



Multi Valuation Accounting

The Baseline Delta Approach
provides a true multi-GAAP solution
to the Insurance industry's
accounting needs



What is Multi Valuation Accounting?

Multi Valuation Accounting (“MVA”) for the Insurance industry is an approach to tackle multiple accounting requirements and regimes in a concurrent manner. It breaks the sequential reporting process of first producing for example a Group valuation, followed by a local statutory, and then a solvency valuation. MVA instead produces all Valuations at the same time using the same generalised process.

Multi Valuation Accounting Solution

The Baseline Delta Approach (“BDA”), developed by Swiss Re, is an innovative solution to Multi Valuation Accounting that integrates multiple valuations into a single data model for truly concurrent production using an advanced automated process. The key components of this Multi Valuation Accounting solution are illustrated below:



Benefits of Multi Valuation Accounting

The Baseline Delta Approach to Multi Valuation Accounting delivers additional and powerful benefits with a broad impact beyond simply the finance function.

- **Costs reduced by a single sub-ledger solution** – Automated closing process aligned across all geographical and functional areas.
- **Insightful analytics** – Analytical capabilities covering valuation walks, results analysis, rolling updates to projections, and simulated scenarios.
- **Increased speed and frequency** – Delivers continuous and concurrent fast close of financial reporting.
- **Increased flexibility** – A modular solution that can embrace future accounting change.

Components of a Multi Valuation Accounting Solution

The BDA adopts a modular approach built on the foundation of an integrated Booking Model which supports the six components of the Multi Valuation Accounting solution. The BDA generates required accounting data only once at source for multiple uses and applies a single data model encompassing actual and projected data to enable a continuous close approach. The solution components leverage the data model described below.



The Baseline is a meaningful unbiased common denominator applicable to all valuations. It presents a measure of a contract based on both the current cash value and the value of future expected cash flows. The Baseline therefore constitutes a valuation in its own right that can be leveraged to produce direct cash flow information for both past and future financial periods which provides valuable insight for activities such as dividend planning. Furthermore, the use of the Baseline reduces data redundancies and the need for reconciliations. Consider an example of an insurance contract with a duration of three years and for which claims of 10 are expected to be incurred during and settled at the end of each year. At inception the expected claims cash flows for the contract are thus:

	Year 1	Year 2	Year 3
Claims	10	10	10

The Baseline valuation as at inception and Year 1, assuming cash flows are as expected, is therefore as follows:

		Inception	Year 1
Balance Sheet	Claims reserve	(30)	(20)
	Settled claims	-	(10)
Total Equity:		(30)	(30)
P&L	Change in claims reserve	30	20
	Change in settled claims	-	10
Total Loss:		30	30

Delta Accounting

Delta Accounting builds upon the common denominator produced in the Baseline to arrive at any required Valuation using a catalogue of around 30 possible Delta adjustments. These are identified by considering the reasons “why” valuations differ and mechanism for “how”, such as:

- Recognition of Cashflows *via Contract Boundaries*
- Time Value of Money *via discounting*
- Value of Uncertainty *via PADs or other margins*
- Recognition of Profit *via Contractual Service Margin*

By organising the data model in this way, the following benefits can be realised:

- Automated walks between valuations enabled by simply comparing the Delta amounts
- Accounting policy rules are constructed from a standardised Delta catalogue which is controlled centrally
- The additional effort of adding further valuations using the standardised Delta catalogue is significantly reduced.

Below we combine Deltas with the Baseline at Year 1 to calculate the claims reserve for the following valuations:

	Year 1	Baseline	US GAAP	S II
Claims reserve	Baseline	(20)	(20)	(20)
	Time value of money	-	2	2
	Uncertainty - Discounting	-	3	-
	Uncertainty - Prudence	-	(10)	-
	Total:	(20)	(25)	(18)

The valuation walk is derived as follows:

US GAAP	Uncertainty – Discounting	Uncertainty – Prudence	SII
(25)	(3)	10	(18)

Booking Model

Having a standardised set of booking rules automates the accounting journal creation process continuously and reduces operational risk.

The BDA has a standardised but flexible Operational Chart of Accounts, which is valuation agnostic and allows management to compare the same underlying line items with each other independently of the presentation required by a given GAAP.

This is achieved through embedding the understanding of the natural lifecycle of contractual cash flows across all insurance, investment and operational contracts combined with just five booking generating functions creating Baseline and Delta bookings to the factual and projection financials.

Projections and Planning

The BDA principles are applied to both Factual and Projected financials, using the same data model and structure throughout. Therefore, projections are continuously and automatically updated by the Booking Model and present the current best estimate of future events always in line with the latest Factual viewpoint.

Analytics

Understanding the sources of profit and being able to compare financials with plans, projections and prior periods is a key enabler of management understanding and a key element of a financial control environment.

The BDA solution has a unique multi-valuation approach to providing insightful analytics built with two key attributes:

- Analytical Type, explaining the event that has given rise to a booking,
- Driver, explaining the underlying cause of any booking, combining both risk factors and management actions

An integrated analytical framework delivers an understanding of the root causes of profit and can be leveraged for other purposes e.g. SII P&L attribution, balance roll forward, etc.

Simulations

Simulations are alternative scenarios generated by selected changes in data, assumptions or methodology to demonstrate the impact on key financials. These are alternatives compared to the “base” scenario.

As the BDA accounting process is fully automated the creation of all accounting valuations for a simulation, given new inputs, is no longer a labour intensive task.

This capability provides significant steering advantages due to its flexibility, for example being used to assess the impact of a potential M&A transaction or for sensitivity analysis.

Internal Performance

Most companies do not exclusively manage their performance on a legal entity or group level. Segregated performance management by activities or units is operationally often more effective and efficient than managing the company as a whole.

The BDA solution provides a consistent and complete treatment of internal performance attribution allowing for the different granularity requirements of the functional areas.

Next Steps

A leading software retailer is currently developing commercially available software to support Multi Valuation Accounting through the BDA.

Through careful and considered configuration and implementation of such software the benefits outlined here can be achieved.

Implementing such a MVA approach can have a profound impact on both source systems and downstream systems such as the General Ledger and reporting environment. There are thus a number of key steps companies can take in advance of any software release, and KPMG can support you with an integrated approach to your end-to-end finance transformation project.

Credentials

KPMG has supported Swiss Re on their Atlas IETV project for over four years, having the lead design role for the Baseline Delta Approach.

«KPMG has been instrumental in helping to further develop our idea of a Baseline Delta Approach into a leading edge Multi-GAAP accounting and steering framework for the (Re)-insurance industry. They excelled by supporting us in truly understanding the full benefits of the solution which go far beyond an IFRS 9/17 implementation.»

Markus Seifert, Business Lead, Integrated Economic & Traditional Valuations, Swiss Re

Further Information

Please reach out to your local KPMG contact or Nick Kinrade, our global solution lead for Insurance Multi Valuation Accounting.

In addition, further public information can be found at:

- **Explanation of Baseline Delta Accounting:**
<https://www.linkedin.com/pulse/innovative-approach-multi-gaap-accounting-industry-how-lohmann>
- **Baseline Delta Accounting for IFRS17:**
<http://www.cvent.com/events/beyond-accounting-an-innovative-solution-design-for-ifrs/event-summary-71267dc701fb4ea1a2f15e715c3cbc9c.aspx>
- **Multi Valuation Accounting for Risk Margins:**
<https://www.linkedin.com/pulse/generic-framework-economic-valuation-insurance-nick-kinrade/>

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