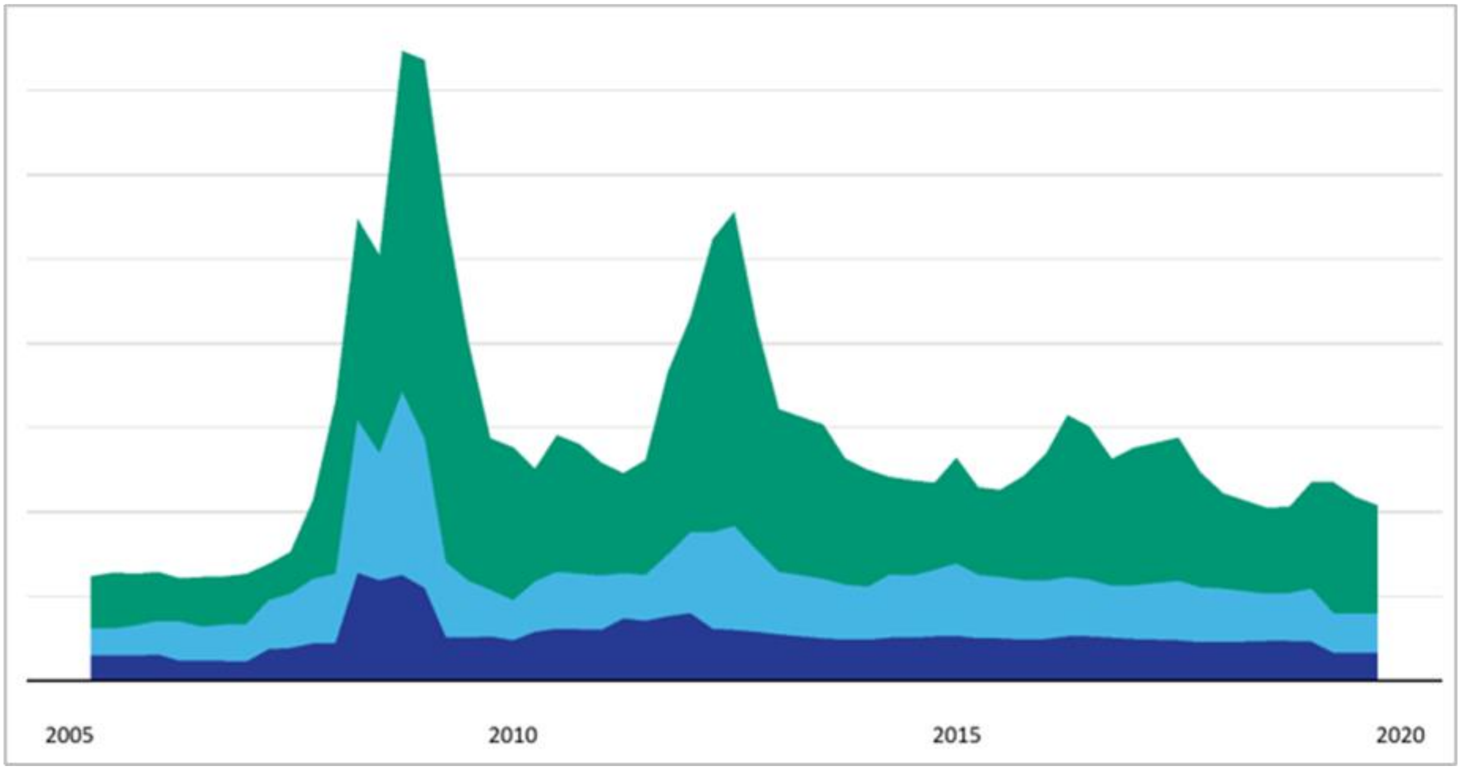
Discount Curve Service for IFRS 17



The Moody's Discount Curve Service for IFRS 17 delivers easy-to-use calibration content for reporting teams to support the valuation of an insurer's cash flows to meet the IFRS 17 accounting standard.

The Discount Curve Service for IFRS 17 is grounded in economic principles and uses Moody's calibration infrastructure and wide-ranging data coverage. Users get stable, robust yield curves that can be delivered within reporting timelines. The service offers illiquidity premium term structures for a range of credit classes, allowing insurers to tailor the model content to the characteristics of their liabilities under valuation, such as duration, liquidity, and currency.

Overview of Moody's Discount Curve Service

Moody's Discount Curve Service for IFRS 17 delivers comprehensive calibration content designed to support insurers with the methodology selection, approval processes, and production challenges associated with the discount curve under IFRS 17.

It helps insurers by providing flexible, granular calibration content that they can customize to the specific characteristics of their liabilities, including.

→ Illiquidity premium term structures that reflect the duration of the liabilities, as shown in Figure 1.

→ Quoted illiquidity premium estimates for a range of credit classes.

→ A base of 19 currencies, with the option to expand on request, to account for the currency of the liabilities.

→ A single illiquidity premium based on a weighted average that can be reconciled with term structure estimates.

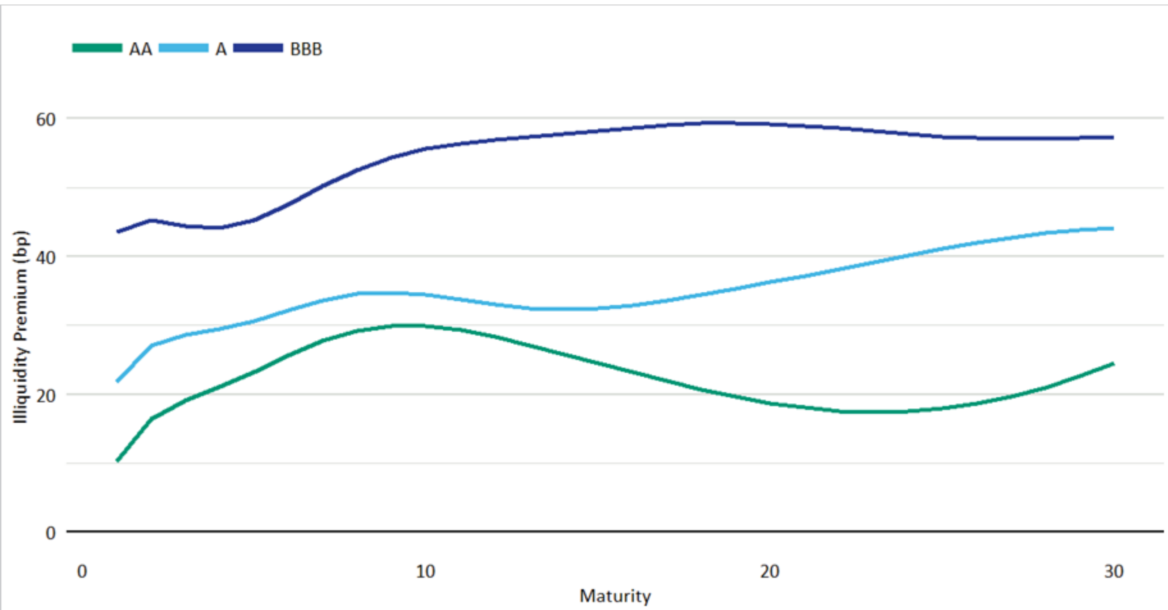


Figure 1: GBP end of December 2019 illiquidity premium term structure by credit class

The Discount Curve Service helps insurers with the wider valuation process through additional content, including:

→ Credit risk adjusted and unadjusted spread curves, as shown in Figure 2.

→ Choice of risk-free rate, including swap, (for example Interbank Offered Rate or Overnight Index Swap), and government rates.

→ Annual sensitivity updates to key model assumptions

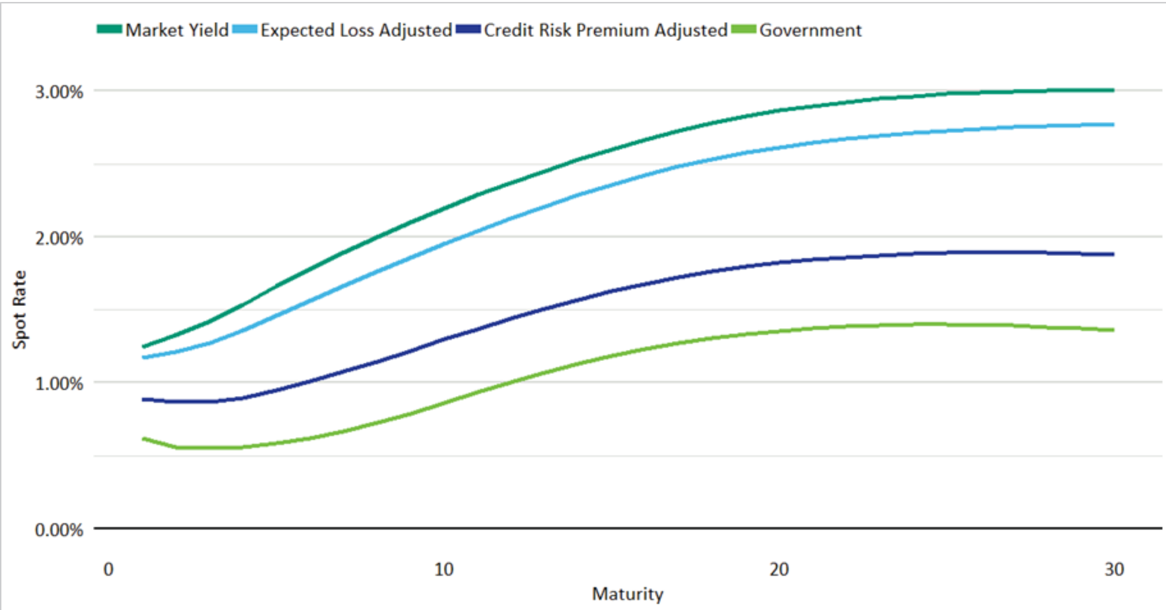


Figure 2: GBP end December 2019 yield curve decomposition

- → Helps actuaries and accountants navigate the approval process by providing a fully documented methodology.
- → The methodology uses a structural method to calculate the credit risk premium and to decompose market spreads into three components: 1) expected losses from defaults, 2) unexpected losses (credit risk premium), and 3) illiquidity premium, as shown in Figure 3.
- → Our method uses a Merton-style structural model of credit risk to calculate fair value spreads based on a combination of real-world probabilities of default estimated at an individual firm level, sectoral estimates of loss given default, and a weighted cost-of-capital adjustment for credit risk premium.

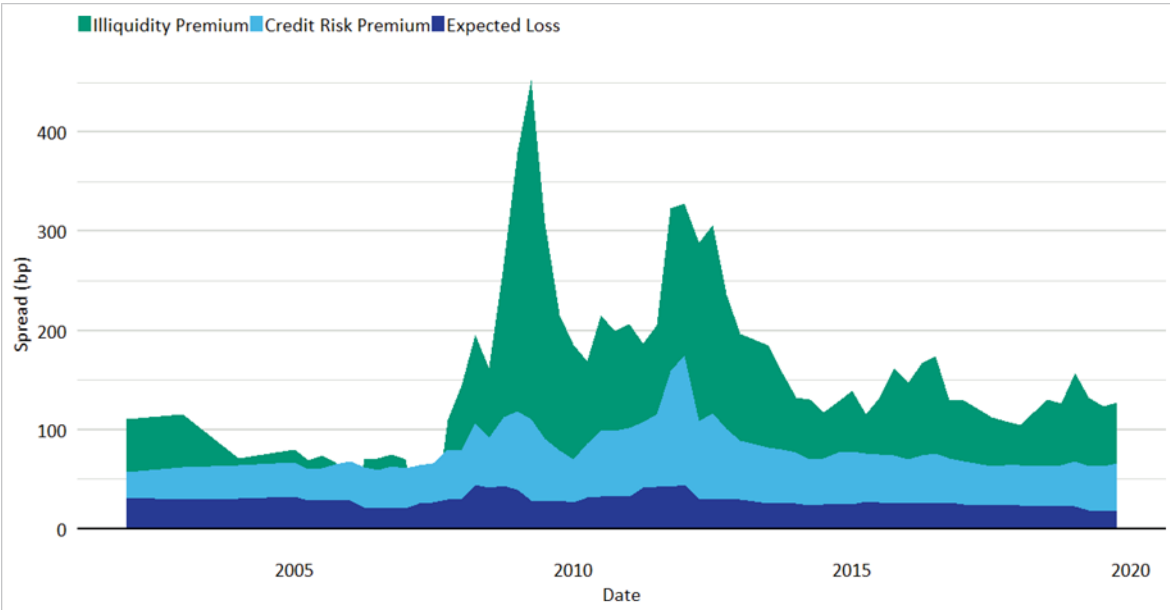


Figure 3: GBP historical decomposition of credit spreads

- → Historical discount curve calibration content is available on request to support back-testing of methodology and transition calculations.
- → Delivers fully documented discount curve content on a monthly basis, by working day 1, to help streamline the reporting process and address production timeline challenges.
- → Enhances disclosure activities with the annual delivery of sensitivity analysis to key model assumptions for disclosure reporting.

The Moody's Discount Curve Service difference

- → **Reliability:** Moody's unique calibration infrastructure and methodology approach ensures stable, robust discount curves can be delivered within reporting timelines.
- → **Fully documented:** Delivery of comprehensive documentation supports insurers when communicating the methodology's suitability with internal and external stakeholders.
- → **Cost-effective:** The Moody's solution removes the need for insurers to invest in expensive production infrastructure to meet demands and avoids expense arising from key person risk typically associated with this type of modeling exercise.
- → **Flexibility:** Full-term structure and credit class split allows insurers to easily tailor illiquidity premium estimates to meet the requirements of their portfolios and products.

- **Data consistency**: The Moody's Discount Curve Service for IFRS 17 is based on the same market information and models that underlie IFRS 9 and Scenario Generator calibrations to ensure modeling consistency.
- **Benchmarking capability:** The Discount Curve Service for IFRS 17 can provide benchmarks to other approaches (for example, VA, negative CDS, covered bonds).
- **Leader in regulatory compliance:** Moody's has a history of producing high-performance, cloud-based, and award-winning technology projects in the insurance industry, including the AXIS™ actuarial modeling system, RiskIntegrity™ Suite for Solvency II compliance, and the RiskIntegrity solution for IFRS 17.

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