

June 18, 2020

Hon. Kent Sullivan
Commissioner
Texas Department of Insurance
Chair, NAIC Accounting Practices & Procedures (E) Task Force
333 Guadalupe
Austin, TX 78701

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

Dear Commissioner Sullivan:

The American Property Casualty Insurance Association (APCIA) urges the NAIC's Accounting Practices and Procedures (E) Task Force to adopt an exception to INT 20-08T's accounting treatment of relief given to policyholders during the COVID-19 pandemic for companies that disclosed to states their intention to treat the cost of their programs as expenses. APCIA is the primary national trade association for home, auto, and business insurers. APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members represent all sizes, structures, and regions—protecting families, communities, and businesses in the U.S. and across the globe.

As the INT recognizes, insurers took different methods to provide immediate relief to policyholders as a result of governmental "stay home" orders. Accounting guidance was silent as to how this relief should be treated, and in the meantime a number of insurers filed policy endorsements or manual rate filings with states and disclosed in those filings they believed it was appropriate to report related payments to existing policyholders as "other underwriting expenses". Companies acted in good faith and took the steps they felt were necessary to expedite payments to policyholders.

Subsequently, the Statutory Accounting Principles (E) Working Group took up the issue, and INT 20-08T was drafted and eventually approved after significant debate. The INT requires that payments to existing policyholders that were not required by policy terms should be reported as adjustments to premium, rather than as expenses. As a result of this INT, companies that committed to reporting the cost of their programs as expenses would be required to obtain prescribed or permitted practices from their domiciliary states.

APCIA agrees with the basic position taken in the INT. However, it would be significantly and unnecessarily burdensome for those companies adopting expense treatment to now reverse their treatment, especially since that accounting treatment had already been disclosed to regulators. For that reason, APCIA supports INT 20-08T, except that:

- Companies that filed policy endorsements or manual rate filings and disclosed with the relevant states their intention to report their payments to policyholders as expenses before adoption of the INT should treat those payments as other underwriting expenses, while disclosing those payments as required in Issue 5 of the INT. This treatment would apply to all payments made through the end of 2020.

This approach enables all companies that responded to the need to provide immediate relief to policyholders affected by COVID-19 to be treated fairly. All relief provided to policyholders would be appropriately disclosed so that regulators, financial analysts, investors, and the public would have all the information they need. Moreover, this limited, one-time guidance would apply only to the urgent action insurers took under these unprecedented circumstances, and only for this year, since the INT expires on January 1, 2021. States have widely recognized the need to accord flexibility to companies on many issues in this extraordinary period of time, and we believe this is another issue where that flexibility is critical. Allowing that flexibility does not adversely impact anyone.

If you have any questions or comments about our letter, please contact me at steve.broadie@apci.org or 847/736-8258, or my colleagues Phil Carson or Matt Vece (phillip.carson@apci.org; matthew.vece@apci.org). We look forward to discussing this issue with you during next Monday's Task Force call.

Sincerely,

A handwritten signature in black ink that reads "Step W Broadie". The signature is written in a cursive, flowing style.

Stephen W. Broadie

Cc: All members of Accounting Practices & Procedures (E) Task Force by email