Before we discuss the potential implications of new accounting regimes, let us quickly refresh on how an FP&A team performs a financial assessment by answering these three foundation questions.

1. **What:** Can the FP&A team identify what happened?
2. **Why:** Can the FP&A team link the outcome to key drivers?
3. **What-if:** What was our expectation, and what would be the revised outlook if certain conditions changed?

When the FP&A team strives to answer these questions, it should do so with respect to three key considerations: accuracy, speed, and modifications.

- How accurate can we get in our explanation? Do we have a high-quality, reliable data source? Do we have the right process in place?
- How fast can we determine a conclusion? If we can't get all the way there, how much time do we need to get within 80% of a reasonable answer?
- Modifications lean into what-if scenario analysis and are critical to forming any revised outlooks. What if this happens again? What if its conditions were more extreme?

The first two questions are reactive in nature. They look backward, and oftentimes the FP&A team is actively working to put out a fire. Considerable time is spent and lost just gathering the right data to answer the first two questions. Not nearly enough time and resources are spent building out support for the third question. FP&A teams are hindered from achieving the ideal future state of spending more time being proactive and looking forward. Cumbersome processes and disconnected data sources, which have confined much of the FP&A time on the first two questions, have been and are evolving. Regulatory changes are modernizing operations that the FP&A department can leverage as well to enhance its objective. The FP&A team can incorporate modernization efforts to spend less time gathering data trying to figure out what happened and pivot toward being proactive, anticipating the next step, and driving insights to position the company for success.



# New opportunities

A recent Deloitte survey<sup>2</sup> ([Deloitte FP&A and Actuarial Study](#)) of Life and Annuities (L&A) insurance companies found that many insurers struggle to integrate their FP&A and actuarial processes, which can negatively affect their ability to manage enterprise performance. Companies consistently cited a lack of connected solutions to enable collaboration and information-sharing between FP&A and other functions. Sitting as a key connection point between strategy, operations, reporting, and valuation, if the right level of collaboration and the right toolsets are put in place, the FP&A function would be uniquely positioned to deliver true and timely business insights to drive value creation.

With LDTI and IFRS 17 being effective, there is an amplified need for collaboration with valuation and reporting. This particularly presents an urgency for the FP&A teams that have not been closely following along the LDTI/IFRS 17 implementation journey. To some extent, the FP&A team may view itself as just the consumer of financial reporting results and hence has lacked the time to become immersed in the implementation of new accounting regimes. However, when it comes to creating a multiyear financial plan and forecasting performance metrics for different business scenarios, FP&A would need to catch up on the new accounting requirements and heavily rely upon the valuation and reporting team to understand how the future Profit and Loss (P&L) would unfold. This is especially true given that the financial results under LDTI and IFRS 17 are more dynamic and less predictable than those under the prior reporting bases. For example, FP&A leaders may have set an expense plan that is a routine FP&A activity. Without an appreciation of how attributable versus non-attributable expenses are treated under IFRS 17 valuation and how they respectively flow into profit, it would be an impossible task to set a meaningful three-year plan for IFRS 17 operating profit. As the first sets of financial statements under LDTI and IFRS 17 were made available over the course of 2023, internal and external stakeholders have been busy analyzing and digesting the financial stories behind the changes in equity positions from transitioning from the old accounting bases and new P&L trends indicated from the limited data points. Projecting into the future with confidence is currently a challenge, but being a strategic partner, the FP&A team has the following opportunities to take on:

- **A fresh look at performance metrics.** New accounting regimes have brought about new key performance indicators (KPIs), and the drivers of earnings are changing. New disclosures offer a great deal of information and insights that did not exist before. For metrics used by the FP&A function that are tied to an accounting

basis, it is critical for the FP&A team to understand the new dynamics of emerging earnings and how best to integrate with the financial reporting process to generate such KPIs and messaging in a timely fashion.

- For example, LDTI has prompted insurers to revisit the definition of adjusted earnings. Adjusted earnings typically start with the bottom-line net income and then remove items unrelated to core operating activities. For blocks of business with significant Statement of Practice 03-1 balances prior to LDTI that are now accounted for as Market Risk Benefits (MRB), changes in MRB liability may be excluded from adjusted earnings given the nature of the fair value calculation. In general, LDTI has not changed the purposes of existing US GAAP Principles metrics, but it has changed the volatility in P&L resulting from Deferred Acquisition Costs (DAC) and liability roll-forward, and the source of earnings has changed depending on the facts and circumstances of the insurer.
- In comparison, IFRS 17 has fundamentally changed the valuation of insurance liabilities and the financial presentation of balances and P&L. New concepts such as Contractual Service Margin (CSM), Risk Adjustment (RA), and Insurance Revenue have naturally triggered new KPIs, as well as the desire for some stakeholders to understand the walk from old KPIs to new ones. For example, some insurers are now defining new business profit margin as the new business CSM plus RA over the present value of new business premium (PVNBP). This is akin to the Value of New Business (VNB) over PVNBP that many insurers currently look at when analyzing new business profitability. Another example is the implied in-force profit margin from the IFRS 17 statement of profit or loss, which is the ratio of insurance service results over insurance revenue.

There continues to be industry development on emerging KPIs as investors and regulators digest the first sets of financials and disclosures under the new accounting requirements. Also, to the extent internal financial performance metrics are tied to key accounting figures, in the case of reinsurance transactions, LDTI and IFRS 17 may result in a certain level of accounting mismatch between direct and ceded business causing P&L to emerge in a way that is not perfectly aligned with real-world economics. Understanding how the accounting mismatch unfolds and how the resulting P&L should impact performance metrics have continued to be a topic of consideration for the FP&A function.

- **Enhanced data solutions.** Due to the requirements for enhanced disclosures under LDTI and IFRS 17, as well as the granular valuation requirements, companies are now sitting on a “gold mine” comprising insurance financial data that is significantly more detailed and voluminous than ever. This is evidenced by the rising popularity of insurance sub-ledger solutions across the globe. There are tons of insights that can be harnessed from such a gold mine that did not exist before, and it would be a waste for that amount of data to be generated and thrown away just for accounting compliance purposes. There is an opportunity for FP&A leaders to modernize the usage, accessibility, and storage of insurance data. It is in FP&A leaders’ best interest to capitalize on the momentum from accounting compliance and turn it into something lasting and real by leveraging what has been achieved and building into a future state of value-driven finance function. It would allow for more reliable and timelier what-if analysis if the insurer possesses the capability to bring together operational and financial data and marry investment and liability data. With access to a wealth of insurance data, FP&A leaders could also investigate solutions with generative AI and machine learning features to enhance its financial forecast capabilities.

- **Connected and continuous planning process.** FP&A is often expected to be proactive in providing the financial forecast and provide real-time analysis to inform business decisions. Unfortunately, what often happens when results from the financial close are somewhat unanticipated due to a multitude of potential factors is that FP&A must scramble and react post-close to modify the full-year forecast. It is even more so with the less predictable financial results under the new accounting requirements. This needs to change, but it can only change if FP&A fully appreciates the accounting changes and is equipped with the right tools to perform forecasts in a more automated and streamlined fashion.

The financial reporting and valuation processes have changed in reaction to accounting changes. Insurance companies have strived to maintain the same or a similar workday timetable during the financial close cycle. However, the FP&A piece of the puzzle has not been fully incorporated and pressure tested.

The FP&A process has always been connected with other functions and is continuous in nature, and there will always be a need involved in FP&A activities to allow for flexible updates and changes. The historically manual Excel-based processes create cumbersome chokepoints that hinder the FP&A team’s ability to produce valuable and timely insights. FP&A could benefit from stronger and seamless integration with the operational data and financial reporting data, enabled by technology to help ensure real-time connectivity to the actuals, to allow for comparison to plan and forecast, and facilitate necessary timely updates. Carrying forward the momentum from the financial reporting side, the connected and continuous planning nature of FP&A should also adapt and evolve to enable better financial projections by leveraging advances in the FP&A technology space. There are also a few additional questions to answer or revisit:

- How often should the plan and forecast be refreshed, given the less static and less predictable nature of financial results, which holds true for LDTI, IFRS 17, and US statutory principle-based reserving (PBR)?
- What is the timetable for the plan and forecast to be refreshed, and how does that timetable fit into the financial quarter-end or year-end close cycle, as well as any pre-close or post-close activities?
- What is the desired level of granularity for FP&A analysis? Line of business level, or issue year cohort, or even more granular to allow for decisions to be made at such level?
- Are there any additional reports, KPI dashboards, or visuals to produce?
- What sensitivities are there to run in addition to the baseline scenario to form a spectrum of results that allow FP&A to be more nimble in reacting to what-if type of scenario requests from business partners?

As FP&A leaders take a fresh look at the planning process to adapt to the impact of new accounting regimes, it is also important to rethink the modeling approach. More actuarial involvement is expected given the less predictable nature of the financial results and a stronger need for drivers of earnings analysis and sensitivity runs. Additional focus may emerge on the trade-offs between speed and accuracy, and simplicity and granularity—especially considering the significant technology investment on the financial reporting side that could potentially be leveraged for FP&A, and the much more granular and detailed data available under LDTI and IFRS 17. The ideal future state

is likely somewhere on the spectrum in the following graph with the extensive actuarial modeling being the most complex and advanced, allowing FP&A leaders to perform forecast and financial planning at a very granular business level, with significantly higher reliability due to its integration with the actuarial production model and sufficient scenario runs to enable foresight and predictability.



### 1 Driver-based modeling

Native Enterprise Performance Management (EPM) ability to **scale** P&L statements, based on **historical trends, driver-based relationships, and key business assumptions.**

Examples:

- Roll-forwards of sales growth trend
- Management expense topsides
- Effective tax rate assumption

### 2 EPM sensitivity modeling

All driver-based modeling capabilities in No. 1 plus + L&A actuarial sensitivity relationship proxies derived from pre-run actuarial models.

Examples:

- Valuation and capital sensitivities
- Shifts in interest rates
- Management actions

### 3 Extensive actuarial modeling

**Lengthy, complex** scenario analysis run using **high volume of data** in advanced actuarial models using **stresses, sensitivities, and correlations/curve fitting** to evaluate outcomes through Least-Squares Monte Carlo (LSMC) statistical-based modeling techniques.

Examples:

- Interest rate sensitivity
- Market shocks
- Policyholder behavior

- **Other strategic impact.** While accounting changes typically do not directly alter the overall strategic objectives of insurance companies, new accounting requirements such as LDTI, IFRS 17, and PBR are leading to changes in the what (i.e., KPIs) and how (i.e., how FP&A integrates with other functions) from an FP&A perspective. To build industry-leading FP&A practices and perform continuous planning with both foresight and hindsight, it is important to ingrain FP&A partnerships across the organization, especially with valuation and reporting, on both processes and capabilities.

Moreover, the new financial disclosures introduced with LDTI and IFRS 17 have galvanized a thirst within market analysts to unlock new trends and earnings drivers. They are pouring over the new financials to discover if there are any new ratios or metrics to better understand the story. FP&A leaders are uniquely positioned to own the messaging and financial narrative to guide the market analysts and deliver meaningful financial understanding and company valuation.

## Conclusion

As the compliance exercise for accounting changes and related implementation efforts conclude, we believe several great opportunities are presented to the FP&A function to make the best of the current momentum. The FP&A function could capitalize on the investment in technology and talent over the past few years and take the opportunity to strengthen integration with other functions to enable a truly connected and continuous planning process. An FP&A leader needs to be part doctor and part artist, so it is critical to be equipped with the tools and ability to assess the financial health of the company in a timely manner, analyze complex business scenarios and propose alternatives, articulate financial results in a meaningful way, and forecast the future with confidence. Companies that remain committed to their slow, inefficient, and cumbersome processes will lack the ability to produce actionable insights. These companies will not foresee an upcoming road bump that could hinder capital deployment. They won't empower their executives with the ability to articulate a compelling story about the benefits of their new business mix. Companies that capture this momentum to bolster and cement their FP&A function will drive meaningful business accretion. Strong FP&A capabilities are what sets one organization apart from others in terms of improving business decisions and driving business performance to better position the company to achieve success.





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# Endnotes

1. Long Duration Targeted Improvements (LDTI), as set forth in ASU 2018-12, was effective for US Generally Accepted Accounting Principles (GAAP) public filers as of January 1, 2023. IFRS 17 is the new global insurance accounting standard that has been adopted or permitted by more than 120 countries, also with an effective date of January 1, 2023. There are late adopters for both standards due to either their filing or jurisdiction status.
2. Deloitte, "[Integrating Finance and Actuaries for FP&A at L&A companies](#)," February 2022.





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