Hearing Agenda

Statutory Accounting Principles (E) Working Group

Hearing Agenda

June 15, 2020

ROLL CALL

Dale Bruggeman, Chair
Ohio
Judy Weaver
Michigan

Carrie Mears, Vice Chair
Iowa
Doug Bartlett
New Hampshire

Richard Ford
Alabama
Tom Dudek
New York

Kim Hudson
California
Joe DiMemmo
Pennsylvania

Kathy Belfi
Connecticut
Doug Slape / Jamie Walker
Texas

Dave Lonchar
Delaware
Doug Stolte / David Smith
Virginia

Eric Moser
Illinois
Amy Malm
Wisconsin

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Louisiana

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REVIEW of COMMENTS on EXPOSED INT

Please note the proposed interpretation provides guidance that is more detailed than existing statutory accounting

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guidance. As such, in accordance with the NAIC Policy Statement on Maintenance of Statutory Accounting Principles, the Working Group must have 67% of its members voting (10 out of 15) with a super majority (7 out of 10, 8 out of 11 or 12, 9 out of 13, 10 out of 14 or 11 out of 15) supporting adoption.

Pursuant to the policy statement, the Working Group shall report adopted interpretations to the Accounting Practices and Procedures (E) Task Force as part of its public report during the next NAIC national meeting (or earlier if applicable). Interpretations can be overturned, amended or deferred only by a two-thirds majority of the Task Force membership.

Also, the INT will be posted publicly on the SAPWG webpage once adopted. Once an INT is no longer applicable, it will be nullified and included in Appendix H – Superseded SSAPs and Nullified Interpretations.

1. INT 20-08T: COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends

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| INT 20-08T | COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends | Attachment 1 | Comments Received               | CT DOI - 1  
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Summary:

This interpretation was initially exposed to address questions related to refunds, rate reductions and policyholder dividends in response to decreased activity related to COVID-19. As an overall guiding principle, the accounting shall follow existing statutory accounting principles and annual statement reporting where feasible. Because there
are a variety of ways that reporting entities are accomplishing a similar objective of returning money or reducing premiums, this interpretation provides guidance on the five issues described below. On May 20, the interpretation was exposed with the following modifications from the prior exposure:

- to include health insurance lines,
- to reference unearned premium in the adjustments to premium,
- to clarify the scope of the disclosure, and
- to remove an unnecessary reference to shareholder dividend guidance.

**Issue 1: How to account for refunds not required under the policy terms.**

- Reporting entities that provide voluntary or jurisdiction-directed refunds which are not required under the policy terms shall be recognized as immediate adjustments to premium. The refund will be an adjustment to written or earned premium with corresponding adjustments to unearned premium as applicable. Liability recognition is required when the definition in *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets* is met.

- Refunds that are recognized in a different manner (e.g., as an expense), shall be considered a permitted or prescribed practice pursuant to *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures*.

**Issue 2: How to account for refunds required under the policy terms.**

- Reporting entities that provide refunds in accordance with insurance policy terms shall follow the existing statutory accounting principles in *SSAP No. 53—Property Casualty Contracts - Premium*, *SSAP No. 54—Individual and Group Accident and Health Contracts* or *SSAP No. 66—Retrospectively Rated Contracts* shall be followed, as applicable.

**Issue 3: How to account for rate reductions on in-force and renewal business.**

- For reporting entities that provide rate reductions the guidance provides direction based on whether the rate reduction is for in-force or future policies.

- Rate reductions on in-force business, shall be recognized as immediate adjustments to premium.

- Rate reductions on future renewals shall be reflected in the premium rate charged on renewal. This is because it is outside of the policy boundary to require the accrual before contract inception. While the amount of future rate reduction can be estimated, it is not a change to existing policy terms and policyholders are not obligated to renew at the reduced rate, therefore, payment of the amount is avoidable. Such amounts shall be disclosed as discussed in Issue 5.

**Issue 4: How to account for policyholder dividends.**

- Reporting entities that provide policyholder dividend shall follow the existing guidance for policyholder dividends and in addition, shall complete the disclosures described Issue 3.

**Issue 5: Where to disclose refunds, rate reductions and policyholder dividends related to COVID-19 decreases in activity.**

- This interpretation indicates that reporting entities shall continue to comply with all statutory accounting disclosure requirements, but also requires that all premium refunds, rate reductions and/or policyholder dividends provided because of the decreased activity due to COVID-19 shall be aggregated and reported in Note 21A, as unusual and infrequent items. Note the May 20
exposure modification excludes the policies whose terms require an adjustment to premium. The modification is to include policies whose terms were modified after the declaration of the COVID-19 emergency.

- Other:
  - The Working Group noted that premium taxation requirements vary by jurisdiction and is determined by each jurisdiction where the premium is written/returned to the policyholder.
  - This interpretation will be automatically nullified on January 1, 2021 and will be included as a nullified INT in Appendix H – Superseded SSAPs and Nullified Interpretations in the “as of March 2021” Accounting Practices and Procedures Manual.

**Connecticut Department of Insurance Comments (page 1 - Kathy Belfi):**

Connecticut supports the "tentative consensus" points related to reduction of premium.

Due to COVID-19, there has been changes in insured exposures resulting in lowering of premiums (causing premium refund payments). Current statutory guidance requires upon return of premium to policyholders, earned premiums should be reduced.

We agree that if a company reports the refund as an expense it should be disclosed as a permitted or prescribed practice.

**Illinois Department of Insurance Comments (page 2 - Eric Moser):**

The IDOI is the lead state regulator for several large insurance groups that write auto and other lines of business addressed by INT 20-08T. It is the IDOI’s position that there should be flexibility regarding the accounting treatment for monies given back to policyholders related to the current pandemic conditions. Particularly, if an insurer has filed and received approval for policy endorsements related to such payments, then the IDOI believes those payments would be reported as an expense in their Statement of Operations if the policy endorsement would allow as such. In our opinion, the most important reporting consideration for these payments is that adequate disclosure is provided in the financial statement, and that requirement appears to already be included in the INT as written.

**Allstate Comments (pages 3-8 - Kevin Spataro):**

While Allstate supports the content of the INT as it relates to premium refunds, rate reductions, and policyholder dividends we believe the scope of the INT is incomplete and should be expanded to include accounting and reporting guidance for discretionary payments provided to policyholders pursuant to policy endorsements that were not designed to be and are not premium refunds, rate reductions, or policyholder dividends. Moreover, because discretionary policyholder payments provided through policy endorsements were designed to meet the same objective (i.e., providing policyholder relief due to COVID-19 circumstances), albeit in a different manner, we believe the accounting and classification should be addressed in the same INT as opposed to a separate INT or through a separate regulatory process.

In response to the COVID-19 pandemic, insurers designed and implemented a variety of programs to provide payments to policyholders in recognition of decreased vehicle usage and claim experience due to the presence of shelter in place (SIP) orders that existed in many states throughout the country. In the case of Allstate, we designed a program to provide discretionary payments to policyholders in the most practically expedient manner and without impacting non-policyholder stakeholders, e.g., agents and states in which we conduct business.
While certain insurers designed and executed policyholder payment programs attributable to the impact of SIP orders in the form of premium refunds, rate reductions, and policyholder dividends, others, including Allstate, designed and executed programs in the form of discretionary payments to policyholders made pursuant to policy endorsements. After thoughtful consideration of the alternatives, Allstate utilized the filing of policy endorsements as opposed to a premium refund or rate reduction (policyholder dividends was not an available option) to expedite the payment process and because we did not have the ability to re-underwrite the underlying risks and re-determine the amount of premium we would have charged under SIP conditions. Specifically, we did not possess the actuarial data necessary to complete the full re-underwriting exercise we believe would have been necessary to support a premium refund or rate reduction. Moreover, while we had information about reduced miles driven, we did not possess reliable information to predict the future path of the pandemic or its impact on accident frequency which is influenced by driving habits (including speed, distracted driving, etc. for miles driven), incidence of loss, and loss severities.

Notwithstanding our inability to re-underwrite our policyholders and adjust premiums, we possessed enough information to provide relief to our policyholders in the form of discretionary payments. Our ultimate decision to make discretionary payments pursuant to policy endorsements considered both expediency of execution and our desire to not impact non-policyholder stakeholders.

By way of this letter, our intent is to clarify that while the scope of INT 20-08T is sufficient as it relates to policyholder relief programs executed in the form of policyholder refunds, rate reductions and policyholder dividends, it needs to be expanded to incorporate the accounting and reporting for policyholder relief programs executed in the form of discretionary policy payments provided pursuant to policy endorsements.

Following is a more complete description of Allstate’s policyholder benefit program followed by a description of how we believe our program should be incorporated into INT 20-08T.

I. DESCRIPTION OF ALLSTATE’S POLICYHOLDER RELIEF PROGRAM

Basis of Payments

In March 2020, Allstate recognized a decline in miles driven by policyholders and claim frequency as a result of SIP orders instituted across the country. At the same time, we observed the financial hardship experienced broadly by individuals subject to SIP orders. As a result, and despite not possessing sufficient actuarial information to re-underwrite our auto book of business and execute a premium refund or rate reduction, we relied on available anecdotal information about reduced miles driven and assumed that would result in lower realized accident frequencies in designing a program that allowed for discretionary payments to policyholders. Consistent with our underlying rationale that reduced miles would produce reduced accident frequency we moved forward with our program and began providing relief in the month of March 2020, the month in which most SIP orders began. In addition, relief was provided to auto policyholders of record in April and May of 2020 who met certain criteria. The program was further extended to policyholders of record for June of 2020. Allstate’s SIP payment program was not extended to commercial auto policyholders or motorcycle policies where a reduction in claim activity was not anticipated.

Tool Used to Permit Policyholder Payments – Policy Endorsement

Allstate considered a range of options to provide payments to policyholders and ultimately designed and executed a policy endorsement to provide for the discretionary payments to policyholders as it (a) was the most practically expedient alternative and (b) was the alternative that did not impact other key non-policyholder stakeholders (i.e., agents and the states in which we do business).
Form of Allstate Policy Endorsement

“Special Shelter-in-Place Payback Endorsement – AU14923

This endorsement authorizes a payment to you. This payment is in response to the extraordinary circumstances surrounding the Covid-19 pandemic.

Any payment is not guaranteed. We have sole discretion for determining the amount and frequency of payment, if any. We will determine the method of distributing any payment. Except as provided in this endorsement, all terms and conditions of the policy apply and remain unchanged.”

External Communications to Policyholders

“The purpose of the endorsement is to authorize and facilitate discretionary payments to policyholders. With insurance costs going down, Allstate is working to do what’s right for policyholders.

The payment recognizes the shelter orders are impacting miles driven and the number of auto accidents. Although customers are driving less and in fewer accidents, the full impact of the pandemic remains uncertain and this payment represents our best estimate of what we are seeing. We also are monitoring the impact on repair costs, premiums being received, customer retention, coverage levels and investment returns. It is too early to determine the full impact of all these factors on insurance rates. The payback is a way to get money back to consumers quickly before the full impact of the pandemic is sorted out.

The payback will equal 15% of a customer’s March and April auto premiums and will be calculated on a per policy basis, subject to a $10 minimum. We expect each monthly payment to average close to $30 per policy. There are no prorated calculations for purposes of this payback since the payback is a function of the total premium (calculated to be monthly) as of 3/31/2020 and 4/30/2020 regardless of the policy effective date or any endorsement activity. Customers with Allstate’s pay-per-mile product will be included.

Although much uncertainty remains over the full impact of the pandemic on all of our costs, we are filing the endorsement to remain in effect for 180 days to provide flexibility for future payments, if appropriate. The payments are being treated as an underwriting expense, so the company’s rating plan is not impacted and does not require modification as a result of this filing. Furthermore, this payment does not involve a projection of future premium.”

II. ACCOUNTING FOR ENDORSEMENT-BASED DISCRETIONARY POLICYHOLDER PAYMENTS

In determining the accounting for SIP payments for both statutory and GAAP, Allstate assessed whether the payments constitute and should be classified as either (1) a loss/loss adjustment expense, (2) a reduction of premium under the associated contracts or (3) a policy expense.

1) Classification as a loss/loss adjustment expense – a loss under the contract would exist only to the extent there is an indemnifiable insured event. We do not believe SIP payments represent losses or loss adjustment expenses as the payments do not relate to a specific indemnifiable loss event under the contract nor do the payments relate to a change in the level of insurance risk. Additionally, the policy endorsements do not create an indemnifiable loss event but rather a different type of policy payment that is more akin to an expense.

2) Classification as a premium adjustment – Allstate considered and rejected classification of SIP payments as a premium adjustment primarily because no changes were made to filed rate plans in place throughout the U.S. Allstate considered, but rejected, the idea of filing new rate plans because (a) it would have required a lengthy process and would not have achieved our objective of getting economic relief to our policyholders in an expedient manner, and (b) as our policies cover six months we did not believe we possessed the required
visibility to file modified rate plans as we lacked sufficient clarity on how the policies will perform beyond the next one to two months once the SIP orders are lifted and a “new normal” emerges. Allstate believes premium classification is only appropriate in situations where a premium refund is required under policy terms or a rating plan change is filed. In lieu of a required premium refund under policy terms or filing a new rating plan, the appropriate classification of the newly created contract benefit is as a policy expense.

3) **Classification as an expense** – expenses related to insurance contracts are those typically paid or incurred in connection with originating and servicing the contract. Notwithstanding the preceding, Allstate views payments under the endorsement, while made to the policyholder, are fundamentally different than loss/loss adjustment expenses attributable to “indemnifiable contract losses” and as such it is appropriate to classify the incremental amount paid to the customer as a policyholder expense for GAAP and an “other underwriting expense” for Statutory.

**GAAP** - Given the unique nature of the “expense” Allstate presented SIP payments on a separate line in the GAAP income statement to distinguish the payments from both losses and typical underwriting expenses. We believe that even if presented in a separate line item, SIP payments would be included in the determination of underwriting income and would be a component of the expense ratio.

**Statutory** – Given the unique nature of the “expense” for discretionary payments authorized under modified contract terms and which do not relate to a change in the level of insurance risk, Allstate relied on the underlying tenets of SSAP 70, *Allocation of Expenses*. Under SSAP 70, allocable expenses for property and casualty insurance companies shall be classified into one of three categories in the Underwriting and Investment Exhibit: loss adjustment expenses (classification assessed in 1) above), investment expenses (not applicable) or other underwriting expenses. Other underwriting expenses are defined as allocable expenses other than loss adjustment expenses and investment related expenses.

**Conclusion**

Allstate recommends that INT 20-08T be expanded to include a classification alternative for policyholder payments that are not premium refunds, rate reductions or policyholder dividends. The basis, form, and substance of Allstate’s policyholder payments related to the reduced personal lines auto frequency due primarily to SIP orders instituted as a result of COVID-19, were designed to facilitate expeditious state approval and implementation to provide relief to policyholders in the form of discretionary policyholder payments. When designing our policyholder relief program, we considered impacts on a range of stakeholders including our agents and the states in which we do business and determined that discretionary policyholder payments would not impact agent commissions or premium tax revenues that states rely on to meet the needs of their constituents.

Comment letters submitted by other insurers to the original exposure of INT 20-08T described policyholder payment programs similar to Allstate’s and requested the INT be expanded to include a classification for discretionary policyholder payments in the form of an underwriting expense. In addition, the comment letter from Interested Parties to the initial exposure of INT 20-08T included suggested revisions to the original INT to reflect the inclusion of new Issue 4 to describe the accounting for policyholder payments which are not premium refunds, rate reductions or policyholder dividends and which result from filing memorandums and policy endorsements as an underwriting expense. Allstate supports the suggested revisions to INT 20-08T related to new Issue 4.

The Allstate Corporation filed its Q1 2020 Form 10-Q which reflects as illustrated in the attached Appendix I, a new line item in the income statement for policyholder payments created for the material, non-recurring expense related to SIP orders. The importance of the GAAP treatment is that Statutory accounting is intended to follow GAAP except in those situations where a departure from GAAP is necessary; we do not believe this is one of those areas of necessary departure. We believe the Statutory treatment should be consistent with GAAP in terms of reporting as an expense; in the case of Statutory accounting as an “other underwriting expense.”
Allstate insurance companies that computed and accrued SIP payments for March 2020, classified those expenses in their first quarter statutory filings in line 4, Other underwriting expenses incurred in the Statement of Income (corresponding classification at year-end in the Insurance Expense Exhibit is line 24, Aggregate write-ins for miscellaneous operating expenses, column 3 General Expenses under the heading of Other Underwriting Expenses) and disclosed the nature of the SIP payments and expense classification in Note 21A – Unusual or Infrequent Items. We believe the consistency in disclosure between all methods of providing policyholder relief will allow regulators to view the impact of these programs on a consistent basis regardless of how they were executed.

Note the Allstate comment letter includes an excerpt of U.S. GAAP reporting (page 8 of comments attachment)

Cincinnati Insurance Companies Comments (pages 9-10 - Rachel Underwood):
Cincinnati provided comments during the original exposure period of May 5, 2020 through May 14, 2020. During this second exposure period of May 21, 2020 through June 5, 2020, our points remain relevant and we reiterate our support to modify the Tentative INT to allow relief payments to be accounted for and reported as expense where companies utilized rule filings or policy endorsements to allow these payments. Our position has also been communicated directly to the APCIA and interested parties.

Our support for recognizing as an expense, those relief payments made in relation to, at least, non-participating policies without premium refund terms, include the following points and premium refund contrasts:

- The payments were intended to provide immediate financial relief to policyholders, regardless of existing contractual obligations, on the premise of companies sharing their anticipated favorable loss experience with business segments of their policyholders.
- For participating policies, sharing favorable loss experience is accomplished through payment of policyholder dividends.
- Relief payment amounts were decided without having actual loss experience data, regarding the ultimate impact of federal and state shelter-in-place orders.
- Cincinnati did not utilize rate filings to provide relief payments.
- Premium adjustments, whether contractual refunds or by rate filings, include consideration of actual loss experience, which is not completely available in this situation.
- Actual loss experience data, when available, may reveal an increase in accident severity from fast driving and an increase in distracted driving accident occurrences.
- Additionally, extended auto coverage, or waiver of policy restrictions, to allow utilization of personal automobiles for deliveries has been called for in some states.
- Even if companies expressed the relief payment amount as a percentage of premium, that does not make it a premium refund. Premiums are commonly used in calculation methodologies such as assessments, surcharges, and allocation of expenses.
- Cincinnati revised the impacted policyholder contracts through rule filings to states, explicitly stating payments are being treated as an expense, and provided company letters to all impacted policyholders, allowing this payment benefit. No state denied Cincinnati’s rule filing.
- Cincinnati’s relief payment plan, and the relief payment plan of other companies, are more characteristic of company expenses, such as policyholder dividends, policyholder benefits, assessments, surcharges, guaranty funds, and donations.
- As an expense, companies bear the majority of the financial burden for the payment.
- As a reduction of premium, the financial burden of relief payments would be shared by further exacerbating revenue shortfalls
- For state governments through reduced premium taxes and commission related income taxes.
- For small businesses and individuals through commission claw-backs.
If states intend to include relief payment amounts in premium tax calculations or companies intend to otherwise compensate their producers, these actions would further support relief payments are an expense.

Reporting the relief payments as an expense brings an advantage to analyzing insurance company results as it will impact only the expense ratio component of the combined ratio, similar to policyholder dividends impacting only the policyholder dividend ratio component.

Reporting the payments as a premium refund would distort analysis of insurance company results as it will impact all components of the combined ratio: loss, dividend, and expense ratios.

It seems counterintuitive that the relief payments should impact, negatively, the loss ratio, given that the premise of the relief payment is for companies to share their anticipated favorable loss experience.

These payments are the result of an unusual and infrequent event that would be disclosed in financial statements and excluded from future rate filing consideration.

Cincinnati acted with a sense of urgency in light of the pandemic, notified states of the company’s relief payment plans, and then proceeded to act, in good faith, in accordance with those plans, absent any state objections.

In addition to these payments to our policyholders for immediate financial relief, actual premium relief could come in the future through normal rate reviews and consideration of actual loss experience.

In conclusion, Cincinnati supports modifying the Tentative INT, either by expanding Issue 1 or adding a new Issue, to allow relief payments to be accounted for and reported as expense in situations where companies utilized rule filings or contract endorsements to allow for these relief payments. We do not propose that expense treatment is the only answer, but rather, it is appropriate depending on the relief payment program communicated by each company in their state filings. We respect that other companies may have utilized payment methods different from ours, leading to other accounting treatment decisions. Ultimately, each company would consistently provide accounting transparency through disclosure of their handling of this unusual and infrequent event.

Co-operative Insurance Companies Comments (page 11 - Tamaron Loger):

Like many insurance companies, we’ve seen some initial favorable loss development on our personal auto book of business as a result of the various stay at home orders issued by the states. And like many insurance companies, we made the decision to provide some financial reprieve for our personal auto policyholders and issued a one-time refund earlier this month. The Company views this refund like a policyholder dividend, with the difference being that it was not issued to all policyholders based on profits. As such, we have taken the view that the one-time refund should be treated as an expense for accounting purposes. To treat it as a reduction in premiums, as INT 20-08T suggests given our fact pattern, places an undue burden on our agents and the state as our intent was not to impact agent commissions or state premium tax liabilities.

Furthermore, in reading comment letters from other parties, Co-operative Insurance Companies agrees with the perspective that The Cincinnati Insurance Companies laid out in their letter dated May 20, 2020. Some states mandated refunds and most strongly encouraged it, so why wouldn’t companies account for this like a state assessment which would be recorded as an expense. As Andrew Schnell of The Cincinnati Insurance Companies stated, “If treated as premium, all aspects of the combined ratio, including the loss ratio, are impacted, which does not seem appropriate. Given that the premise of the payment request is for companies to share their anticipated favorable loss experience, it seems counterintuitive that loss experience ratios be negatively impacted by the payment.”

We hope that the SAPWG will take our perspective into account before adopting the proposed interpretation and revise it to allow for accounting of this unusual circumstance as an expense without individual companies having to seek approval for a permitted practice from their state of domicile.
Grange Insurance Comments (pages 12-14 - Brian Poling):

The Tentative INT contemplates classifying policyholder relief payments in reaction to the current COVID-19 pandemic either as a reduction to premiums written or as policyholder dividends and provides proposed statutory accounting and reporting guidance accordingly. Grange’s comments will primarily focus on rationale to revise the Tentative INT to allow reporting these payments as other underwriting expenses due to other fact patterns that were not contemplated by the original policy exposure. Grange’s position is based on the following logic:

- The payments were intended to provide immediate financial relief to our policyholders regardless of our contractual obligations.
- The payments were made voluntarily in our operating states.
- Grange revised the impacted policyholder contracts through filing policy endorsements with certain states and provided company letters to all impacted policyholders to provide the contractual language needed to allow such payments.
- Grange did not file for premium rate changes in any state as a result of issuing these payments to our policyholders. These payments are the result of an unusual and infrequent event that will be excluded from future rate filing considerations.
- Loss experience data was mostly unknown at the time of announcing and issuing the relief payments during the 2nd week of April, regarding the ultimate impact of federal and state shelter-in-place orders. Loss experience improvements were estimated for the personal auto book in total based on the expectation of lower miles being driven during April and May.
- Formal policyholder dividends were not a viable option for Grange as dividends must be paid to all policyholders, not just the lines of business expected to be favorably impacted by the shelter-in-place orders. Also, due to required approvals, dividends would not be the most immediate payment option.
- These payments are more in line with a one-time company expense, such as a policyholder dividend.
- When we looked for relative consistency in reporting treatment for payments made outside of contractual premium refunds, categorizing these payments as an expense was the closest option to policyholder dividend reporting.
- Classification as a premium refund will have unintended ancillary financial consequences, such as reducing premium taxes to state agencies. Like many of our competitors, we assured our independent agent partners, many of which are small businesses, that their commissions would not be impacted by these payments. Accordingly, commission ratios will be inflated for this calendar year if reporting as a premium refund is required.
- Reporting the payments as an expense brings an advantage to analyzing insurance company results as it will impact only the expense ratio component of the combined ratio.
- Reporting the payments as a premium refund would distort analysis of insurance company results as it will impact all components of the combined ratio: loss, dividend, and expense ratios.
- Premium adjustments, whether contractual refunds or by rate filings, include consideration of actual loss experience, which was not completely available in this situation.
- In addition to these payments to our policyholders for immediate financial relief, which we view as a one-time expense, actual premium relief could come in the future through normal rate reviews and consideration of actual loss experience.
- Insurance companies acted with a sense of urgency in light of the unprecedented scale of the pandemic, notified states of company payment plans, and then proceeded to swiftly act, in good faith, in accordance with those plans, absent any state objections. To that point, Grange issued nearly 340,000 relief payments to our policyholders during the last week of April and first week of May.

In light of the COVID-19 pandemic, regulators from a majority of states issued a number of bulletins, orders, advisories, and other guidance (collectively “Bulletins”) urging property & casualty insurance carriers nationwide to provide some means of immediate financial relief to policyholders, at least in private passenger...
automotive lines. The principle was that insurers should provide immediate financial relief in anticipation of lower than expected loss experience arising from a decrease in driving activity due to federal and state shelter-in-place orders. Such payments needed to be applied reasonably and consistently in order to avoid being considered a rebate or unfair discrimination. Though payments by insurance carriers would be a voluntary action in most states, they were required in the State of California (Bulletin 2020-3). The issuance of Bulletins by each state, each with their own guideline nuances, created uncertainty across insurance carriers of how to accommodate making such payments within applicable compliance standards.

Grange considered the magnitude of the situation and guidance available at the time. A policyholder dividend was deemed inappropriate, at least in part, as it would take longer to enact given the required approval process. A premium refund would create unintended negative financial consequences to state agencies and our independent agent partners (absent the decision by Grange, like many carriers, to not impact agent compensation) by reducing premium amounts, thereby reducing premium taxes and commissions. Premium refunds also have the negative impact of altering comparability for all components of the combined ratio. Additionally, these policyholder relief payments were based on the expectation of profits from favorable loss experience, yet the data to determine such experience had not yet occurred. Therefore, Grange communicated to states that the payment program would be treated as an expense when policy endorsements were filed. Grange included that we intend to review the actual loss experience results and adjust premiums on a forward looking basis as part of regularly planned future rate reviews. These one-time payments would be excluded from future rate calculations and filings. No state rejected Grange’s payment program.

In the absence of any state objections, Grange acted in accordance with the relief payment program and contends that reporting these pandemic related payments as an expense would fall within the guidance of SSAP 70 – Allocation of Expenses and be disclosed in accordance with SSAP 24 – Discontinued Operations and Unusual or Infrequent Items. INT 20-08T already includes disclosure guidance under SSAP 24. SSAP 70 – Allocation of Expenses, paragraph 3 states:

3. Allocable expenses for property and casualty insurance companies shall be classified into one of three categories in the Underwriting and Investment Exhibit as follows:

And then goes on to list the three expense categories as a) Loss adjustment expenses, b) Investment expenses, or c) Other underwriting expenses. Other underwriting expenses are defined as allocable expenses other than loss adjustment expenses and investment related expenses. Grange would report the one-time relief payments as a write-in item under other underwriting expenses.

In conclusion, Grange believes it is reasonable and appropriate for INT 20-08T to provide guidance to companies to report the relief payments as an expense. The payments achieved immediate financial relief for policyholders without unintended negative consequences for state agencies and our independent agent partners. Policyholders would see premium relief, when experience supports it, in future rates. We also believe that comparability of insurance company results is least impacted if these payments are recorded as other underwriting expenses.

National Association of Mutual Insurance Companies (NAMIC) (pages 15-16 - Jonathan Rogers):

The purpose of this follow-up letter is to emphasize the point that insurance company statutory financial statements should reflect the actions and approaches taken by management that best reflects company experience; therefore, in regards to accounting for premium relief measures, statutory accounting should be flexible to accommodate the various approaches taken by insurers. The COVID-19 ongoing crisis prompted many insurance companies to respond to policyholders experiencing economic hardship in various ways. While different approaches were taken, one common theme among insurers who provided premium relief to policyholders was evident, that is there was a sense of urgency to get money back to impacted policyholders.
That urgency and drive to get money back to policyholders created some obstacles for companies. Traditional methods of returning premium to policyholders was not a viable option for some carriers. For example, issuing a policyholder dividend presented challenges around timing and restrictions on issuing dividends for only single line of business contracts. Companies unable to issue a dividend but were able to provide premium relief to policyholders did so without having complete loss experience data. As part of normal business operations, a full review of actual loss experience results is conducted leading to a potential adjustment to future premiums. Without that complete analysis, some insurers view treating these payments as an “other underwriting expense” to be the cleanest method of accounting.

Treating these payments as an “other underwriting expense” avoids certain unintended consequences for those insurers that were unable to issue a dividend or were not able to file for new rates in an expeditious fashion. If regulators agree to allow for flexibility, insurers that treat these payments as expenses will avoid impacting both the combined ratio and loss ratio. Instead it would only impact the expense ratio. Critical to understanding the profitability of a line of business, or more importantly, determining the adequacy of rates for certain lines is an analysis of the loss ratio. When you treat these payments as a return of premium, that automatically increases the loss ratio. Given the importance of rate adequacy, classifying these payments as an expense will help in determining future rates as these unusual and infrequent expenses would be excluded from future rate filings.

In addition to these unintended consequences to the financial statements, other challenges should be considered by the working group. For example, if expense treatment is not allowed for any insurer, that has the impact of reducing the amount of premium taxes paid to the state. While many insurers will treat these relief measures as a return of premium, reducing their premium tax bill, those who classify as an “other underwriting expense” will not have their premium tax bill reduced.

Finally, the statutory financial statements assist state insurance regulators with regulating the solvency of insurance companies, and the proposed INT includes a new disclosure that requires insurers to disclose all COVID-19 inspired premium refunds, rate reductions, and policyholder dividends as unusual or infrequent items in annual statement note 21A. This disclosure will help regulators understand the approaches taken by various insurance companies around providing policyholder relief, regardless of whether they classified it as a return of premium or an “other underwriting expense.” If the working group doesn’t allow for “other underwriting expense” treatment, companies will be forced to seek alternative options, such as state permitted or prescribed practices leading to additional and unnecessary disclosures. In this case, a duplicative disclosure to the new note 21A.

**Progressive Comments (pages 17-18 - John Sauerland):**

In response to the Tentative INT, Progressive agrees in principle with the comments previously submitted to SAPWG by The Cincinnati Insurance Company and Grange Insurance and agrees with the draft edits to the Tentative INT by the interested parties, particularly the addition of Issue 4.

Progressive’s position is based on the following:

- Where required, we filed a policy endorsement and/or rule, not a rate filing, to authorize and facilitate discretionary credits and payments to policyholders in response to the COVID-19 pandemic and was a one-time action to provide immediate relief
- The credits and payments are available to all customers with an active personal automobile policy on April 30 and/or May 31 and there was no differentiation among customers
- To ensure consistency, the credit was calculated based on 20% of the amount of premium earned by each policyholder during the months of April and/or May (for New York policyholders, the credit will be calculated based on 20% of May and/or June premiums earned, instead of April and/or May)
- To accommodate the urgency of the situation, the amount of the credits and payments was determined without specific known loss experience but was based on changes in: average miles travelled per
vehicle, as derived from our usage-based insurance (UBI) program; weekly incoming claim features; and total personal auto frequency pre and post the COVID-19 restrictions period. We did not determine the credit for policyholders enrolled in our UBI program based on their individual miles driven.

- Reducing premiums in conjunction with the policyholder credits and payments would conflict with the rate filings that are currently in place and would reduce the amount of premium taxes, independent agents’ commissions, and various assessments that would be due based on these filed rates; we have never had any intention of receiving a return of premium taxes, assessments, or commissions paid.

- We are not aware that there has ever been a difference between statutory accounting and generally accepted accounting principles in the United States of America (“GAAP”) as it relates to accounting for premiums. Similar to several other public company registrants, we recorded the policyholder credits and payments as an underwriting expense when we filed our April results via a Current Report on Form 8-K with the Securities and Exchange Commission (SEC) on May 20, 2020; the GAAP accounting treatment was based on the underlying premise that the credits and payments are akin to a policyholder dividend in the sense that we are, at our noncontractual discretion, returning profits that resulted from a reduction in loss costs due to the shelter-in-place orders with policyholders based on a program that was derived at the enterprise-wide level as opposed to the contract level.

- Given that our rating plans were not impacted as a result of the policy endorsement and/or rule that was filed, it would seem appropriate that the statutory accounting treatment would follow the GAAP accounting treatment.

- The intent to treat the policyholder credits and payments as an underwriting expense has been clearly disclosed in the filing memorandum issued to the states’ departments of insurance and as a separate financial statement line item in our April GAAP-basis financial statements released and filed with the SEC on May 20, 2020. We intend to show the credits as a write-in line item in our statutory financial statements. The transparency of these credits enables the users of the financial statements to understand the financial impact resulting from this issue.

The current draft of the Tentative INT only provides for the classification of policyholder relief payments in reaction to the current COVID-19 pandemic as either premium refunds, rate reductions, or policyholder dividends, and provides proposed statutory accounting and reporting guidance based on these classifications. Progressive instead supports the addition of Issue 4 as proposed in the comment letter submitted by the interested parties to allow the flexibility of accounting for these policyholder relief payments based on the underlying methodology used by the insurance companies.

*United Health Care (UHC) (pages 19-20 - Sherry Gillespie)*

In response to this challenge, UnitedHealthcare and many other insurers are taking actions in a variety of ways to help provide financial relief to insured members. Since the form of the financial relief varies among insurers, the accounting treatment may need to be tailored to the specific form of the relief program. Our comments are focused on the voluntary issuance of premium refunds or credits to in-force policyholders which are not outlined in the policy terms.

We agree with and support the current proposal to treat these types of premium refunds as a reduction to written and earned premium. We believe this treatment is consistent with the intent of the transaction (a return of premium to the policyholder) and is consistent with current accounting guidance for other types of premium refunds that are required by either policy terms or regulations. The timing of recognition of the premium refund should correspond with the associated coverage period impacted by the premium action. In the case of premium refunds issued for current or prior coverage periods, the recognition should be immediate. There may be situations where the premium rate is being reduced over the remaining policy period, in which case, the premium reduction may need to be recognized over the policy period impacted.

With respect to any liability required to be recognized in accordance with in SSAP No. 5R - *Liabilities, Contingencies and Impairments of Assets*, we believe the liability should be reported as an aggregate write-in...
since the premium refund was not required by policy terms, and therefore would not be accounted for as retrospective or redetermination premium liability.

While we believe the above-described reduction to premium approach is the appropriate accounting treatment, we understand other interested parties and some regulators have expressed concerns with the distortion of reported loss or operating ratios resulting from this classification. As an alternative acceptable option to address these concerns, we feel there could be some justification for treatment as bad debt expense. The election to not collect premium could result in the premiums being written off as bad debts when it is determined to be uncollectable.

**NAIC STAFF SUMMARY OF KEY COMMENTS**

No comments were received regarding the modifications added on the May 20 exposure. All prior comment letters discussed on the May 20 are available at https://content.naic.org/cmte_e_app_sapwg.htm.

The primary issue for discussion is whether to allow reporting entities that filed policy endorsements, which allow the insurers to voluntarily provide a return of funds to the policyholders, to report the payments as a return of premium (Reduction to Statement of Income - Underwriting Income - Line 1 - Premiums earned) or as an ‘other underwriting expense’ (Addition to Statement of Income – Underwriting Income - Line 4 - Other underwriting expenses). (Note that annual statement references are to the Property and Casualty annual statement.)

1. **Premium adjustment - Exposed guidance (which is consistent with current SAP) requires – voluntary payments / rate reductions to policyholders to be reported as adjustments to premium.**

   a. The following groups did not submit additional comments but have indicated that their prior comments in support of reporting as adjustments to premium revenue stand:
      - America’s Health Insurance Plans (AHIP):
      - American Property Casualty Insurance Association (APCIA)
      - Travelers Insurance
   b. Connecticut 6-5-20 Comments
      - Support consensus reporting of refunds as adjustments to premium revenue consistent with current SAP that requires a return of premium.
      - If reported as an underwriting expense, it should be a prescribed or permitted practice
   c. United Health 6-5-20 Comments
      - UHC support the current proposal to treat these types of premium refunds (which are not outlined in the policy terms) as a reduction to written and earned premium which is consistent with current accounting guidance for other types of premium refunds that are required by either policy terms or regulations.
      - The timing of recognition of the premium refund should correspond with the associated coverage period impacted by the premium action. There may be situations where the premium rate is being reduced over the remaining policy period, in which case, the premium reduction may need to be recognized over the policy period impacted.
      - If a liability is required to be recognized in accordance with in SSAP No. 5R, we believe the liability should be reported as an aggregate write-in since the premium refund was not required by policy terms, and therefore would not be accounted for as retrospective or redetermination premium liability.
      - We understand other interested parties and some regulators have expressed concerns with the distortion of reported loss or operating ratios resulting from this classification. As an alternative acceptable option to address these concerns, we feel there could be some justification for treatment as bad debt expense. The election to not collect premium could result in the premiums being written off as bad debts when it is determined to be uncollectable.
2. Underwriting Expense – Proposes a new issue or a modification to the current voluntary payment guidance to allow voluntary payments or return of funds to policyholders to be reported as an other underwriting expense if the policy endorsement (or similar) allows discretionary payments to the policyholder at the option of the insurer.

Supporters of expense reporting 6-5-20: Illinois Department, Allstate, Cincinnati Insurance Companies, Co-operative Insurance, Grange, NAMIC, Progressive. Note: Allstate, Cincinnati, Grange and NAMIC, provided similar comments on the prior call.

a. Illinois Department of Insurance – 6-5-20 key points

i. If an insurer has filed and received approval for policy endorsements related to such payments, then the IDOI believes those payments would be reported as an expense in their Statement of Operations if the policy endorsement would allow as such.

ii. Also supports disclosures.

b. Common key points from industry

i. Amounts returned to policyholders were not from re-underwriting or analysis of loss data.

ii. Credits were determined based on a percentage of premium (Progressive, Allstate)

iii. Prefer underwriting expense classification to avoid impacting non policyholder stakeholders such as agent commission and state premium taxation.

iv. Policy modifications were done but rate plans were not refiled

v. Agrees the payment is not loss or loss adjusting expense (LAE)

vi. Prefers policyholder payments impact the expense ratio portion of the combined ratio

vii. Allstate and Progressive noted that the payments were a percentage of two months of premium.

viii. Cincinnati commented that even if companies expressed the relief payment amount as a percentage of premium, that does not make it a premium refund. Premiums are commonly used in calculation methodologies such as assessments, surcharges, and expenses.

ix. Allstate and Cincinnati stated that notices to policyholders indicated their intent to treat it as an expense.

x. Allstate provided detail that their endorsement which remains in effect for 180 days and authorizes payment in response to COVID-19 pandemic at the sole discretion of the insurer. Communication to insureds noted the payment was a percentage premium on a per policy basis with a minimum of $10 per policyholder.

c. Mutual specific comments (Co-operative, Grange, NAMIC):

i. They were not able to provide dividends to isolated lines of business and categorizing these payments as an expense was viewed as akin to the treatment of a policyholder dividend.

ii. Viewed as similar to policyholder dividend, or a state required assessment, policyholder benefits guaranty funds (Cincinnati Co-operative)

iii. Supports flexibility in reporting the relief program communicated by each company in their state filings. (Cincinnati)

iv. Supports allowing the reporting entity to choose between the following methods of recognition including premium refunds, policyholder dividends, and also bad debt expense up front. Prefers the flexibility of reporting payments similar to dividends even if they were not technically policyholder dividends so that the payments are reflected in the combined ratio. (NAMIC)
d. GAAP specific comments Allstate and Progressive:

   i. Allstate:

   1) Advocates for other underwriting expense treatment although it acknowledges that –
   expenses related to insurance contracts are those typically paid or incurred in connection
   with originating and servicing the contract. Notwithstanding the preceding, Allstate views
   it is appropriate to classify the incremental amount paid to the customer as a policyholder
   expense for GAAP and an “other underwriting expense” for Statutory.

   2) GAAP - Given the unique nature of the “expense” Allstate presented payments on a
   separate line in the GAAP income statement to distinguish the payments from both losses
   and typical underwriting expenses.

   3) Statutory –Allstate noted that SSAP 70, Allocation of Expenses. Under SSAP 70, allocable
   expenses for property and casualty insurance companies shall be classified into one of three
   categories in the Underwriting and Investment Exhibit: loss adjustment expenses
   (classification assessed in 1) above), investment expenses (not applicable) or other
   underwriting expenses. Other underwriting expenses are defined as allocable expenses
   other than loss adjustment expenses and investment related expenses.

   ii. Progressive:

   1) We are not aware of a difference between statutory accounting and generally accepted
   accounting principles in the United States of America (“GAAP”) as it relates to accounting
   for premiums. Similar to several other public company registrants, we recorded the
   policyholder credits and payments as an underwriting expense when we filed our April
   results via a Current Report on Form 8-K with the Securities and Exchange Commission
   (SEC) on May 20, 2020; the GAAP accounting treatment was based on the underlying
   premise that the credits and payments are akin to a policyholder dividend in the sense that
   we are, at our noncontractual discretion, returning profits that resulted from a reduction in
   loss costs due to the shelter-in-place orders with policyholders based on a program that was
   derived at the enterprise-wide level as opposed to the contract level.

   **NAIC Staff Illustration** - The difference in major insurance ratios the two positions create is as follows:

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Before Refund</th>
<th>After Refund</th>
<th>After Refund</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Reduce premium</td>
<td>Increase expense</td>
</tr>
<tr>
<td>Losses and loss adjustment expenses</td>
<td>$90,000</td>
<td>$90,000</td>
<td>$90,000</td>
</tr>
<tr>
<td>Premium</td>
<td>$120,000</td>
<td>$112,000</td>
<td>$120,000</td>
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<tr>
<td>Loss Ratio</td>
<td>75%</td>
<td>80%</td>
<td>75%</td>
</tr>
<tr>
<td>Total loss, LAE and U/W</td>
<td>$105,000</td>
<td>$105,000</td>
<td>$113,000</td>
</tr>
<tr>
<td>Premium</td>
<td>$120,000</td>
<td>$112,000</td>
<td>$120,000</td>
</tr>
<tr>
<td>Combined ratio</td>
<td>88%</td>
<td>94%</td>
<td>94%</td>
</tr>
</tbody>
</table>
Recommended Action:

- NAIC staff recommends regulator discussion of the two primary views described in the summary of key comments above. NAIC staff recommends adoption or re-exposure with the minor modification noted on the following page for reasons described below. However, if the Working Group is unable to come to a 2/3 consensus on issue 1, NAIC staff requests additional direction.

- Note that the Working Group has the ability to adopt the consensus on individual issues while still allowing for further discussion on other topics if desired.

- NAIC staff is concerned with the comparability issue that would result from allowing different options for reporting discretionary payments to policyholders such as reporting as an underwriting expense or an uncollectible charge off would create. NAIC staff recommends that such reporting would be a prescribed or permitted practice. We offer the following key comments.

  o Existing statutory accounting guidance requires return of such amounts to policyholders to be recognized as an adjustment to premium. (Reduction to Statement of Income - Underwriting Income - Line 1 - Premiums earned). In addition, as outlined in the interpretation, the principle of reversing premium in the same way that the premium was originally recognized continues to apply. This is critical to health insurers which are subject to the medical loss ratio calculations.

  o Treatment of permitted or prescribed practice - While the state of domicile of a reporting entity can provide a prescribed or permitted practices for a reporting entity, other jurisdictions may choose not to accept the prescribed or permitted practice. The non-domiciliary state can provide other direction if they so choose regarding the financial statement reporting in the non-domiciliary state. Paragraph 60 to the preamble to the Accounting Practices and Procedures Manual provides the following:

    60. The granting of approval for an accounting practice request by the domiciliary state regulator does not preempt or in any way limit any individual state’s legislative and regulatory authority.

  o Underwriting expense recognition criteria related to insurance contracts are those typically paid or incurred in connection with originating and servicing the contract, these discretionary payments are not for that purpose. The payment is not consistent with any of the underwriting expense categories and is not a cost of servicing the policy but rather either a voluntary choice by the insurer to return of previously billed or charged amounts.

  o NAIC staff does not recommend incorporating revisions to report the refund / reduction amounts as either bad debt expense (Statement of Income - Other income - Line 12 - Net gain (loss) or premium balances charged off) or as an other underwriting expense (Statement of Income – Underwriting Income - Line 4 - Other underwriting expenses).

- While NAIC staff understands the desire of commenters to treat some of the discretionary payments as an underwriting expense, we have not identified a principle which warrants treating one discretionary payment as different from another, when they both intend to return funds to policyholders due to COVID-19 and both are not indemnity based payments.

- Charge offs – reporting as premium balances charged off (e.g., bad debt expense) is inconsistent with guidance in SSAP No. 53, paragraph 14, on earned but uncollected premium. It is also inconsistent with the annual statement instructions as the amount is not an uncollectible amount, but rather a voluntary choice by the reporting entity to reduce the amount charged. (Statement of Income - Other income - Line 12 - Net gain (loss) or premium balances charged off)

  o Communication to policyholders regarding expense classification is not authoritative accounting.
Progressive and Allstate both noted that they reported the payments to policyholders in their GAAP financial statements as separate line to highlight the payments. NAIC staff notes that GAAP reporting is less structured and allows more aggregation that statutory reporting. Both GAAP and SAP require adjustable premium charges to be estimated and accrued as an adjustment to **premium revenue**. The guidance in SSAP No. 53 referenced in INT 20-8T follows similar concepts as GAAP 944 Financial Services—Insurance, 605 Revenue Recognition, 25 Recognition (**bolding added**):

944-605-25-2 If premiums are subject to adjustment (for example, retrospectively rated or other experience-rated insurance contracts for which the premium is determined after the period of the contract based on claim experience or reporting-form contracts for which the **premium is adjusted** after the period of the contract based on the value of insured property), **premium revenue** shall be recognized as follows:

a. If the ultimate premium is reasonably estimable, the estimated ultimate premium shall be recognized as revenue over the period of the contract. The estimated ultimate premium shall be revised to reflect current experience.

b. If the ultimate premium cannot be reasonably estimated, the cost recovery method or the deposit method may be used until the ultimate premium becomes reasonably estimable.

- **Depending on the outcome of the discussion, NAIC staff recommends adoption and or re-exposure with the minor modification described below.** The proposed modification is to address the following comment from United Health:

  If a liability required to be recognized in accordance with in SSAP No. 5R— Liabilities, Contingencies and Impairments of Assets, we believe the liability should be reported as an aggregate write-in since the premium refund was not required by policy terms, and therefore would not be accounted for as retrospective or redetermination premium liability.

  NAIC staff has proposed the following modification to paragraphs 11 and 13.b. of the interpretation:

11. Immediate adjustments to premium for voluntary accident and health premium refunds is also consistent with the guidance in SSAP No. 54R—Individual and Group Accident and Health Contracts on contracts subject to redetermination. While some of the voluntary or jurisdiction-directed refunds may not be required by the explicit policy terms, the principle of reversing premium in the same way that the premium was originally recognized continues to apply. The liability for voluntary health premium refunds attributable to COVID-19 and which are not required under the policy terms shall be recognized in aggregate write-ins for other liabilities.

**Issue 2: How to Account for Refunds Required Under the Policy Terms**

12. While most of the premium refunds are voluntary or jurisdiction-directed and not required under the policy terms, some policies have terms that require an adjustment to premium based on either the level of exposure to insurance risk or the level of losses. If the policy terms change the amount charged, existing guidance in SSAP No. 53, SSAP No. 54 or SSAP No. 66 continues to apply:

a. SSAP No. 53 provides guidance for policies in which the premium amount is adjusted for changes in the level of exposure to insurance risk. This is often seen in commercial lines of business such as workers’ compensation. The guidance notes that audits often occur after the policy term or mid-term in the policy. SSAP No. 53 refers to the adjustment to premium (either due to the customer or to the insurer) as earned but unbilled (EBUB) premium. SSAP No. 53 requires such adjustment to premium to be made immediately either through written premium or earned premium. SSAP No. 53 also requires recognition of the related liabilities and expenses such as commissions and premium taxes based on when the premium is earned.
b. SSAP No. 54 provides guidance for policies subject to redetermination in which the premium is subject to adjustments by contract terms. This is commonly seen in federal and state groups. The guidance notes that estimates are based on experience to date and premium adjustments are estimated for the portion of the policy that has expired. Accrued return premiums are recorded as a liability with a corresponding entry to written premium. Refunds required under the policy terms would continue to be reported as retrospective or redetermination premium liabilities if applicable.

The comment letters are included in Attachment 3 (20 pages).
### Meeting Agenda – Pending Item:

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<th>Ref #</th>
<th>Title</th>
<th>Attachment #</th>
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<tr>
<td>2020-16EP</td>
<td>Editorial and Maintenance Update</td>
<td>Attachment 2</td>
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<td>SSAP No. 2R (Jim)</td>
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**Summary:**

Maintenance updates provide revisions to the NAIC *Accounting Practices and Procedures Manual*, such as editorial corrections, reference changes and formatting as summarized below:

- **SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments:** In paragraph 9, correct the reporting line reference as a separate reporting for cash pools will be incorporated for first quarter 2021, and in paragraph 14, the sentence / paragraph structure.

(Note: A separate agenda item is being proposed to clarify “disclosure” of cash equivalents that remain on schedule E2 for more than one consecutive reporting period. This item will also clarify that this disclosure is satisfied by a code on the investment schedule. (These revisions are in line with comments received during the May 20 conference call but go beyond editorial revisions and is expected for exposure at the Summer National Meeting.)

**Recommendation:**

NAIC staff recommends that the Working Group move this agenda item to the active listing, categorized as nonsubstantive, and expose the editorial revisions to SSAP No. 2R for a shortened comment period ending July 15, 2020 to allow for adoption at the Summer National Meeting before the Blanks (E) Working Group considers their corresponding blanks proposal.

**Any Other Matters**

**a. ACA Risk Corridors - Supreme Court – (Robin)**

On April 27, 2020, the Supreme Court of the United States issued an opinion on a *Maine Community Health Options v. United States*, which stems from three consolidated cases, brought by four insurers: Maine Community Health Options, Moda Health Plan, Blue Cross and Blue Shield of North Carolina, and Land of Lincoln Mutual Health Insurance Company. At issue was whether insurers were entitled to pursue more than $12 billion in unpaid Affordable Care Act (ACA) risk corridor payments from the 2014 to 2016 program. The opinion can be found at: [https://www.supremecourt.gov/opinions/19pdf/18-1023_m64o.pdf](https://www.supremecourt.gov/opinions/19pdf/18-1023_m64o.pdf)

It is the NAIC staff’s understanding that the recent Supreme Court decision, in favor of the four insurers, only provides the ability to seek payment through a damages action via the Court of Federal Claims. As such, at this time, and until resolution is reached through the damages action process, reporting entities would not have any new accruals or admission of a previously nonadmitted accrual for a risk corridor receivable. This is consistent with INT 15-01: ACA Risk Corridors Collectability.

In addition, **SSAP No. 5R—Liabilities, Contingencies and Impairment of Assets** prevents the recognition of gain contingencies until the transaction is fully completed and determinable, so it would be improper to accrue amounts at this time. As such, these companies may disclose that they have the ability to seek a damages action, but until their case is adjudicated and they are reasonably assured of payment, there would be no impact to the statutory financial statements other than the costs of ongoing legal fees.

**Background:** The program is addressed in **SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act.** When the government portion of the risk corridors premium was not funded by Congress, for 2014 payments, the
Working Group issued INT 15-01: ACA Risk Corridors Collectability to address impairment and other questions. This interpretation addresses the unpaid 2014 program amounts and non-admits the amounts in excess of proration. For the 2015 and 2016 benefit years estimated in accordance with SSAP No. 107, paragraphs 59.b. and 59.e., amounts are nonadmitted 1) until such time that the prior 2014 benefit year is paid in full and 2) until additional proration amounts are confirmed by HHS or other information of a sufficient nature supports that collectability is probable and reasonable. It further noted that consistent with SSAP No. 107, paragraph 59, the statutory accounting concept of conservatism shall be followed when estimating amounts as reporting entities are required to have sufficient information to determine a reasonable estimate. Estimates shall not assume the availability of federal funds unless such federal funds are appropriated by Congress for the federal costs of the risk corridors program.

NAIC Staff has held preliminary discussions with the federal counterparts at Department of Health and Human Services (HHS) and indicated willingness to coordinate on any subsequent accounting and other issues that may arise. Ultimately, HHS/CMS is in charge of the medical loss ratio (MLR) calculation.

NAIC staff requests direction regarding whether additional guidance such as an INT would be beneficial at this time, due to the volume of questions received.
Interpretation of the Statutory Accounting Principles Working Group

INT 20-08T: COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends

Drafting note: shaded text in paragraphs 11 and 13b are for 6-15-20 call discussion.

INT 20-08T Dates Discussed

Email Vote to Expose May 5, 2020; May 20, 2020

INT 20-08T References

SSAP No. 5—Liabilities, Contingencies and Impairments of Assets
SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items
SSAP No. 53—Property Casualty Contracts—Premiums
SSAP No. 54R—Individual and Group Accident and Health Contracts
SSAP No. 65—Property and Casualty Contracts
SSAP No. 66—Retrospectively Rated Contracts

INT 20-08T Issue

COVID 19

1. A previously unknown virus began transmitting between October 2019 and March 2020, with the first deaths in the U.S. reported in early March 2020. The disease caused by the virus is known as Coronavirus Disease 2019 (COVID-19). Several states and cities have issued “stay home” orders and forced all non-essential businesses to temporarily close. This led to a significant increase in unemployment and the potential permanent closure of many businesses. Total economic damage is still being assessed however the total impact is likely to exceed $1 trillion in the U.S. alone.

Refunds, Rate Reductions and Policyholder Dividends

2. The federal, state or local government orders requiring non-essential workers to “stay home” caused a significant reduction in commercial and non-commercial activity, including automotive usage. Some consumer groups wrote letters and issued press releases calling for insurance premium refunds or pricing decreases, which included specific comments directed toward consumer automotive lines. The comments presumed that the decrease in activity would result in fewer losses.

3. Many insurers began issuing voluntary premium refunds, future rate reductions or policyholder dividends because of the decreased activity. The majority of the refunds were related to automotive lines of business. Insurers have provided the reductions in a variety of ways. Some of the rate reductions were specific for in-force policies, whereas some of the rate reductions would apply to future policy renewals.

Voluntary

4. The majority of the refunds or rate reductions are being offered voluntarily and are not amounts required under the policy terms. The aggregate monetary amount of the return of funds is considered materially significant.
Jurisdiction Directed

5. In addition, a few jurisdictions have issued bulletins directing refunds and rate reductions on accident and health insurance and varying lines of property and casualty insurance, including but not limited to: private passenger automobile, commercial automobile, workers’ compensation, commercial multiple peril, commercial liability and medical professional liability. In addition, some jurisdictions have indicated support for refunds or rate reductions, but also directed that payment of such amounts require either premium rate filings or policy form amendments.

Accounting Issues

6. This intent of this interpretation is to address questions related to refunds, rate reductions and policyholder dividends in response to the decreased activity related to COVID-19. Because there are a variety of ways that reporting entities are accomplishing a similar objective of returning money or reducing premiums, this interpretation provides guidance on the following issues:

- Issue 1: How to account for refunds not required under the policy terms.
- Issue 2: How to account for refunds required under the policy terms.
- Issue 3: How to account for rate reductions on inforce and renewal business.
- Issue 4: How to account for policyholder dividends.
- Issue 5: Where to disclose refunds, rate reductions and policyholder dividends related to covid-19 decreases in activity.

INT 20-08T Discussion

7. As an overall guiding principle, the accounting shall follow existing statutory accounting principles and annual statement reporting where feasible.

Issue 1: How to Account for Refunds Not Required Under the Policy Terms

8. The Working Group reached a tentative consensus that voluntary refunds because of decreased activity related to COVID-19 and jurisdiction-directed refunds which are not required by the policy terms, are fundamentally a return of premium. Such refunds shall be accounted for as immediate adjustments to premium. The refunds shall be recognized as a reduction adjustment to written or earned premium and the unearned premium reserve adjusted accordingly.

9. Refunds shall be recognized as a liability when the definition of a liability in SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets is met. For example, the declaration of a voluntary dividend by the board of directors will trigger liability recognition. In cases where the refunds are directed by a jurisdiction, the SSAP No. 5 definition of a liability shall be used to determine timing of liability recognition.

10. Immediate adjustment to premium is consistent with the existing guidance in SSAP No. 53—Property Casualty Contracts—Premiums. SSAP No. 53 guidance requires adjustments to the premium charged for changes in the level of exposure to insurance risk. It is also consistent with the treatment of loss sensitive premium adjustments in SSAP No. 66—Retrospectively Rated Contracts. While some of the voluntary or jurisdiction-directed refunds may not be required by
the explicit policy terms, the principle of reversing premium in the same way that the premium was originally recognized continues to apply.

11. **Immediate adjustments to premium for voluntary accident and health premium refunds is also consistent with the guidance in SSAP No. 54R—Individual and Group Accident and Health Contracts on contracts subject to redetermination. While some of the voluntary or jurisdiction-directed refunds may not be required by the explicit policy terms, the principle of reversing premium in the same way that the premium was originally recognized continues to apply. The liability for voluntary health premium refunds attributable to COVID-19 and which are not required under the policy terms shall be recognized in aggregate write-ins for other liabilities.**

11.12. Reporting the voluntary or jurisdiction-directed refund as an expense is not consistent with statutory accounting guidance and would inappropriately present the expense ratios in the statutory accounting financial statements. Reporting the refund as an expense, or any other method besides a decrease to premium, would be considered a permitted or prescribed practice and shall be disclosed as required by SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures:

a. Reporting the refunded amounts as a miscellaneous underwriting expense is not consistent with the underwriting expense description. This reporting option is inconsistent with the characterization of the amount as a return of premium.

b. Reporting the refunds as premium balances charged off (e.g., bad debt expense) is inconsistent with guidance in SSAP No. 53, paragraph 14, on earned but uncollected premium. It is also inconsistent with the annual statement instructions as the amount is not an uncollectible amount, but rather a voluntary choice by the reporting entity to reduce the amount charged.

**Issue 2: How to Account for Refunds Required Under the Policy Terms**

12.13. While most of the premium refunds are voluntary or jurisdiction-directed and not required under the policy terms, some policies have terms that require an adjustment to premium based on either the level of exposure to insurance risk or the level of losses. If the policy terms change the amount charged, existing guidance in SSAP No. 53, SSAP No. 54 or SSAP No. 66 continues to apply:

a. SSAP No. 53 provides guidance for policies in which the premium amount is adjusted for changes in the level of exposure to insurance risk. This is often seen in commercial lines of business such as workers’ compensation. The guidance notes that audits often occur after the policy term or mid-term in the policy. SSAP No. 53 refers to the adjustment to premium (either due to the customer or to the insurer) as earned but unbilled (EBUB) premium. SSAP No. 53 requires such adjustment to premium to be made immediately either through written premium or earned premium. SSAP No. 53 also requires recognition of the related liabilities and expenses such as commissions and premium taxes based on when the premium is earned.

b. SSAP No. 54 provides guidance for policies subject to redetermination in which the premium is subject to adjustments by contract terms. This is commonly seen in federal and state groups. The guidance notes that estimates are based on experience to date and premium adjustments are estimated for the portion of the policy that has expired. Accrued return premiums are recorded as a liability with a corresponding entry to written premium. Refunds required under the policy terms
would continue to be reported as retrospective or redetermination premium liabilities if applicable.

b-c. SSAP No. 66 provides guidance for policies whose terms or legal formulas determine premium based on losses. SSAP No. 66 references other applicable statements based on contract type for the initial accrual of premium. Estimates of premium adjustments are accrued based on activity to date and result in immediate adjustments to premium. SSAP No. 66 guidance specifies the corresponding annual statement reporting lines for different entity types.

Issue 3: How to Account for Rate Reductions

13.14. Some reporting entities are offering rate reductions instead of premium refunds. Some of these rate reductions provide one-time price decreases to future payments on in-force policies. Other reporting entities have provided offers of rate reductions on future renewals. Some of the offers for future rate reductions are only applicable to inforce policyholders as of a specified date. Some reporting entities have offered one-time rate reductions for future renewals for both existing and new policyholders for 2020.

a. Rate reductions on in-force business, shall be recognized as immediate adjustments to premium.

b. Rate reductions on future renewals shall be reflected in the premium rate charged on renewal. This is because it is outside of the policy boundary to require the accrual before contract inception. While the amount of future rate reduction can be estimated, it is not a change to existing policy terms and policyholders are not obligated to renew at the reduced rate, therefore, payment of the amount is avoidable. Such amounts shall be disclosed as discussed in Issue No. 5.

Issue 4: How to Account for Policyholder Dividends

14.15. SSAP No. 65—Property and Casualty Contracts, paragraph 46 requires that dividends to policyholders immediately become liabilities of the reporting entity when they are declared by the board of directors and shall be recorded as a liability.

15.16. The Working Group noted that policyholder dividends are typically only provided on participating policies or policies issued by non-stock companies, such as mutual entities and other corporate entity types in which profits are shared with policyholders.

16.17. Research during the development of this item identified that a small number of jurisdictions have legal restrictions which only allow policyholder dividends to be provided after the expiration of the policy period for which the dividend was earned. This interpretation only addresses policyholder dividends which are permitted by the applicable jurisdiction.

17.18. The property and casualty annual statement blank provides specific reporting lines for policyholder dividends including, but not limited to a liability line and a line in the income statement and statement of cash flow. For those entities whose policies are participating or whose corporate shell type and/or membership structure allow for policyholder dividends, the accounting for policyholder dividends is unchanged by this interpretation.

18.19. SSAP No. 72—Surplus and Quasi-Reorganizations, paragraph 22 requires disclosure of dividend amounts and dates. In addition, SSAP No. 65, paragraph 47 also requires disclosure of dividend restrictions. The disclosures from both statements are in annual statement Note 13.
Capital and Surplus, Dividend Restrictions and Quasi Reorganizations. This interpretation does not change the policyholder dividend disclosure or reporting but provides additional guidance that such policyholder dividends issued in response to COVID-19 decreases in activity shall also be disclosed as discussed in Issue 5.

**Issue 5: Where to Disclose Refunds, Rate Reductions and Policyholder Dividends Related to COVID-19 Decreases in Activity**

**49-20.** There are various places in the notes to the statutory annual statement where disclosures of various aspects of premium refunds, premium reductions or policyholder dividends are required. This interpretation does not recommend changes to those existing disclosures. This interpretation does, however, recommend a consistent annual statement disclosure for all such amounts to allow for comparable disclosures.

**20-21.** SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items requires disclosure of the nature and financial effects of each unusual or infrequent event or transaction. Gains or losses of a similar nature that are not individually material shall be aggregated. This disclosure shall include the line items which have been affected by the event or transaction considered to be unusual and/or infrequent. This disclosure is currently required to be reported in annual statement Note 21A. (Reporting entities shall maintain jurisdiction-specific information to be made available upon request from department of insurance or revenue regulators.)

22. To allow for aggregate, consistent assessment, the Working Group came to a tentative consensus that all COVID-19 inspired premium refunds, rate reductions, and policyholder dividends shall be disclosed as unusual or infrequent items in annual statement 21A. This disclosure is in addition to other existing disclosures on various items related to the policyholder payments. For clarification, refunds required under policy terms in-force prior to the federal declaration of emergency for the COVID-19 pandemic as discussed in paragraph 13 (i.e., policies that require an adjustment to premium based on either the level of exposure to insurance risk or the level of losses) are not required to be aggregated in disclosures of COVID-19 inspired premium refunds, rate reductions and policyholder dividends. Policies whose terms were modified after the declaration of emergency in response to COVID-19 are required to disclose the COVID-19 inspired premium refunds, rate reductions and policyholder dividends.

**INT 20-08T Tentative Consensus**

21-23. The Working Group reached a tentative consensus to prescribe statutory accounting guidance for insurance reporting entities providing refunds in response to COVID-19. Pursuant to this consensus:

a. Reporting entities that provide voluntary or jurisdiction-directed refunds which are not required under the policy terms shall follow the guidance in paragraphs 8-12 of this interpretation. This guidance stipulates that such refunds shall be recognized as a reduction of premium. Refunds that are recognized in a different manner (e.g., as an expense), shall be considered a permitted or prescribed practice pursuant to SSAP No. 1.

b. Reporting entities that provide refunds in accordance with insurance policy terms shall follow paragraph 42-13 of this interpretation. This guidance indicates that existing statutory accounting principles in SSAP No. 53, SSAP No. 54 or SSAP No. 66 shall be followed as applicable.
c. Reporting entities that provide rate reductions shall follow paragraph 13-14 of this interpretation. This guidance provides direction based on whether the rate reduction is for in-force or future policies.

d. Reporting entities that provide policyholder dividend shall follow the existing guidance for policyholder dividends which is summarized in paragraphs 14-15-18 19 and in addition, shall complete the disclosures described in paragraphs 19- 24-20-22.

e. This interpretation, paragraphs 19-20-22 indicates that reporting entities shall continue to comply with all statutory accounting disclosure requirements, but also requires that all premium refunds, rate reductions and/or policyholder dividends provided because of the decreased activity due to COVID-19 shall be aggregated and reported in Note 21A.

22-24. The Working Group noted that premium taxation requirements vary by jurisdiction. Taxation is determined by the jurisdiction where the premium is written/returned to the policyholder according to the laws of that jurisdiction.

23-25. This interpretation will be automatically nullified on January 1, 2021 and will be included as a nullified INT in Appendix H – Superseded SSAPs and Nullified Interpretations in the “as of March 2021” Accounting Practices and Procedures Manual.

INT 20-08T Status

24-26. Further discussion is planned.
Maintenance updates provide revisions to the *Accounting Practices and Procedures Manual*, such as editorial corrections, reference changes and formatting.

<table>
<thead>
<tr>
<th>SSAP/Appendix</th>
<th>Description/Revision</th>
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<tbody>
<tr>
<td>SSAP No. 2R</td>
<td>1) Paragraph 9: Update reporting line instructions for qualified cash pools.</td>
</tr>
<tr>
<td></td>
<td>2) Paragraph 14: Correct verbiage and sentence structure for ease of readability.</td>
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**Recommendation:**
NAIC staff recommends that the Statutory Accounting Principles (E) Working Group move this agenda item to the active listing, categorized as nonsubstantive, and expose editorial revisions, as illustrated below.

**SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments**

**Staff Note:** A separate agenda item is being proposed to clarify that “disclosure” of cash equivalents that remain on schedule E2 for more than one consecutive reporting period. This item will also clarify that this disclosure is satisfied by a code on the investment schedule. (These revisions are in line with comments received during the May 20 conference call but go beyond editorial revisions.)

9. Cash pooling is a technique utilized by some companies under common control by which several entities’ cash accounts are aggregated for numerous purposes, including liquidity management, optimizing interest or investment returns and reducing investment or banking transaction fees. Cash pools can have numerous functions and structures; however, only those that have obtained domiciliary regulator approval and meet the following requirements are in scope of this statement.

a. Members or participants in the pool are limited to affiliated entities as defined in SSAP No. 25— *Affiliates and Other Related Parties*.

b. Investments held by the pool are limited to non-affiliated entities investments (non-affiliated to the insurance reporting entity).

c. The pool must permit each participant to withdraw, at any time, cash up to the amount it has contributed to the pool. Each participant must own an undivided interest in the underlying assets of the pool in proportion to the aggregate amount of cash contributed. All affiliates’ interests in the pool shall be of the same class, with equal rights, preferences, and privileges. All membership interests shall be fully paid and non-assessable and shall have no preemptive, conversion or exchange rights. The liability of a participant’s debts and obligations of the pool shall be limited to the amount of its contributions and no participant shall be obligated to contribute money to the pool for any reason other than to participate in the pool’s investments. Additionally, participants shall not cover the debits or credits of another participant (commonly referred to as notional cash pooling).

d. A reporting entity shall receive monthly reports from the pool manager, which identifies the participant’s investment (share) in the cash pool and the dollar value of its share of cash, cash equivalents and short-term investments. The reporting entity shall report their total balances in the cash pool on Schedule E – Part 2, utilizing the line number specified in the Annual Statement Instructions for “Other Cash Equivalents.” The reporting entity shall independently if the investments would have qualified as cash, cash equivalents or short-term investments had the entity independently acquired the investments. To the extent the pool holds investments that do not meet the definition of cash, cash equivalents, short-term investments, the pool does not qualify within scope of this statement.
14. Short-term investments are investments that do not qualify as cash equivalents with remaining maturities (or repurchase dates under reverse repurchase agreements) of one year or less at the time of acquisition, excluding derivatives and those investments specifically classified as cash equivalents as defined in this statement. Short-term investments can include, but are not limited to, bonds, commercial paper, reverse repurchase agreements, and collateral and mortgage loans, which meet the noted criteria. Short-term investments shall not include investments specifically classified as cash equivalents as defined in this statement, certificates of deposit, or derivatives. Regardless of maturity date, derivative instruments shall not be reported as short-term investments and shall be reported as derivatives on Schedule DB.

Status:

g:\frs\data\acctg\3. national meetings\a. national meeting materials\2020\6-15-20\2-20-16ep - ap&p editorial process - june 2020.docx
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<td>- INT 20-08T – COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends</td>
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DATE:       June 5, 2020

TO:         Mr. Dale Bruggeman, Chairman
            Statutory Accounting Principles (E) Working Group

FROM:       Kathy Belfi, Director of Financial Regulation for Connecticut

SUBJECT:    INT 20-08T – COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends

Dear Mr. Bruggeman:

Thank you for the opportunity to comment on INT 20-08T.

Connecticut supports the "tentative consensus" points related to reduction of premium.

Due to COVID-19, there has been changes in insured exposures resulting in lowering of premiums (causing premium refund payments). Current statutory guidance requires upon return of premium to policyholders, earned premiums should be reduced.

We agree that if a company reports the refund as an expense it should be disclosed as a permitted or prescribed practice.

Thank you for your consideration.

Kathy Belfi

cc:         Julie Gann, NAIC Staff
            Robin Marcotte, NAIC Staff
            William Arfanis, Connecticut Insurance Department
            Michael Estabrook, Connecticut Insurance Department
June 1, 2020

Dale Bruggeman, Chair  
Statutory Accounting Principles (E) Working Group  
Sent via email  

Re: INT 20-08T: COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends.

Dear Mr. Bruggeman,

The Illinois Department of Insurance (“IDOI”) has reviewed this item and would like to provide comments.

The IDOI is the lead state regulator for several large insurance groups that write auto and other lines of business addressed by INT 20-08T. It is the IDOI’s position that there should be flexibility regarding the accounting treatment for monies given back to policyholders related to the current pandemic conditions. Particularly, if an insurer has filed and received approval for policy endorsements related to such payments, then the IDOI believes those payments would be reported as an expense in their Statement of Operations if the policy endorsement would allow as such. In our opinion, the most important reporting consideration for these payments is that adequate disclosure is provided in the financial statement, and that requirement appears to already be included in the INT as written.

Please let us know if there are further questions.

Sincerely,

Eric Moser, AIAF  
Assistant Deputy Director, Financial Analysis  
Illinois Department of Insurance
June 5, 2020

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: INT 20-08T: COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends

Dear Mr. Bruggeman:

The Allstate Corporation (Allstate) appreciates the opportunity to comment on the re-exposure of Statutory Accounting Principles Working Group (SAPWG) INT 20-08T, COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends (INT) which addresses the accounting for certain payments to policyholders due to reduced economic activity as a result of COVID-19.

While Allstate supports the content of the INT as it relates to premium refunds, rate reductions, and policyholder dividends we believe the scope of the INT is incomplete and should be expanded to include accounting and reporting guidance for discretionary payments provided to policyholders pursuant to policy endorsements that were not designed to be and are not premium refunds, rate reductions, or policyholder dividends. Moreover, because discretionary policyholder payments provided through policy endorsements were designed to meet the same objective (i.e., providing policyholder relief due to COVID-19 circumstances), albeit in a different manner, we believe the accounting and classification should be addressed in the same INT as opposed to a separate INT or through a separate regulatory process.

In response to the COVID-19 pandemic, insurers designed and implemented a variety of programs to provide payments to policyholders in recognition of decreased vehicle usage and claim experience due to the presence of shelter in place (SIP) orders that existed in many states throughout the country. In the case of Allstate, we designed a program to provide discretionary payments to policyholders in the most practically expedient manner and without impacting non-policyholder stakeholders; e.g., agents and states in which we conduct business.

While certain insurers designed and executed policyholder payment programs attributable to the impact of SIP orders in the form of premium refunds, rate reductions, and policyholder dividends, others, including Allstate, designed and executed programs in the form of discretionary payments to policyholders made pursuant to policy endorsements. After thoughtful consideration of the alternatives, Allstate utilized the filing of policy endorsements as opposed to a premium refund or rate reduction (policyholder dividends was not an available option) to expedite the payment process and because we did not have the ability to re-underwrite the underlying risks and re-determine the amount of premium we would have charged under SIP conditions. Specifically, we did not possess the actuarial data necessary to complete the full re-underwriting exercise we believe would have been necessary to support a premium refund or rate reduction. Moreover, while we had information about reduced miles driven, we did not possess reliable information to predict the future path of the pandemic or its impact.
on accident frequency which is influenced by driving habits (including speed, distracted driving, etc. for miles driven), incidence of loss, and loss severities.

Notwithstanding our inability to re-underwrite our policyholders and adjust premiums, we possessed enough information to provide relief to our policyholders in the form of discretionary payments. Our ultimate decision to make discretionary payments pursuant to policy endorsements considered both expediency of execution and our desire to not impact non-policyholder stakeholders.

By way of this letter, our intent is to clarify that while the scope of INT 20-08T is sufficient as it relates to policyholder relief programs executed in the form of policyholder refunds, rate reductions and policyholder dividends, it needs to be expanded to incorporate the accounting and reporting for policyholder relief programs executed in the form of discretionary policy payments provided pursuant to policy endorsements.

Following is a more complete description of Allstate’s policyholder benefit program followed by a description of how we believe our program should be incorporated into INT 20-08T.

I. DESCRIPTION OF ALLSTATE’S POLICYHOLDER RELIEF PROGRAM

Basis of Payments

In March 2020, Allstate recognized a decline in miles driven by policyholders and claim frequency as a result of SIP orders instituted across the country. At the same time, we observed the financial hardship experienced broadly by individuals subject to SIP orders. As a result, and despite not possessing sufficient actuarial information to re-underwrite our auto book of business and execute a premium refund or rate reduction, we relied on available anecdotal information about reduced miles driven and assumed that would result in lower realized accident frequencies in designing a program that allowed for discretionary payments to policyholders. Consistent with our underlying rationale that reduced miles would produce reduced accident frequency we moved forward with our program and began providing relief in the month of March 2020, the month in which most SIP orders began. In addition, relief was provided to auto policyholders of record in April and May of 2020 who met certain criteria. The program was further extended to policyholders of record for June of 2020. Allstate’s SIP payment program was not extended to commercial auto policyholders or motorcycle policies where a reduction in claim activity was not anticipated.

Tool Used to Permit Policyholder Payments – Policy Endorsement

Allstate considered a range of options to provide payments to policyholders and ultimately designed and executed a policy endorsement to provide for the discretionary payments to policyholders as it (a) was the most practically expedient alternative and (b) was the alternative that did not impact other key non-policyholder stakeholders (i.e., agents and the states in which we do business).

Form of Allstate Policy Endorsement

“Special Shelter-in-Place Payback Endorsement – AU14923

This endorsement authorizes a payment to you. This payment is in response to the extraordinary circumstances surrounding the Covid-19 pandemic.

Any payment is not guaranteed. We have sole discretion for determining the amount and frequency of payment, if any. We will determine the method of distributing any
payment. Except as provided in this endorsement, all terms and conditions of the policy apply and remain unchanged.”

**External Communications to Policyholders**

“The purpose of the endorsement is to authorize and facilitate discretionary payments to policyholders. With insurance costs going down, Allstate is working to do what’s right for policyholders.

The payment recognizes the shelter orders are impacting miles driven and the number of auto accidents. Although customers are driving less and in fewer accidents, the full impact of the pandemic remains uncertain and this payment represents our best estimate of what we are seeing. We also are monitoring the impact on repair costs, premiums being received, customer retention, coverage levels and investment returns. It is too early to determine the full impact of all these factors on insurance rates. The payback is a way to get money back to consumers quickly before the full impact of the pandemic is sorted out.

The payback will equal 15% of a customer’s March and April auto premiums and will be calculated on a per policy basis, subject to a $10 minimum. We expect each monthly payment to average close to $30 per policy. There are no prorated calculations for purposes of this payback since the payback is a function of the total premium (calculated to be monthly) as of 3/31/2020 and 4/30/2020 regardless of the policy effective date or any endorsement activity. Customers with Allstate’s pay-per-mile product will be included.

Although much uncertainty remains over the full impact of the pandemic on all of our costs, we are filing the endorsement to remain in effect for 180 days to provide flexibility for future payments, if appropriate. The payments are being treated as an underwriting expense, so the company’s rating plan is not impacted and does not require modification as a result of this filing. Furthermore, this payment does not involve a projection of future premium.”

**II. ACCOUNTING FOR ENDORSEMENT-BASED DISCRETIONARY POLICYHOLDER PAYMENTS**

In determining the accounting for SIP payments for both statutory and GAAP, Allstate assessed whether the payments constitute and should be classified as either (1) a loss/loss adjustment expense, (2) a reduction of premium under the associated contracts or (3) a policy expense.

1) **Classification as a loss/loss adjustment expense** – a loss under the contract would exist only to the extent there is an indemnifiable insured event. We do not believe SIP payments represent losses or loss adjustment expenses as the payments do not relate to a specific indemnifiable loss event under the contract nor do the payments relate to a change in the level of insurance risk. Additionally, the policy endorsements do not create an indemnifiable loss event but rather a different type of policy payment that is more akin to an expense.

2) **Classification as a premium adjustment** – Allstate considered and rejected classification of SIP payments as a premium adjustment primarily because no changes were made to filed rate plans in place throughout the U.S. Allstate considered, but rejected, the idea of filing new rate plans because (a) it would have required a lengthy process and would not have
achieved our objective of getting economic relief to our policyholders in an expedient manner, and (b) as our policies cover six months we did not believe we possessed the required visibility to file modified rate plans as we lacked sufficient clarity on how the policies will perform beyond the next one to two months once the SIP orders are lifted and a “new normal” emerges. Allstate believes premium classification is only appropriate in situations where a premium refund is required under policy terms or a rating plan change is filed. In lieu of a required premium refund under policy terms or filing a new rating plan, the appropriate classification of the newly created contract benefit is as a policy expense.

3) **Classification as an expense** – expenses related to insurance contracts are those typically paid or incurred in connection with originating and servicing the contract. Notwithstanding the preceding, Allstate views payments under the endorsement, while made to the policyholder, are fundamentally different than loss/loss adjustment expenses attributable to “indemnifiable contract losses” and as such it is appropriate to classify the incremental amount paid to the customer as a policyholder expense for GAAP and as an “other underwriting expense” for Statutory.

**GAAP** - Given the unique nature of the “expense” Allstate presented SIP payments on a separate line in the GAAP income statement to distinguish the payments from both losses and typical underwriting expenses. We believe that even if presented in a separate line item, SIP payments would be included in the determination of underwriting income and would be a component of the expense ratio.

**Statutory** – Given the unique nature of the “expense” for discretionary payments authorized under modified contract terms and which do not relate to a change in the level of insurance risk, Allstate relied on the underlying tenets of SSAP 70, *Allocation of Expenses*. Under SSAP 70, allocable expenses for property and casualty insurance companies shall be classified into one of three categories in the Underwriting and Investment Exhibit: loss adjustment expenses (classification assessed in 1) above), investment expenses (not applicable) or other underwriting expenses. Other underwriting expenses are defined as allocable expenses other than loss adjustment expenses and investment related expenses.

**Conclusion**

Allstate recommends that INT 20-08T be expanded to include a classification alternative for policyholder payments that are not premium refunds, rate reductions or policyholder dividends. The basis, form, and substance of Allstate’s policyholder payments related to the reduced personal lines auto frequency due primarily to SIP orders instituted as a result of COVID-19, were designed to facilitate expeditious state approval and implementation to provide relief to policyholders in the form of discretionary policyholder payments. When designing our policyholder relief program, we considered impacts on a range of stakeholders including our agents and the states in which we do business and determined that discretionary policyholder payments would not impact agent commissions or premium tax revenues that states rely on to meet the needs of their constituents.

Comment letters submitted by other insurers to the original exposure of INT 20-08T described policyholder payment programs similar to Allstate’s and requested the INT be expanded to include a classification for discretionary policyholder payments in the form of an underwriting expense. In addition, the comment letter from Interested Parties to the initial exposure of INT 20-08T included suggested revisions to the original INT to reflect the inclusion of new Issue 4 to describe the accounting
for policyholder payments which are not premium refunds, rate reductions or policyholder dividends and which result from filing memorandums and policy endorsements as an underwriting expense. Allstate supports the suggested revisions to INT 20-08T related to new Issue 4.

The Allstate Corporation filed its Q1 2020 Form 10-Q which reflects as illustrated in the attached Appendix I, a new line item in the income statement for policyholder payments created for the material, non-recurring expense related to SIP orders. The importance of the GAAP treatment is that Statutory accounting is intended to follow GAAP except in those situations where a departure from GAAP is necessary; we do not believe this is one of those areas of necessary departure. We believe the Statutory treatment should be consistent with GAAP in terms of reporting as an expense; in the case of Statutory accounting as an “other underwriting expense”. The Allstate insurance companies that computed and accrued SIP payments for March 2020, classified those expenses in their first quarter statutory filings in line 4, Other underwriting expenses incurred in the Statement of Income (corresponding classification at year-end in the Insurance Expense Exhibit is line 24, Aggregate write-ins for miscellaneous operating expenses, column 3 General Expenses under the heading of Other Underwriting Expenses) and disclosed the nature of the SIP payments and expense classification in Note 21A – Unusual or Infrequent Items. We believe the consistency in disclosure between all methods of providing policyholder relief will allow regulators to view the impact of these programs on a consistent basis regardless of how they were executed.

Please do not hesitate to contact me to discuss the contents of this letter.

Kevin Spataro
Senior Vice President, Corporate Accounting Research
kspataro@allstate.com

Copies to:
DiAnn Behrens - Director, Corporate Accounting Research
Tom Helsdingen - Director, Statutory Reporting
Julie Gann, NAIC Staff
Robin Marcotte, NAIC Staff
## Part I. Financial Information
### Item 1. Financial Statements

The Allstate Corporation and Subsidiaries
Condensed Consolidated Statements of Operations (unaudited)

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<td><strong>Revenues</strong></td>
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<td>Property and casualty insurance premiums</td>
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<td>Life premiums and contract charges</td>
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<td>Other revenue</td>
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<td>Net investment income</td>
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<td>Realized capital gains (losses)</td>
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<td><strong>Total revenues</strong></td>
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<td><strong>Costs and expenses</strong></td>
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<tr>
<td>Property and casualty insurance claims and claims expense</td>
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<td>Shelter-in-Place Payback expense</td>
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<td>Interest credited to contractholder funds</td>
<td>132</td>
</tr>
<tr>
<td>Amortization of deferred policy acquisition costs</td>
<td>1,401</td>
</tr>
<tr>
<td>Operating costs and expenses</td>
<td>1,399</td>
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<tr>
<td>Pension and other postretirement remeasurement (gains) losses</td>
<td>318</td>
</tr>
<tr>
<td>Restructuring and related charges</td>
<td>5</td>
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<tr>
<td>Amortization of purchased intangibles</td>
<td>28</td>
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<tr>
<td>Interest expense</td>
<td>81</td>
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<tr>
<td><strong>Total costs and expenses</strong></td>
<td>9,416</td>
</tr>
<tr>
<td>Gain on disposition of operations</td>
<td>1</td>
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<tr>
<td><strong>Income from operations before income tax expense</strong></td>
<td>661</td>
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<tr>
<td>Income tax expense</td>
<td>112</td>
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<tr>
<td><strong>Net income</strong></td>
<td>549</td>
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<tr>
<td>Preferred stock dividends</td>
<td>35</td>
</tr>
<tr>
<td><strong>Net income applicable to common shareholders</strong></td>
<td>$513</td>
</tr>
<tr>
<td><strong>Earnings per common share</strong></td>
<td></td>
</tr>
<tr>
<td>Net income applicable to common shareholders per common share - Basic</td>
<td>$1.62</td>
</tr>
<tr>
<td>Weighted average common shares - Basic</td>
<td>317.4</td>
</tr>
<tr>
<td>Net income applicable to common shareholders per common share - Diluted</td>
<td>$1.59</td>
</tr>
<tr>
<td>Weighted average common shares - Diluted</td>
<td>322.4</td>
</tr>
</tbody>
</table>

See notes to condensed consolidated financial statements.
June 4, 2020

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: INT 20-08T — COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends

Dear Mr. Bruggeman:

The Cincinnati Insurance Company ("Cincinnati") appreciates the opportunity to provide comments for consideration on the Statutory Accounting Principles Working Group ("SAPWG") re-exposed interpretation, INT #20-08T: COVID-19 Premium Refunds, Rate Reductions, and Policyholder Dividends ("the Tentative INT"). Cincinnati’s property casualty group is among the 25 largest groups in the United States, based upon net written premium.

Cincinnati provided comments during the original exposure period of May 5, 2020 through May 14, 2020. During this second exposure period of May 21, 2020 through June 5, 2020, our points remain relevant and we reiterate our support to modify the Tentative INT to allow relief payments to be accounted for and reported as expense where companies utilized rule filings or policy endorsements to allow these payments. Our position has also been communicated directly to the APCIA and interested parties.

Our support for recognizing as an expense, those relief payments made in relation to, at least, non-participating policies without premium refund terms, include the following points and premium refund contrasts:

- The payments were intended to provide immediate financial relief to policyholders, regardless of existing contractual obligations, on the premise of companies sharing their anticipated favorable loss experience with business segments of their policyholders.
- For participating policies, sharing favorable loss experience is accomplished through payment of policyholder dividends.
- Relief payment amounts were decided without having actual loss experience data, regarding the ultimate impact of federal and state shelter-in-place orders.
  - Cincinnati did not utilize rate filings to provide relief payments.
  - Premium adjustments, whether contractual refunds or by rate filings, include consideration of actual loss experience, which is not completely available in this situation.
  - Actual loss experience data, when available, may reveal an increase in accident severity from fast driving and an increase in distracted driving accident occurrences.
  - Additionally, extended auto coverage, or waiver of policy restrictions, to allow utilization of personal automobiles for deliveries has been called for in some states.
- Even if companies expressed the relief payment amount as a percentage of premium, that does not make it a premium refund. Premiums are commonly used in calculation methodologies such as assessments, surcharges, and allocation of expenses.
- Cincinnati revised the impacted policyholder contracts through rule filings to states, explicitly stating payments are being treated as an expense, and provided company letters to all impacted policyholders, allowing this payment benefit. No state denied Cincinnati’s rule filing.
- Cincinnati’s relief payment plan, and the relief payment plan of other companies, are more characteristic of company expenses, such as policyholder dividends, policyholder benefits, assessments, surcharges, guaranty funds, and donations.
• As an expense, companies bear the majority of the financial burden for the payment.
  o As a reduction of premium, the financial burden of relief payments would be shared by further exacerbating revenue shortfalls
    ▪ For state governments through reduced premium taxes and commission related income taxes.
    ▪ For small businesses and individuals through commission claw-backs.
    ▪ If states intend to include relief payment amounts in premium tax calculations or companies intend to otherwise compensate their producers, these actions would further support relief payments are an expense.
• Reporting the relief payments as an expense brings an advantage to analyzing insurance company results as it will impact only the expense ratio component of the combined ratio, similar to policyholder dividends impacting only the policyholder dividend ratio component.
  o Reporting the payments as a premium refund would distort analysis of insurance company results as it will impact all components of the combined ratio: loss, dividend, and expense ratios.
  o It seems counterintuitive that the relief payments should impact, negatively, the loss ratio, given that the premise of the relief payment is for companies to share their anticipated favorable loss experience.
• These payments are the result of an unusual and infrequent event that would be disclosed in financial statements and excluded from future rate filing consideration.
• Cincinnati acted with a sense of urgency in light of the pandemic, notified states of the company’s relief payment plans, and then proceeded to act, in good faith, in accordance with those plans, absent any state objections.
• In addition to these payments to our policyholders for immediate financial relief, actual premium relief could come in the future through normal rate reviews and consideration of actual loss experience.

In conclusion, Cincinnati supports modifying the Tentative INT, either by expanding Issue 1 or adding a new issue, to allow relief payments to be accounted for and reported as expense in situations where companies utilized rule filings or contract endorsements to allow for these relief payments. We do not propose that expense treatment is the only answer, but rather, it is appropriate depending on the relief payment program communicated by each company in their state filings. We respect that other companies may have utilized payment methods different from ours, leading to other accounting treatment decisions. Ultimately, each company would consistently provide accounting transparency through disclosure of their handling of this unusual and infrequent event.

Sincerely,

Michael J. Sewell
Chief Financial Officer
Senior Vice President

CC: Julie Gann, NAIC Staff
    Robin Marcotte, NAIC Staff
    Theresa Hoffer, Senior Vice President and Treasurer
    Andrew Schnell, Assistant Vice President
    James Sims, Assistant Treasurer
    Rachel Underwood, Technical Accounting Manager
June 3, 2020

NAIC Statutory Accounting Principles Working Group
Attn: Dale Bruggeman, Chair
Via e-mail to: Julie Gann  JGann@naic.org

Re: Proposed INT 20-08T: COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends

Dear Chairman Bruggeman,

Co-operative Insurance Companies appreciates the opportunity to comment on the items exposed by the Statutory Accounting Principles Working Group (“SAPWG”) on May 5, 2020. Co-operative Insurance Companies is a mutual co-operative that was established in 1915 and is writing personal and commercial business in Vermont and New Hampshire.

Like many insurance companies, we’ve seen some initial favorable loss development on our personal auto book of business as a result of the various stay at home orders issued by the states. And like many insurance companies, we made the decision to provide some financial reprieve for our personal auto policyholders and issued a one-time refund earlier this month. The Company views this refund like a policyholder dividend, with the difference being that it was not issued to all policyholders based on profits. As such, we have taken the view that the one-time refund should be treated as an expense for accounting purposes. To treat it as a reduction in premiums, as INT 20-08T suggests given our fact pattern, places an undue burden on our agents and the state as our intent was not to impact agent commissions or state premium tax liabilities.

Furthermore, in reading comment letters from other parties, Co-operative Insurance Companies agrees with the perspective that The Cincinnati Insurance Companies laid out in their letter dated May 20, 2020. Some states mandated refunds and most strongly encouraged it, so why wouldn’t companies account for this like a state assessment which would be recorded as an expense. As Andrew Schnell of The Cincinnati Insurance Companies stated, “If treated as premium, all aspects of the combined ratio, including the loss ratio, are impacted, which does not seem appropriate.

Given that the premise of the payment request is for companies to share their anticipated favorable loss experience, it seems counterintuitive that loss experience ratios be negatively impacted by the payment.”

We hope that the SAPWG will take our perspective into account before adopting the proposed interpretation and revise it to allow for accounting of this unusual circumstance as an expense without individual companies having to seek approval for a permitted practice from their state of domicile.

Best Regards,

Tamaron Loger, CFE, CPA, MAFM
VP – Finance
Co-operative Insurance Companies
June 5, 2020

Mr. Dale Bruggeman, Chair
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: INT 20-08T – COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends

Dear Mr. Bruggeman:

Grange Insurance Company (“Grange”) appreciates the opportunity to provide comments for consideration on the exposure drafts released for comment by the Statutory Accounting Principles Working Group (“SAPWG”) on interpretation exposure, INT #20-08T: COVID-19 Premium Refunds, Rate Reductions, and Policyholder Dividends (“the Tentative INT”). Grange’s property & casualty group is among the 75 largest insurance groups in the United States of America, based upon our approximately $1.3 billion in net written premium.

The Tentative INT contemplates classifying policyholder relief payments in reaction to the current COVID-19 pandemic either as a reduction to premiums written or as policyholder dividends and provides proposed statutory accounting and reporting guidance accordingly. Grange’s comments will primarily focus on rationale to revise the Tentative INT to allow reporting these payments as other underwriting expenses due to other fact patterns that were not contemplated by the original policy exposure. Grange’s position is based on the following logic:

- The payments were intended to provide immediate financial relief to our policyholders regardless of our contractual obligations.
- The payments were made voluntarily in our operating states.
- Grange revised the impacted policyholder contracts through filing policy endorsements with certain states and provided company letters to all impacted policyholders to provide the contractual language needed to allow such payments.
- Grange did not file for premium rate changes in any state as a result of issuing these payments to our policyholders. These payments are the result of an unusual and infrequent event that will be excluded from future rate filing considerations.
- Loss experience data was mostly unknown at the time of announcing and issuing the relief payments during the 2nd week of April, regarding the ultimate impact of federal and state shelter-in-place orders. Loss experience improvements were estimated for the personal auto book in total based on the expectation of lower miles being driven during April and May.
- Formal policyholder dividends were not a viable option for Grange as dividends must be paid to all policyholders, not just the lines of business expected to be favorably impacted by the shelter-in-place orders. Also, due to required approvals, dividends would not be the most immediate payment option.
- These payments are more in line with a one-time company expense, such as a policyholder dividend.
• When we looked for relative consistency in reporting treatment for payments made outside of contractual premium refunds, categorizing these payments as an expense was the closest option to policyholder dividend reporting.

• Classification as a premium refund will have unintended ancillary financial consequences, such as reducing premium taxes to state agencies. Like many of our competitors, we assured our independent agent partners, many of which are small businesses, that their commissions would not be impacted by these payments. Accordingly, commission ratios will be inflated for this calendar year if reporting as a premium refund is required.

• Reporting the payments as an expense brings an advantage to analyzing insurance company results as it will impact only the expense ratio component of the combined ratio.

• Reporting the payments as a premium refund would distort analysis of insurance company results as it will impact all components of the combined ratio: loss, dividend, and expense ratios.

• Premium adjustments, whether contractual refunds or by rate filings, include consideration of actual loss experience, which was not completely available in this situation.

• In addition to these payments to our policyholders for immediate financial relief, which we view as a one-time expense, actual premium relief could come in the future through normal rate reviews and consideration of actual loss experience.

• Insurance companies acted with a sense of urgency in light of the unprecedented scale of the pandemic, notified states of company payment plans, and then proceeded to swiftly act, in good faith, in accordance with those plans, absent any state objections. To that point, Grange issued nearly 340,000 relief payments to our policyholders during the last week of April and first week of May.

In light of the COVID-19 pandemic, regulators from a majority of states issued a number of bulletins, orders, advisories, and other guidance (collectively “Bulletins”) urging property & casualty insurance carriers nationwide to provide some means of immediate financial relief to policyholders, at least in private passenger automotive lines. The principle was that insurers should provide immediate financial relief in anticipation of lower than expected loss experience arising from a decrease in driving activity due to federal and state shelter-in-place orders. Such payments needed to be applied reasonably and consistently in order to avoid being considered a rebate or unfair discrimination. Though payments by insurance carriers would be a voluntary action in most states, they were required in the State of California (Bulletin 2020-3). The issuance of Bulletins by each state, each with their own guideline nuances, created uncertainty across insurance carriers of how to accommodate making such payments within applicable compliance standards.

Grange considered the magnitude of the situation and guidance available at the time. A policyholder dividend was deemed inappropriate, at least in part, as it would take longer to enact given the required approval process. A premium refund would create unintended negative financial consequences to state agencies and our independent agent partners (absent the decision by Grange, like many carriers, to not impact agent compensation) by reducing premium amounts, thereby reducing premium taxes and commissions. Premium refunds also have the negative impact of altering comparability for all components of the combined ratio. Additionally, these policyholder relief payments were based on the expectation of profits from favorable loss experience, yet the data to determine such experience had not yet occurred. Therefore, Grange communicated to states that the payment program would be treated as an expense when policy endorsements were filed.
Grange included that we intend to review the actual loss experience results and adjust premiums on a forward looking basis as part of regularly planned future rate reviews. These one-time payments would be excluded from future rate calculations and filings. No state rejected Grange’s payment program.

In the absence of any state objections, Grange acted in accordance with the relief payment program and contends that reporting these pandemic related payments as an expense would fall within the guidance of SSAP 70 – Allocation of Expenses and be disclosed in accordance with SSAP 24 – Discontinued Operations and Unusual or Infrequent Items. INT 20-08T already includes disclosure guidance under SSAP 24. SSAP 70 – Allocation of Expenses, paragraph 3 states:

3. Allocable expenses for property and casualty insurance companies shall be classified into one of three categories in the Underwriting and Investment Exhibit as follows:

And then goes on to list the three expense categories as a) Loss adjustment expenses, b) Investment expenses, or c) Other underwriting expenses. Other underwriting expenses are defined as allocable expenses other than loss adjustment expenses and investment related expenses. Grange would report the one-time relief payments as a write-in item under other underwriting expenses.

In conclusion, Grange believes it is reasonable and appropriate for INT 20-08T to provide guidance to companies to report the relief payments as an expense. The payments achieved immediate financial relief for policyholders without unintended negative consequences for state agencies and our independent agent partners. Policyholders would see premium relief, when experience supports it, in future rates. We also believe that comparability of insurance company results is least impacted if these payments are recorded as other underwriting expenses.

Sincerely,
Brian Poling
VP - Finance
June 5, 2020

Dale Bruggeman
Chair, Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
VIA Email Transmission: jgann@naic.org

RE: INT 20-08T: COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends

Dear Mr. Bruggeman:

The following comments are submitted on behalf of the member companies of the National Association of Mutual Insurance Companies regarding the interpretive reporting guidance issued to account for premium refunds, rate reductions, and policyholder dividends. We previously submitted a comment letter on this topic to the working group on May 14, 2020 and continue to support the points raised in that letter.

The purpose of this follow-up letter is to emphasize the point that insurance company statutory financial statements should reflect the actions and approaches taken by management that best reflects company experience; therefore, in regards to accounting for premium relief measures, statutory accounting should be flexible to accommodate the various approaches taken by insurers. The COVID-19 ongoing crisis prompted many insurance companies to respond to policyholders experiencing economic hardship in various ways. While different approaches were taken, one common theme among insurers who provided premium relief to policyholders was evident, that is there was a sense of urgency to get money back to impacted policyholders.

That urgency and drive to get money back to policyholders created some obstacles for companies. Traditional methods of returning premium to policyholders was not a viable option for some carriers. For example, issuing a policyholder dividend presented challenges around timing and restrictions on issuing dividends for only single line of business contracts. Companies unable to issue a dividend but were able to provide premium relief to policyholders did so without having complete loss experience data. As part of normal business operations, a full review of actual loss experience results is conducted leading to a potential adjustment to future premiums. Without that complete analysis, some insurers view treating these payments as an “other underwriting expense” to be the cleanest method of accounting.

1 NAMIC is the largest property/casualty insurance trade association in the country, with more than 1,400-member companies representing 39 percent of the total market. NAMIC supports regional and local mutual insurance companies on main streets across America and many of the country’s largest national insurers. NAMIC member companies serve more than 170 million policyholders and write more than $230 billion in annual premiums. Our members account for 54 percent of homeowners, 43 percent of automobile, and 32 percent of the business insurance markets. Through our advocacy programs we promote public policy solutions that benefit NAMIC member companies and the policyholders they serve and foster greater understanding and recognition of the unique alignment of interests between management and policyholders of mutual companies.
Treating these payments as an “other underwriting expense” avoids certain unintended consequences for those insurers that were unable to issue a dividend or were not able to file for new rates in an expeditious fashion. If regulators agree to allow for flexibility, insurers that treat these payments as expenses will avoid impacting both the combined ratio and loss ratio. Instead it would only impact the expense ratio. Critical to understanding the profitability of a line of business, or more importantly, determining the adequacy of rates for certain lines is an analysis of the loss ratio. When you treat these payments as a return of premium, that automatically increases the loss ratio. Given the importance of rate adequacy, classifying these payments as an expense will help in determining future rates as these unusual and infrequent expenses would be excluded from future rate filings.

In addition to these unintended consequences to the financial statements, other challenges should be considered by the working group. For example, if expense treatment is not allowed for any insurer, that has the impact of reducing the amount of premium taxes paid to the state. While many insurers will treat these relief measures as a return of premium, reducing their premium tax bill, those who classify as an “other underwriting expense” will not have their premium tax bill reduced.

Finally, the statutory financial statements assist state insurance regulators with regulating the solvency of insurance companies, and the proposed INT includes a new disclosure that requires insurers to disclose all COVID-19 inspired premium refunds, rate reductions, and policyholder dividends as unusual or infrequent items in annual statement note 21A. This disclosure will help regulators understand the approaches taken by various insurance companies around providing policyholder relief, regardless of whether they classified it as a return of premium or an “other underwriting expense”. If the working group doesn’t allow for “other underwriting expense” treatment, companies will be forced to seek alternative options, such as state permitted or prescribed practices leading to additional and unnecessary disclosures. In this case, a duplicative disclosure to the new note 21A.

Thank you for your consideration of these comments. This issue is critically important to NAMIC members and their policyholders. If there are any questions, please feel free to contact me at 317-876-4206.

Sincerely,

Jonathan Rodgers
Director of Financial and Tax Policy
National Association of Mutual Insurance Companies
June 5, 2020

Mr. Dale Bruggeman
Chair, Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
VIA Email Transmission, c/o jgann@naic.org; rmarcotte@naic.org
RE: INT 20-08T: COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends

Dear Mr. Bruggeman:

The Progressive Group of Insurance Companies, on behalf of its property & casualty insurance companies, (“Progressive”) appreciates the opportunity to provide comments for consideration on the exposure draft released for comment by the Statutory Accounting Principles Working Group (“SAPWG”) on interpretation exposure, INT #20-08T: COVID-19 Premium Refunds, Rate Reductions, and Policyholder Dividends (“the Tentative INT”). Progressive is the third largest private passenger auto insurance company in the United States of America, based upon our approximately $31 billion in direct premiums written for 2019.

In response to the Tentative INT, Progressive agrees in principle with the comments previously submitted to SAPWG by The Cincinnati Insurance Company and Grange Insurance and agrees with the draft edits to the Tentative INT by the interested parties, particularly the addition of Issue 4.

Progressive’s position is based on the following:

- Where required, we filed a policy endorsement and/or rule, not a rate filing, to authorize and facilitate discretionary credits and payments to policyholders in response to the COVID-19 pandemic and was a one-time action to provide immediate relief
- The credits and payments are available to all customers with an active personal automobile policy on April 30 and/or May 31 and there was no differentiation among customers
- To ensure consistency, the credit was calculated based on 20% of the amount of premium earned by each policyholder during the months of April and/or May (for New York policyholders, the credit will be calculated based on 20% of May and/or June premiums earned, instead of April and/or May)
- To accommodate the urgency of the situation, the amount of the credits and payments was determined without specific known loss experience but was based on changes in: average miles travelled per vehicle, as derived from our usage-based insurance (UBI) program; weekly incoming claim features; and total personal auto frequency pre and post the COVID-19 restrictions period. We did not determine the credit for policyholders enrolled in our UBI program based on their individual miles driven.
- Reducing premiums in conjunction with the policyholder credits and payments would conflict with the rate filings that are currently in place and would reduce the amount of premium taxes, independent agents’ commissions, and various assessments that would be due based on these filed rates; we have never had any intention of receiving a return of premium taxes, assessments, or commissions paid
• We are not aware that there has ever been a difference between statutory accounting and generally accepted accounting principles in the United States of America (“GAAP”) as it relates to accounting for premiums. Similar to several other public company registrants, we recorded the policyholder credits and payments as an underwriting expense when we filed our April results via a Current Report on Form 8-K with the Securities and Exchange Commission (SEC) on May 20, 2020; the GAAP accounting treatment was based on the underlying premise that the credits and payments are akin to a policyholder dividend in the sense that we are, at our noncontractual discretion, returning profits that resulted from a reduction in loss costs due to the shelter-in-place orders with policyholders based on a program that was derived at the enterprise-wide level as opposed to the contract level.

• Given that our rating plans were not impacted as a result of the policy endorsement and/or rule that was filed, it would seem appropriate that the statutory accounting treatment would follow the GAAP accounting treatment.

• The intent to treat the policyholder credits and payments as an underwriting expense has been clearly disclosed in the filing memorandum issued to the states’ departments of insurance and as a separate financial statement line item in our April GAAP-basis financial statements released and filed with the SEC on May 20, 2020. We intend to show the credits as a write-in line item in our statutory financial statements. The transparency of these credits enables the users of the financial statements to understand the financial impact resulting from this issue.

The current draft of the Tentative INT only provides for the classification of policyholder relief payments in reaction to the current COVID-19 pandemic as either premium refunds, rate reductions, or policyholder dividends, and provides proposed statutory accounting and reporting guidance based on these classifications. Progressive instead supports the addition of Issue 4 as proposed in the comment letter submitted by the interested parties to allow the flexibility of accounting for these policyholder relief payments based on the underlying methodology used by the insurance companies.

Regards,

John P. Sauerland
Chief Financial Officer
The Progressive Group of Insurance Companies

cc: Mariann Wojtkun Marshall, Chief Accounting Officer, The Progressive Group of Insurance Companies
    Jeffrey A. Schenk, Deputy General Counsel, The Progressive Group of Insurance Companies
    Julie Gann, SAP Working Group, NAIC, via: jgann@naic.org
    Robin Marcotte, SAP Working Group, NAIC, via: rmarcotte@naic.org
June 5, 2020

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: INT 20-08T: COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends

Dear Mr. Bruggeman:

UnitedHealthcare appreciates the opportunity to comment on INT 20-08T, COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends. UnitedHealthcare is a diversified health care company dedicated to helping people live healthier lives and helping to make the health system work better for everyone. Over the last several months, the emergence of the COVID-19 virus has caused well-documented challenges to people, businesses and institutions across national and global health care systems. Among them is the disruption to traditional patterns of delivering health care causing related economic disruption and imbalances to the nation’s health care coverage systems.

In response to this challenge, UnitedHealthcare and many other insurers are taking actions in a variety of ways to help provide financial relief to insured members. Since the form of the financial relief varies among insurers, the accounting treatment may need to be tailored to the specific form of the relief program. Our comments are focused on the voluntary issuance of premium refunds or credits to in-force policyholders which are not outlined in the policy terms.

We agree with and support the current proposal to treat these types of premium refunds as a reduction to written and earned premium. We believe this treatment is consistent with the intent of the transaction (a return of premium to the policyholder) and is consistent with current accounting guidance for other types of premium refunds that are required by either policy terms or regulations. The timing of recognition of the premium refund should correspond with the associated coverage period impacted by the premium action. In the case of premium refunds issued for current or prior coverage periods, the recognition should be immediate. There may be situations where the premium rate is being reduced over the remaining policy period, in which case, the premium reduction may need to be recognized over the policy period impacted.

With respect to any liability required to be recognized in accordance with in SSAP No. 5R - Liabilities, Contingencies and Impairments of Assets, we believe the liability should be reported as an aggregate write-in since the premium refund was not required by policy terms, and therefore would not be accounted for as retrospective or redetermination premium liability.
While we believe the above-described reduction to premium approach is the appropriate accounting treatment, we understand other interested parties and some regulators have expressed concerns with the distortion of reported loss or operating ratios resulting from this classification. As an alternative acceptable option to address these concerns, we feel there could be some justification for treatment as bad debt expense. The election to not collect premium could result in the premiums being written off as bad debts when it is determined to be uncollectable.

We appreciate the consideration of our comments. We would be happy to discuss further and address any questions you may have.

Sincerely,

Sherry Gillespie  
Director, Regulatory Finance  
Sherry.Gillespie@uhc.com

James R. Braue  
Director, Actuarial Services  
Jim_Braue@uhg.com

CC: Randi Reichel, UnitedHealthcare  
Robin Marcotte, NAIC SAPWG Staff  
Julie Gann, NAIC SAPWG Staff
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