

Date: 6/22/20

*Conference Call*

**FINANCIAL CONDITION (E) COMMITTEE**  
**Wednesday, July 1, 2020**  
**12:30 p.m. ET / 11:30 a.m. CT / 10:30 a.m. MT / 9:30 a.m. PT**

**ROLL CALL**

Scott White, Chair	Virginia	Mike Chaney	Mississippi
Eric A. Cioppa, Vice Chair	Maine	Marlene Caride	New Jersey
Michael Conway	Colorado	Russell Toal	New Mexico
David Altmaier	Florida	Raymond G. Farmer	South Carolina
Colin M. Hayashida	Hawaii	Kent Sullivan	Texas
Robert H. Muriel	Illinois	James A. Dodrill	West Virginia
Stephen W. Robertson	Indiana	Jeff Rude	Wyoming
Steve Kelley	Minnesota		

NAIC Support Staff: Dan Daveline/Julie Gann/Bruce Jensen

**AGENDA**

1. Consider Adoption of its Feb. 27, 2020, and 2019 Fall National Meeting Minutes —*Commissioner Scott A. White (VA)* Attachment One
2. Consider Adoption of Technical Edits to the *Term and Universal Life Insurance Reserve Financing Model Regulation (#787)*—*Commissioner Scott A. White (VA)* Attachment Two
3. Consider Adoption of Reports from Select Task Forces —*Commissioner Scott A. White (VA)*
  - a. Accounting Practices and Procedures (E) Task Force Attachment Three
  - b. Capital Adequacy (E) Task Force Attachment Four
  - c. Valuation of Securities (E) Task Force Attachment Five
4. Consider Adoption of *INT 20-08: COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends*—*Commissioner Scott A. White (VA)* Attachment Six
5. Discuss Any Other Matters Brought Before the Committee—*Commissioner Scott White (VA)*
6. Adjournment

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Draft: 3/3/20

Financial Condition (E) Committee  
Conference Call  
February 27, 2020

The Financial Condition (E) Committee met via conference call Feb. 27, 2020. The following Committee members participated: Scott White, Chair (VA); Eric A. Cioppa, Vice Chair, and Vanessa Sullivan (ME); Michael Conway represented by Rolf Kaumann (CO); David Altmaier represented by Carolyn Morgan and Robert Ridenour (FL); Robert H. Muriel represented by Kevin Fry and Kevin Baldwin (IL); Stephen W. Robertson and Roy Eft (IN); Steve Kelley represented by Fred Andersen (MN); Marlene Caride (NJ); Russell Toal (NM); Raymond G. Farmer represented by Daniel Morris (SC); Kent Sullivan represented by Jamie Walker (TX); James A. Dodrill represented by Jamie Taylor (WV); and Jeff Rude (WV).

1. Adopted Request for Model Law Development from the Receivership & Insolvency (E) Task Force

Commissioner White made the Committee aware that the Executive (EX) Committee approved a request for model law development from the Group Capital Calculation (E) Working Group with respect the *Insurance Holding Company System Regulatory Act* (#440) and *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions* (#450) which could have implications for this new request (Attachment?) from the Receivership & Insolvency (E) Task Force related to the same NAIC models. He described that while the two items are unrelated, its important for the Committee to understand if this new work could slow down the work of the Group Capital Calculation (E) Working Group. More specifically, the goal is for the Group Capital Calculation to be adopted by the working group at the Summer National Meeting so states could begin introducing early 2021. With that as a backdrop, he requested Mr. Baldwin to provide a summary of their request. Mr. Baldwin stated on Jan. 8th, the Receivership & Insolvency (E) Task Force adopted a request to the Committee. He stated that the background for the Task Force's request is a common issue that can arise in a receivership of an insurance company where affiliated entities provide essential services through inter-company agreements. The continuation of these services can be critical to the operation of the receivership, particularly when all staffing and information technology functions are outsourced. This issue is specific to agreements with affiliated entities that are formed for the sole purpose of providing services to the insurance company. For example, affiliated entities may handle all the insurance company's administrative functions (such as claims handling, underwriting, statutory accounting, and premium collection), but provide no services to entities outside of the group.

Mr. Baldwin described that when an insurance company is placed in receivership, the unilateral termination of services by an affiliate can lead to delay, waste, and significant expense to the receivership estate. An interruption in obtaining data can also impede a guaranty association's ability to pay claims. He stated that the Task Force recognizes that there are some existing protections under the current 440, specifically the requirement for prior approval of affiliate transactions, which can afford regulators an opportunity to identify problematic agreements in advance of a receivership. There are also provisions in 450 that provide restrict such agreements from including unilateral or automatic terminations if an insurer is placed in receivership. He noted that a receiver can file a legal action against an affiliated service provider that refuses to continue essential services under a contract, or seek a court order requiring the affiliate to provide records. However, protracted litigation can result in delays and additional costs. Also, when the affiliate is in another jurisdiction, these efforts can be challenging.

Mr. Baldwin described how in some cases the insurance company and an affiliate are inextricably intertwined. He described that if the operations and records of the entities are commingled, it is difficult to handle the receivership without the affiliate's cooperation. Sometimes it is necessary to place an affiliate in receivership, and administer it with the insurance company. However, if the affiliate does not consent, the ensuing litigation will involve further time and expense.

Mr. Baldwin described how one potential solution the Task Force identified is to consider revisions to 440 by modifying the definition of "insurer" under state insurance holding company laws to encompass affiliated entities whose sole purpose is to provide services to an insurer. While the Task Force recognizes that there are significant issues to be worked through, including potential conflicts with other laws, the Task Force would endeavor to address those and any other issues as part of the work in developing a solution within 440 and 450.

Commissioner Caride made a motion, seconded by Mr. Kaumann, to adopt the request to make changes to 440 and 450 to develop revisions to address issues with continuity of essential services. The motion was unanimously carried.

2. Adopted a Request for Extension from the Mortgage Guaranty Insurance (E) Working Group

Commissioner White reminded Committee members that the NAIC requires model law requests, such as the one adopted from Receivership & Insolvency Task Force, to be adopted as NAIC model laws or model law changes within one year of the original request to the NAIC Executive (EX) Committee. He stated that to the extent a model change is not completed within one year from the date approved by the NAIC Executive (EX) Committee, an extension must be requested and approved. With respect to the specific request from the Mortgage Guaranty Insurance (E) Working Group, he stated that while this work has been ongoing for a significant period, this was a project he supported being completed and supported the request. He stated the ongoing work has largely been the product of its technical nature and need for the NAIC to hire consultants and then modifications based upon the consultant's work. He stated he was encouraged to hear that this group does now appear to be close on finalizing this work as they now have exposed a new Loan Level Capital Model for these mortgage insurers, all of the states on this Working Group are supportive of the direction. A motion was made by Commissioner Toal, and seconded by Commissioner Caride, to adopt the request (Attachment?). The motion was unanimously carried.

3. Adopted a Request for NAIC Model Law Development from the Financial (EX) Stability Task Force

Commissioner White stated that the Committee had received an additional model law development request (Attachment?) from the Financial Stability Task Force on Feb. 26, and relates to a liquidity stress test that has been in the process of being developed for some time. He stated that while the actual stress test is not yet completed, it is like the group capital calculation in that the primary purpose of any type of legislative change is to provide the necessary confidentiality protections. He stated that similar to the request from the Receivership and Insolvency (E) Task Force, it's too early to know whether the completion of this work could impact the group capital calculation, but the idea is to make all three of the different legislative changes to models 440 and 450 at the same time, assuming all are ultimately supported and adopted.

Commissioner White stated that during the Feb. 26 conference call of the Financial Stability (EX) Task Force, one comment letter on this item was received from the American Council of Life Insurers (ACLI) and the general response on adopting the request was that while 440 and 450 might not ultimately be chosen as the ideal placement for holding this tool confidential, if it is it makes sense that all three of the items be addressed at the same time. He described how far fewer companies were likely by this liquidity stress test than the group capital calculation with as few as 23 for this test. Commissioner Robertson and Mr. Eft expressed support for the confidentiality aspect of this request, but they expressed concern about one of the provisions that limits and decides what stress test gets used in a liquidation because it seems to reduce the states right to choose the stress. Commissioner Caride stated work is ongoing and that all comments are welcome. Commissioner Robertson asked what was being voted on and whether the issue of what stress test is being used is still open for consideration. Commissioner White responded that the issue before the Committee was not adoption of the actual stress test but rather the request to work on changes to 440 and 450 that would provide the authority and confidentiality protections of the liquidity stress test, but that the stress test itself is still being developed. Commissioner Caride agreed that the item on the table was only to consider if the model is the appropriate venue. She stated she would be happy to reach out to Commissioner Robertson subsequent to the conference call to better understand his concern regarding the actual stress test. Commissioner Robertson stated that he wanted it to be clear in the minutes that the action contemplated was only requesting the authority for the Task Force to work on the changes to the model law and not the actual stress test to be required. Commissioner White stated that was the case and noted Commissioner Robertson's concern would be noted in the minutes. A motion was made by Commissioner Caride, and seconded by Superintendent Cioppa, to incorporate this request into what was just adopted from the Receivership and Insolvency (E) Task Force.

Having no further business, the Financial Condition (E) Committee adjourned.

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## Draft Pending Adoption

Draft: 12/9/19

Financial Condition (E) Committee  
Austin, Texas  
December 9, 2019

The Financial Condition (E) Committee met in Austin, TX, Dec. 9, 2019. The following Committee members participated: David Altmaier, Chair (FL); Kent Sullivan, Vice Chair, and Jamie Walker (TX); Michael Conway represented by Rolf Kaumann (CO); Robert H. Muriel and Kevin Fry (IL); Eric A. Cioppa and Vanessa Sullivan (ME); Steve Kelley and Kathleen Orth (MN); Chlora Lindley-Myers and John Rehagen (MO); Matthew Rosendale represented by Steve Matthews (MT); Marlene Caride (NJ); Glen Mulready represented by Eli Snowbarger (OK); Raymond G. Farmer represented by Lee Hill (SC); James A. Dodrill represented by Justin Parr (WV); and Jeff Rude (WY).

### 1. Adopted its Oct. 31, Aug. 29 and Summer National Meeting Minutes

The Committee met Oct. 31, Aug. 29 and Aug. 5. During its Oct. 31 meeting, the Committee took the following action: 1) adopted its 2020 proposed charges; 2) adopted a Request for NAIC Model Law Development related to the group capital calculation (GCC); and 3) adopted revisions to the *Guideline for Stay on Termination of Netting Agreements and Qualified Financial Contracts* (#1556). During its Aug. 29 meeting, the Committee adopted proposed changes to the *Annual Statement Instructions – Property/Casualty* specifically related to the actuarial opinion, including, among other things, the definition of “qualified actuary.”

Commissioner Sullivan made a motion, seconded by Ms. Orth, to adopt the Committee’s Oct. 31 (Attachment One) Aug. 29 (Attachment Two) and Aug. 5 (*see NAIC Proceedings – Summer 2019, Financial Condition (E) Committee*) minutes. The motion passed unanimously.

### 2. Adopted the Reports of its Task Forces and Working Groups

Commissioner Altmaier stated that items adopted within the Committee’s task force and working group reports that are considered technical, noncontroversial and not significant by NAIC standards—i.e., they do not include model laws, model regulations, model guidelines or items considered to be controversial—will be considered for adoption by the Executive (EX) Committee and Plenary through the Financial Condition (E) Committee’s technical changes report process. Pursuant to this process, which was adopted by the NAIC in 2009, a listing of the various technical changes will be sent to NAIC members shortly after completion of the Fall National Meeting, and the members will have 10 days to comment with respect to those items. If no objections are received with respect to an item, the technical changes will be considered adopted by the NAIC membership and effective immediately.

Commissioner Lindley-Myers made a motion, seconded by Commissioner Caride, to adopt the following task force and working group reports: Accounting Practices and Procedures (E) Task Force; Capital Adequacy (E) Task Force; Examination Oversight (E) Task Force; Receivership and Insolvency (E) Task Force; Reinsurance (E) Task Force; Risk Retention Group (E) Task Force; Valuation of Securities (E) Task Force; Group Capital Calculation (E) Working Group (Attachment Three); Mortgage Guaranty Insurance (E) Working Group (Attachment Four); National Treatment and Coordination (E) Working Group (Attachment Five); Restructuring Mechanisms (E) Working Group (Attachment Six); and Group Solvency Issues (E) Working Group (Attachment Seven). The motion passed unanimously.

The Financial Analysis (E) Working Group met Oct. 28 and Oct. 7 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities or individuals) of the NAIC Policy Statement on Open Meetings, to discuss letter responses related to second-quarter 2019 financial results. Additionally, the Valuation Analysis (E) Working Group met Nov. 25 and Nov. 15 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities or individuals) of the NAIC Policy Statement on Open Meetings, to discuss valuation items related to specific companies.

### 3. Adopted the 2019 Examiners’ Suggested Salary Rate

Commissioner Altmaier reminded the Committee members that each year, NAIC staff provide an average recommended increase for examiners’ salaries based on the consumer price index (CPI) for the prior year ending July 31. Commissioner Altmaier emphasized that in order to avoid negative impact to any states, the base compensation on the current salary and per diem guidelines, NAIC staff have continued to maintain the existing *Financial Condition Examiners Handbook* guidance on compensation, which is being updated via this memorandum. NAIC staff also recommend that the Risk-Focused

## Draft Pending Adoption

Surveillance (E) Working Group assume the responsibility to oversee development of updates to all compensation-related guidance.

Commissioner Caride made a motion, seconded by Commissioner Lindley-Myers, to adopt the 2020 examiners' suggested salary rate (Attachment Eight). The motion passed unanimously

#### 4. Adopted Revisions to the Process for Evaluating Qualified and Reciprocal Jurisdictions

Mr. Rehagen reminded members of the Committee that the NAIC originally adopted this process now being considered for modification in 2013 as a method of evaluating the reinsurance supervisory systems of non-U.S. jurisdictions. He stated the purpose was for developing and maintaining a list of jurisdictions for recognition by the states as qualified jurisdictions for reinsurance collateral reduction purposes. He described how the process worked well over the years, and noted the NAIC currently has seven qualified jurisdictions: Bermuda; France; Germany; Ireland; Japan; Switzerland; and the United Kingdom (UK). He stated the expectation is that the NAIC Executive (EX) Committee and Plenary will approve the re-evaluations of these seven qualified jurisdictions upon the completion of their initial five-year periods, effective for Jan. 1, 2020, during its Dec. 10 meeting.

Mr. Rehagen noted that given the NAIC membership's adopted revisions to the *Credit for Reinsurance Model Law* (#785) and the *Credit for Reinsurance Model Regulation* (#786) in June, the proposed revisions for the process conform the models to the reinsurance collateral elimination provisions of the "Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance" and the "Bilateral Agreement Between the United States of America and the United Kingdom on Prudential Measures Regarding Insurance and Reinsurance" (Covered Agreements). In addition, not only are jurisdictions that are subject to Covered Agreements treated as reciprocal jurisdictions for reinsurance collateral purposes, but other qualified jurisdictions can also qualify for collateral elimination as reciprocal jurisdictions. States that meet the requirements of the NAIC Financial Regulation Standards and Accreditation Program are also considered to be reciprocal jurisdictions.

Mr. Rehagen reported that the Reinsurance (E) Task Force amended the process to reflect the revisions to Model #785 and Model #786 and to add a new section on the review of qualified jurisdictions as reciprocal jurisdictions. In addition, the Task Force added several improvements with respect to the evaluation of qualified jurisdictions, most important being the elimination of the five-year re-evaluation requirement. He stated that, as revised, qualified jurisdictions and reciprocal jurisdictions will remain on the lists until such time that there is a reason identified to remove them from the lists. He stated the evaluations of Bermuda, Japan and Switzerland as reciprocal jurisdictions under this revised process will be considered by the Executive (EX) Committee and Plenary during their Dec. 10 meeting, but this Committee needs to first approve the documented modified process.

Mr. Rehagen made a motion, seconded by Superintendent Cioppa, to adopt the revised process for evaluating qualified and reciprocal jurisdictions (Attachment Nine).

Having no further business, the Financial Condition (E) Committee adjourned.

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*Adopted by the Reinsurance (E) Task Force 8/27/16*  
*Adopted by the Financial Condition (E) Committee 9/30/16*  
*A new model*

## TERM AND UNIVERSAL LIFE INSURANCE RESERVE FINANCING MODEL REGULATION

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### **Section 1. Authority**

This regulation is adopted and promulgated by [title of supervisory authority] pursuant to [insert provision of state law equivalent to **section 5B** of the Credit for Reinsurance Model Law] of the [name of state] Insurance Code.

### **Section 2. Purpose and Intent**

The purpose and intent of this regulation is to establish uniform, national standards governing reserve financing arrangements pertaining to life insurance policies containing guaranteed nonlevel gross premiums, guaranteed nonlevel benefits and universal life insurance policies with secondary guarantees; and to ensure that, with respect to each such financing arrangement, funds consisting of Primary Security and Other Security, as defined in Section 5, are held by or on behalf of ceding insurers in the forms and amounts required herein. In general, reinsurance ceded for reserve financing purposes has one or more of the following characteristics: some or all of the assets used to secure the reinsurance treaty or to capitalize the reinsurer (1) are issued by the ceding insurer or its affiliates; or (2) are not unconditionally available to satisfy the general account obligations of the ceding insurer; or (3) create a reimbursement, indemnification or other similar obligation on the part of the ceding insurer or any of its affiliates (other than a payment obligation under a derivative contract acquired in the normal course and used to support and hedge liabilities pertaining to the actual risks in the policies ceded pursuant to the reinsurance treaty).

### **Section 3. Applicability**

This regulation shall apply to reinsurance treaties that cede liabilities pertaining to Covered Policies, as that term is defined in Section 5B, issued by any life insurance company domiciled in this state. This regulation and [insert provision of state law equivalent to the Credit for Reinsurance Model Regulation] shall both apply to such reinsurance treaties; provided, that in the event of a direct conflict between the provisions of this regulation and [insert provision of state law equivalent to the Credit for Reinsurance Model Regulation], the provisions of this regulation shall apply, but only to the extent of the conflict.

### **Section 4. Exemptions from this Regulation**

This regulation does not apply to the situations described in Subsections A through F.

#### A. Reinsurance of:

- (1) Policies that satisfy the criteria for exemption set forth in [insert provision of state law equivalent to Section 6F of the Valuation of Life Insurance Policies Model Regulation] or [insert provision of state law equivalent to Section 6G of the Valuation of Life Insurance Policies Model Regulation]; and which are issued before the later of:

- (a) The effective date of this regulation, and
  - (b) The date on which the ceding insurer begins to apply the provisions of VM-20 to establish the ceded policies' statutory reserves, but in no event later than Jan 1, 2020;
- (2) Portions of policies that satisfy the criteria for exemption set forth in [insert provision of state law equivalent to Section 6E of the Valuation of Life Insurance Policies Model Regulation] and which are issued before the later of:
- (a) The effective date of this regulation, and
  - (b) The date on which the ceding insurer begins to apply the provisions of VM-20 to establish the ceded policies' statutory reserves, but in no event later than Jan. 1, 2020;
- (3) Any universal life policy that meets all of the following requirements:
- (a) Secondary guarantee period, if any, is five (5) years or less;
  - (b) Specified premium for the secondary guarantee period is not less than the net level reserve premium for the secondary guarantee period based on the Commissioners Standard Ordinary (CSO) valuation tables and valuation interest rate applicable to the issue year of the policy; and
  - (c) The initial surrender charge is not less than one hundred percent (100%) of the first year annualized specified premium for the secondary guarantee period;
- (4) Credit life insurance;
- (5) Any variable life insurance policy that provides for life insurance, the amount or duration of which varies according to the investment experience of any separate account or accounts; nor
- (6) Any group life insurance certificate unless the certificate provides for a stated or implied schedule of maximum gross premiums required in order to continue coverage in force for a period in excess of one year.
- B. Reinsurance ceded to an assuming insurer that meets the applicable requirements of [insert provision of state law equivalent to Section 2D of the Credit for Reinsurance Model Law]; or
- C. Reinsurance ceded to an assuming insurer that meets the applicable requirements of [insert provisions of state law equivalent to Sections 2A, 2B or 2C, of the Credit for Reinsurance Model Law], and that, in addition:
- (1) Prepares statutory financial statements in compliance with the NAIC Accounting Practices and Procedures Manual, without any departures from NAIC statutory accounting practices and procedures pertaining to the admissibility or valuation of assets or liabilities that increase the assuming insurer's reported surplus and are material enough that they need to be disclosed in the financial statement of the assuming insurer pursuant to Statement of Statutory Accounting Principles No. 1 ("SSAP 1"); and
  - (2) Is not in a Company Action Level Event, Regulatory Action Level Event, Authorized Control Level Event, or Mandatory Control Level Event as those terms are defined in [insert provision of state law equivalent to the Risk-Based Capital (RBC) for Insurers Model Act] when its RBC is calculated in accordance with the life risk-based capital report including overview and instructions for companies, as the same may be amended by the NAIC from time to time, without deviation; or
- D. Reinsurance ceded to an assuming insurer that meets the applicable requirements of [insert provisions of state law equivalent to Sections 2A, 2B or 2C, of the Credit for Reinsurance Model Law], and that, in addition:



- (1) Is not an affiliate, as that term is defined in [insert provision of state law equivalent to Section 1A of the Insurance Holding Company System Regulatory Model Act], of:
  - (a) The insurer ceding the business to the assuming insurer; or
  - (b) Any insurer that directly or indirectly ceded the business to that ceding insurer;
- (2) Prepares statutory financial statements in compliance with the NAIC Accounting Practices and Procedures Manual;
- (3) Is both:
  - (a) Licensed or accredited in at least 10 states (including its state of domicile), and
  - (b) Not licensed in any state as a captive, special purpose vehicle, special purpose financial captive, special purpose life reinsurance company, limited purpose subsidiary, or any other similar licensing regime; and
- (4) Is not, or would not be, below 500% of the Authorized Control Level RBC as that term is defined in [insert provision of state law equivalent to the Risk-Based Capital (RBC) for Insurers Model Act] when its Risk-Based Capital (RBC) is calculated in accordance with the life risk-based capital report including overview and instructions for companies, as the same may be amended by the NAIC from time to time, without deviation, and without recognition of any departures from NAIC statutory accounting practices and procedures pertaining to the admission or valuation of assets or liabilities that increase the assuming insurer's reported surplus; or

E. Reinsurance ceded to an assuming insurer that meets the requirements of either [insert provision of state law equivalent to Section 5B(4)(a) of the Credit for Reinsurance Model Law, ~~pertaining to certain certified reinsurers~~] or [insert provision of state law equivalent to Section 5B(4)(b) of the Credit for Reinsurance Model Law, ~~pertaining to reinsurers meeting certain threshold size and licensing requirements~~]; or

**Drafting Note:** A state may satisfy the requirements of Section 4E above by either adopting Section 5B(4) of the *Credit for Reinsurance Model Law* (#785), or it may include the specific provisions of Section 5B(4) of the *Credit for Reinsurance Model Law* (#785) directly into its adoption of this regulation, *Term and Universal Life Insurance Reserve Financing Model Regulation* (#787).

E.F. Reinsurance not otherwise exempt under Subsections A through E if the commissioner, after consulting with the NAIC Financial Analysis Working Group (FAWG) or other group of regulators designated by the NAIC, as applicable, determines under all the facts and circumstances that all of the following apply:

- (1) The risks are clearly outside of the intent and purpose of this regulation (as described in Section 2 above);
- (2) The risks are included within the scope of this regulation only as a technicality; and
- (3) The application of this regulation to those risks is not necessary to provide appropriate protection to policyholders. The commissioner shall publicly disclose any decision made pursuant to this Section 4F to exempt a reinsurance treaty from this regulation, as well as the general basis therefor (including a summary description of the treaty).

**Drafting Note:** The exemption set forth in Section 4F was added to address the possibility of unforeseen or unique transactions. This exemption exists because the NAIC recognizes that foreseeing every conceivable type of reinsurance transaction is impossible; that in rare instances unanticipated transactions might get caught up in this regulation purely as a technicality; and that regulatory relief in those instances may be appropriate. The example that was given at the time this exemption was developed pertained to bulk reinsurance treaties where the ceding insurer was exiting the type of business ceded. The exemption should not be used with respect to so-called "normal course" reinsurance transactions; rather, such transactions should either fit within one of the standard exemptions set forth in Sections 4A, B, C, D, or E or meet the substantive requirements of this regulation.

**Section 5. Definitions**

- A. “Actuarial Method” means the methodology used to determine the Required Level of Primary Security, as described in Section 6.
- B. “Covered Policies” means the following: Subject to the exemptions described in Section 4, Covered Policies are those policies, other than Grandfathered Policies, of the following policy types:
- (1) Life insurance policies with guaranteed nonlevel gross premiums and/or guaranteed nonlevel benefits, except for flexible premium universal life insurance policies; or,
  - (2) Flexible premium universal life insurance policies with provisions resulting in the ability of a policyholder to keep a policy in force over a secondary guarantee period.
- C. “Grandfathered Policies” means policies of the types described in Subsections B1 and B2 above that were:
- (1) Issued prior to January 1, 2015; and
  - (2) Ceded, as of December 31, 2014, as part of a reinsurance treaty that would not have met one of the exemptions set forth in Section 4 had that section then been in effect.
- D. “Non-Covered Policies” means any policy that does not meet the definition of Covered Policies, including Grandfathered Policies.
- E. “Required Level of Primary Security” means the dollar amount determined by applying the Actuarial Method to the risks ceded with respect to Covered Policies, but not more than the total reserve ceded.
- F. “Primary Security” means the following forms of security:
- (1) Cash meeting the requirements of [insert provision of state law equivalent to Section 3A of the Credit for Reinsurance Model Law];
  - (2) Securities listed by the Securities Valuation Office meeting the requirements of [insert provision of state law equivalent to Section 3B of the Credit for Reinsurance Model Law], but excluding any synthetic letter of credit, contingent note, credit-linked note or other similar security that operates in a manner similar to a letter of credit, and excluding any securities issued by the ceding insurer or any of its affiliates; and
  - (3) For security held in connection with funds-withheld and modified coinsurance reinsurance treaties:
    - (a) Commercial loans in good standing of CM3 quality and higher;
    - (b) Policy Loans; and
    - (c) Derivatives acquired in the normal course and used to support and hedge liabilities pertaining to the actual risks in the policies ceded pursuant to the reinsurance treaty.
- G. “Other Security” means any security acceptable to the commissioner other than security meeting the definition of Primary Security.
- H. “Valuation Manual” means the valuation manual adopted by the NAIC as described in Section 11B(1) of the Standard Valuation Law, with all amendments adopted by the NAIC that are effective for the financial statement date on which credit for reinsurance is claimed.

**Drafting Note:** Section 5H presumes that each state is permitted under its state laws to directly reference the Valuation Manual adopted by the NAIC. If a state is required by its state laws to reference a state law or regulation, it should modify Section 5H as appropriate to do so.

- I. “VM-20” means “Requirements for Principle-Based Reserves for Life Products,” including all relevant definitions, from the Valuation Manual.

**Drafting Note:** Sections 5H and I presume that each state is permitted under its state laws to “adopt” the Valuation Manual in a manner similar to how the Accounting Practices and Procedures Manual becomes effective in many states, without a separate regulatory process such as adoption by regulation. It is desirable that all states adopt the Valuation Manual requirements and that such adoption be achieved without a separate state regulatory process in order to achieve uniformity of reserve standards in all states. However, to the extent that a state may need to adopt the valuation manual through a formal state regulatory process, these sections may be amended to reflect any state’s need to adopt the Valuation Manual through regulation or otherwise.

## **Section 6. The Actuarial Method**

### A. Actuarial Method

The Actuarial Method to establish the Required Level of Primary Security for each reinsurance treaty subject to this regulation shall be VM-20, applied on a treaty-by-treaty basis, including all relevant definitions, from the Valuation Manual as then in effect, applied as follows:

- (1) For Covered Policies described in Section 5B(1) above, the Actuarial Method is the greater of the Deterministic Reserve or the Net Premium Reserve (NPR) regardless of whether the criteria for exemption testing can be met. However, if the Covered Policies do not meet the requirements of the Stochastic Reserve exclusion test in the Valuation Manual, then the Actuarial Method is the greatest of the Deterministic Reserve, the Stochastic Reserve, or the NPR. In addition, if such Covered Policies are reinsured in a reinsurance treaty that also contains Covered Policies described in Section 5B(2) above, the ceding insurer may elect to instead use paragraph 2 below as the Actuarial Method for the entire reinsurance agreement. Whether Paragraph 1 or 2 are used, the Actuarial Method must comply with any requirements or restrictions that the Valuation Manual imposes when aggregating these policy types for purposes of principle-based reserve calculations.
- (2) For Covered Policies described in Section 5B(2) above, the Actuarial Method is the greatest of the Deterministic Reserve, the Stochastic Reserve, or the NPR regardless of whether the criteria for exemption testing can be met.
- (3) Except as provided in Paragraph (4) below, the Actuarial Method is to be applied on a gross basis to all risks with respect to the Covered Policies as originally issued or assumed by the ceding insurer.
- (4) If the reinsurance treaty cedes less than one hundred percent (100%) of the risk with respect to the Covered Policies then the Required Level of Primary Security may be reduced as follows:
  - (a) If a reinsurance treaty cedes only a quota share of some or all of the risks pertaining to the Covered Policies, the Required Level of Primary Security, as well as any adjustment under Subparagraph (c) below, may be reduced to a pro rata portion in accordance with the percentage of the risk ceded;
  - (b) If the reinsurance treaty in a non-exempt arrangement cedes only the risks pertaining to a secondary guarantee, the Required Level of Primary Security may be reduced by an amount determined by applying the Actuarial Method on a gross basis to all risks, other than risks related to the secondary guarantee, pertaining to the Covered Policies, except that for Covered Policies for which the ceding insurer did not elect to apply the provisions of VM-20 to establish statutory reserves, the Required Level of Primary Security may be reduced by the statutory reserve retained by the ceding insurer on those Covered Policies, where the retained reserve of those Covered Policies should be reflective of any reduction pursuant to the cession of mortality risk on a yearly renewable term basis in an exempt arrangement;
  - (c) If a portion of the Covered Policy risk is ceded to another reinsurer on a yearly renewable term basis in an exempt arrangement, the Required Level of Primary Security may be

reduced by the amount resulting by applying the Actuarial Method including the reinsurance section of VM-20 to the portion of the Covered Policy risks ceded in the exempt arrangement, except that for Covered Policies issued prior to Jan 1, 2017, this adjustment is not to exceed  $[c_x / (2 * \text{number of reinsurance premiums per year})]$  where  $c_x$  is calculated using the same mortality table used in calculating the Net Premium Reserve; and

- (d) For any other treaty ceding a portion of risk to a different reinsurer, including but not limited to stop loss, excess of loss and other non-proportional reinsurance treaties, there will be no reduction in the Required Level of Primary Security.

It is possible for any combination of Subparagraphs (a), (b), (c), and (d) above to apply. Such adjustments to the Required Level of Primary Security will be done in the sequence that accurately reflects the portion of the risk ceded via the treaty. The ceding insurer should document the rationale and steps taken to accomplish the adjustments to the Required Level of Primary Security due to the cession of less than one hundred percent (100%) of the risk.

The Adjustments for other reinsurance will be made only with respect to reinsurance treaties entered into directly by the ceding insurer. The ceding insurer will make no adjustment as a result of a retrocession treaty entered into by the assuming insurers.

- (5) In no event will the Required Level of Primary Security resulting from application of the Actuarial Method exceed the amount of statutory reserves ceded.
- (6) If the ceding insurer cedes risks with respect to Covered Policies, including any riders, in more than one reinsurance treaty subject to this Regulation, in no event will the aggregate Required Level of Primary Security for those reinsurance treaties be less than the Required Level of Primary Security calculated using the Actuarial Method as if all risks ceded in those treaties were ceded in a single treaty subject to this Regulation;
- (7) If a reinsurance treaty subject to this Regulation cedes risk on both Covered and Non-Covered Policies, credit for the ceded reserves shall be determined as follows:
- (a) The Actuarial Method shall be used to determine the Required Level of Primary Security for the Covered Policies, and Section 7 shall be used to determine the reinsurance credit for the Covered Policy reserves; and
- (b) Credit for the Non-Covered Policy reserves shall be granted only to the extent that security, in addition to the security held to satisfy the requirements of Subparagraph (a), is held by or on behalf of the ceding insurer in accordance with [cite the state's version of Sections 2 and 3 of the Credit for Reinsurance Model Law]. Any Primary Security used to meet the requirements of this Subparagraph may not be used to satisfy the Required Level of Primary Security for the Covered Policies.

#### B. Valuation used for Purposes of Calculations

For the purposes of both calculating the Required Level of Primary Security pursuant to the Actuarial Method and determining the amount of Primary Security and Other Security, as applicable, held by or on behalf of the ceding insurer, the following shall apply:

- (1) For assets, including any such assets held in trust, that would be admitted under the NAIC Accounting Practices and Procedures Manual if they were held by the ceding insurer, the valuations are to be determined according to statutory accounting procedures as if such assets were held in the ceding insurer's general account and without taking into consideration the effect of any prescribed or permitted practices; and
- (2) For all other assets, the valuations are to be those that were assigned to the assets for the purpose of determining the amount of reserve credit taken. In addition, the asset spread tables and asset default cost tables required by VM-20 shall be included in the Actuarial Method if adopted by the

NAIC's Life Actuarial (A) Task Force no later than the Dec. 31<sup>st</sup> on or immediately preceding the valuation date for which the Required Level of Primary Security is being calculated. The tables of asset spreads and asset default costs shall be incorporated into the Actuarial Method in the manner specified in VM-20.

## **Section 7. Requirements Applicable to Covered Policies to Obtain Credit for Reinsurance; Opportunity for Remediation**

### **A. Requirements**

Subject to the exemptions described in Section 4 and the provisions of Section 7B, credit for reinsurance shall be allowed with respect to ceded liabilities pertaining to Covered Policies pursuant to [insert provisions of state law equivalent to Sections 2 or 3 of the Credit for Reinsurance Model Law] if, and only if, in addition to all other requirements imposed by law or regulation, the following requirements are met on a treaty-by-treaty basis:

- (1) The ceding insurer's statutory policy reserves with respect to the Covered Policies are established in full and in accordance with the applicable requirements of [insert provisions of state law equivalent to the Standard Valuation Law] and related regulations and actuarial guidelines, and credit claimed for any reinsurance treaty subject to this regulation does not exceed the proportionate share of those reserves ceded under the contract; and
- (2) The ceding insurer determines the Required Level of Primary Security with respect to each reinsurance treaty subject to this regulation and provides support for its calculation as determined to be acceptable to the commissioner; and
- (3) Funds consisting of Primary Security, in an amount at least equal to the Required Level of Primary Security, are held by or on behalf of the ceding insurer, as security under the reinsurance treaty within the meaning of [insert provision of state law equivalent to Section 3 of the Credit for Reinsurance Model Law], on a funds withheld, trust, or modified coinsurance basis; and
- (4) Funds consisting of Other Security, in an amount at least equal to any portion of the statutory reserves as to which Primary Security is not held pursuant to Paragraph (3) above, are held by or on behalf of the ceding insurer as security under the reinsurance treaty within the meaning of [insert provision of state law equivalent to Section 3 of the Credit for Reinsurance Model Law]; and
- (5) Any trust used to satisfy the requirements of this Section 7 shall comply with all of the conditions and qualifications of [insert provision of state law equivalent to **Section 124** of the Credit for Reinsurance Model Regulation], except that:
  - (a) Funds consisting of Primary Security or Other Security held in trust, shall for the purposes identified in Section 6B, be valued according to the valuation rules set forth in Section 6B, as applicable; and
  - (b) There are no affiliate investment limitations with respect to any security held in such trust if such security is not needed to satisfy the requirements of Section 7A(3); and
  - (c) The reinsurance treaty must prohibit withdrawals or substitutions of trust assets that would leave the fair market value of the Primary Security within the trust (when aggregated with Primary Security outside the trust that is held by or on behalf of the ceding insurer in the manner required by Section 7A(3)) below 102% of the level required by Section 7A(3) at the time of the withdrawal or substitution; and
  - (d) The determination of reserve credit under [insert provision of state law equivalent to **Section 124E** of the Credit for Reinsurance Model Regulation] shall be determined according to the valuation rules set forth in Section 6B, as applicable; and

- (6) The reinsurance treaty has been approved by the commissioner.

**B. Requirements at Inception Date and on an On-going Basis; Remediation**

- (1) The requirements of Section 7A must be satisfied as of the date that risks under Covered Policies are ceded (if such date is on or after the effective date of this regulation) and on an ongoing basis thereafter. Under no circumstances shall a ceding insurer take or consent to any action or series of actions that would result in a deficiency under Section 7A(3) or 7A(4) with respect to any reinsurance treaty under which Covered Policies have been ceded, and in the event that a ceding insurer becomes aware at any time that such a deficiency exists, it shall use its best efforts to arrange for the deficiency to be eliminated as expeditiously as possible.
- (2) Prior to the due date of each Quarterly or Annual Statement, each life insurance company that has ceded reinsurance within the scope of Section 3 shall perform an analysis, on a treaty-by-treaty basis, to determine, as to each reinsurance treaty under which Covered Policies have been ceded, whether as of the end of the immediately preceding calendar quarter (the valuation date) the requirements of Sections 7A(3) and 7A(4) were satisfied. The ceding insurer shall establish a liability equal to the excess of the credit for reinsurance taken over the amount of Primary Security actually held pursuant to Section 7A(3), unless either:
- (a) The requirements of Section 7A(3) and 7A(4) were fully satisfied as of the valuation date as to such reinsurance treaty; or
- (b) Any deficiency has been eliminated before the due date of the Quarterly or Annual Statement to which the valuation date relates through the addition of Primary Security and/or Other Security, as the case may be, in such amount and in such form as would have caused the requirements of Section 7A(3) and 7A(4) to be fully satisfied as of the valuation date.
- (3) Nothing in Section 7B(2) shall be construed to allow a ceding company to maintain any deficiency under Section 7A(3) or 7A(4) for any period of time longer than is reasonably necessary to eliminate it.

**Section 8. Severability**

If any provision of this regulation is held invalid, the remainder shall not be affected.

**Section 9. Prohibition against Avoidance**

No insurer that has Covered Policies as to which this regulation applies (as set forth in Section 3) shall take any action or series of actions, or enter into any transaction or arrangement or series of transactions or arrangements if the purpose of such action, transaction or arrangement or series thereof is to avoid the requirements of this regulation, or to circumvent its purpose and intent, as set forth in Section 2.

**Section 10. Effective Date**

This regulation shall become effective [insert date] and shall pertain to all Covered Policies in force as of and after that date.

*Conference Call*

**ACCOUNTING PRACTICES AND PROCEDURES (E) TASK FORCE**  
**June 22, 2020**

**Summary Report**

The Accounting Practices and Procedures (E) Task Force met June 22, 2020. During this meeting, the Task Force:

1. Adopted the report of the Statutory Accounting Principles (E) Working Group, which met June 15, May 20, April 15 and March 18. During these meetings, the Working Group took the following action:
  - a. Adopted its Jan. 8 minutes, which included the following action:
    1. Adopted an editorial item (Ref #2019-44).
    2. Adopted its 2019 Fall National meeting minutes.
  - b. Adopted the following substantive revisions to statutory accounting guidance:
    1. *Statement of Statutory Accounting Principle (SSAP) No. 105R—Working Capital Finance Investments and Issue Paper No. 163: Working Capital Finance Investments Updates*: Revisions incorporate seven industry-requested modifications to the Working Capital Finance Investments (WCFI) program requirements. (Ref #2019-25)
  - c. Adopted the following nonsubstantive revisions to statutory accounting guidance:
    1. *SSAP No. 2R—Cash, Cash Equivalents, Drafts and Short-Term Investments and SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*: Revisions incorporate principle concepts that will restrict the classification of “rolling” related party or affiliated investments as cash equivalents or short-term investments. The investment schedule will identify investments (or substantially similar investments) that remain on the short-term schedule for more than one consecutive year. (Ref #2019-20)
    2. *SSAP No. 2R*: Revisions reflect that certain cash pools meeting defined criteria shall be reported as cash equivalents. (Ref #2019-42)
    3. *SSAP No. 3—Accounting Changes and Corrections of Errors and SSAP No. 51R—Life Contracts*: Revisions specify that changes as a result of VM-21, Requirements for Principle-Based Reserves for Variable Annuities, optional phase-in requirements shall be disclosed as a change in valuation basis, with additional disclosures regarding the phase-in period beginning Jan. 1, 2020. (Ref #2019-47)
    4. *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets and SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities*: Revisions expand guidance regarding financial guarantees and the use of the equity method for when losses exceed the subsidiary, controlled and affiliated entity’s (SCA’s) equity value. The reported equity losses of an SCA would not go negative (thus stopping at zero); however, the guaranteed liabilities would be reported to the extent that there is a financial guarantee or commitment. (Ref #2018-26)
    5. *SSAP No. 5R, SSAP No. 72—Surplus and Quasi-Reorganizations, and SSAP No. 86—Derivatives*: Revisions reject *Accounting Standards Update (ASU) 2017-11, Accounting for Certain Financial Instruments with Down Round Features; Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Noncontrolling Interests with a Scope Exception* in SSAP No. 86 and incorporate guidance into SSAP No. 5R and SSAP No. 72 requiring issued, free-standing financial instruments with characteristics of both liability and equity to be reported as a liability to the extent that the instrument embodies an unconditional obligation of the issuer. (Ref #2019-43)
    6. *SSAP No. 25—Affiliates and Other Related Parties*: Revisions data-capture existing disclosures, which are currently completed in a narrative format. A blanks proposal to data-capture the template was proposed to be concurrently exposed. (Ref #2019-33)

7. *SSAP No. 26R—Bonds*: Revisions clarify that the assessment of an other-than-temporary impairment (OTTI) shall be based on modified contract terms. The revisions provide consistency with guidance in *SSAP No. 36R—Troubled Debt Restructuring* and *SSAP No. 103R*. (Ref #2020-14)
8. *SSAP No. 41R—Surplus Notes*: Revisions require disclosures of surplus notes that are structured in a manner in which cash-flow exchanges have been reduced or eliminated. (Ref #2019-37)
9. *SSAP No. 47—Uninsured Plans*:
  - i. Revisions reject *ASU 2016-20, Technical Corrections & Improvements – Topic 606, Revenue from Contracts with Customers* in *SSAP No. 47*. (Ref #2020-08)
  - ii. Revisions reject *ASU 2018-18, Collaborative Arrangements – Topic 808* in *SSAP No. 47*. (Ref #2020-09)
10. *SSAP No. 51R—Life Contracts, SSAP No. 56—Separate Accounts* and *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance*: Revisions: 1) ensure that separate account guaranteed products are referenced in all applicable paragraphs of the withdrawal characteristics disclosures; 2) correct an identified inconsistency in one of the new disclosures regarding products that will move from the reporting line of having surrender charges at 5% or more to the reporting line of surrender charges at less than 5%; and 3) add a cross reference from *SSAP No. 56* to the existing disclosures by withdrawal characteristics in *SSAP No. 51R* and *SSAP No. 61R*, as the disclosures include separate account products. (Ref #2019-35)
11. *SSAP No. 51R* and *SSAP No. 52—Deposit-Type Contracts*: Revisions add a footnote to aggregate deposit-type contracts, which are captured in annual statement *Exhibit 5 – Life Contracts*. This item did not result in statutory revisions, but instead it resulted in a blanks proposal. (Ref #2019-08)
12. *SSAP No. 53—Property and Casualty Contracts—Premiums*: Revisions clarify that the installment fee guidance should be narrowly applied. If warranted, a separate agenda item would be prepared to discuss any installment expense comments received from the Casualty Actuarial and Statistical (C) Task Force and the Property and Casualty Risk-Based Capital (E) Working Group, as they both were notified of the prior exposure. (Ref #2019-40)
13. *SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses*: Revisions emphasize existing guidance that loss and loss adjusting expense liabilities are established regardless of payments to third parties (except for capitated health claim payments). (Ref #2018-38)
14. *SSAP No. 62R—Property and Casualty Reinsurance*: Revisions incorporate disclosure updates for reinsurers from reciprocal jurisdictions. (Ref #2019-48)
15. *SSAP No. 97*: Revisions clarify that a more-than-one holding company structure is permitted for look-through if each of the holding companies within the structure complies with the look-through requirements in *SSAP No. 97*. (Ref #2019-32)
16. *SSAP No. 101—Income Taxes*: Revisions reject *ASU 2013-11, Income Taxes – Presentation of an Unrecognized Tax Benefit*, as statutory accounting requires immediate recognition of unrecognized tax benefits through current income tax expense. (Ref #2019-45)
17. *Appendix A—Excerpts of NAIC Model Laws: Appendix A-001, Investments of Reporting Entities*: Revisions add a line for “Total Valuation Allowance” to Appendix A-001, Section 3, Summary Investment Schedule. (Ref #2020-07)
18. *Appendix B—Interpretations of Statutory Accounting Principles*:
  - i. *Interpretation (INT) 20-01: Reference Rate Reform*: This interpretation provides optional guidance, allowing for the continuation of certain contracts that are modified in response to *ASU 2020-04, Reference Rate Reform*. Additionally, it provides waivers from derecognizing hedging transactions and exceptions for



- assessing hedge effectiveness as a result of transitioning away from certain interbank offering rates. (Ref #2020-12 and INT 20-01)
- ii. *INT 20-02: Extension of Ninety-Day Rule for the Impact of COVID-19*: This interpretation provides an optional extension of the 90-day rule before nonadmitting premium receivables and receivables from non-government uninsured plans in response to COVID-19. (INT 20-02)
  - iii. *INT 20-03: Troubled Debt Restructuring Due to COVID-19*: This interpretation clarifies that a modification of mortgage loan or bank loan terms, in response to COVID-19, shall follow the provisions detailed in the April 7, 2020, “Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus,” and the provisions of the federal Coronavirus Aid, Relief and Economic Security (CARES) Act in determining whether the modification shall be reported as a troubled debt restructuring. (INT 20-03)
  - iv. *INT 20-04: Mortgage Loan Impairment Assessment Due to COVID-19*: This interpretation provides limited time exceptions to defer the assessment of impairment for certain bank loans, mortgage loans and investments that predominantly hold underlying mortgage loans, which are affected by forbearance or modifications in response to COVID-19. (INT 20-04)
  - v. *INT 20-05: Investment Income Due and Accrued*: This interpretation provides temporary exceptions for the assessment of collectability for specific investments, as well as exceptions on the nonadmittance of investment income due and accrued that becomes more than 90 days past due in response to COVID-19. (INT 20-05)
  - vi. *INT 20-06: Participation in the 2020 TALF Program*: This interpretation provides guidance for reporting entities that participate as a direct borrower or material investor in the 2020 Term Asset-Backed Securities Loan Facility (TALF). This interpretation permits direct borrowers to admit securities pledged to the TALF program, although the TALF program does not permit substitution of pledged assets, if other admittance criteria is met. (INT 20-06)
  - vii. *INT 20-07: Troubled Debt Restructuring of Certain Debt Investments Due to COVID-19*: This interpretation provides temporary practical expedients in assessing whether modifications in response to COVID-19 are insignificant under SSAP No. 36R and in assessing whether a modification shall be considered an exchange under SSAP No. 103R. (INT 20-07)
19. *Appendix D—Nonapplicable GAAP Pronouncements*:
- i. Revisions reject *ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities* as not applicable to statutory accounting. (Ref #2019-46)
  - ii. Revisions reject *ASU 2017-14, Amendments to SEC Paragraphs in Topic 220, Topic 605 and Topic 606* for statutory accounting. (Ref #2020-10)
  - iii. Revisions reject *ASU 2017-14, Amendments to SEC Paragraphs in Credit Losses (Topic 326) and Leases (Topic 842)* for statutory accounting. (Ref #2020-11)
- d. Adopted the following editorial revisions to statutory accounting:
1. *SSAP No. 21R—Other Admitted Assets*: Removes the excerpts from *SSAP No. 4—Assets and Nonadmitted Assets* regarding the definition and accounting treatment for admitted assets. (Ref #2020-06EP)
  2. *SSAP No. 51R*: Updates various paragraph references, requiring that changes in valuation basis be consistent with the originally adopted language in *Issue Paper No. 154—Implementation of Principle Based Reserving, Exhibit A*. (Ref #2020-06EP)
  3. *SSAP No. 62R*: Revisions update references in Exhibit A – Implementation Questions and Answers and paragraph 85 to match the current format of property/casualty (P/C) annual statement Schedule F – Reinsurance. (Ref #2019-44EP)

4. Various other SSAPs: Revisions revise all references to the annual statement instructions for consistency and combine life and fraternal statement references. (Ref #2019-44EP)
- e. Disposed the following without revisions to statutory accounting guidance:
1. Agenda item 2019-39: Acceptable Collateral for Derivatives was disposed without statutory revisions as third-party derivative exposure through centrally cleared exchanges is appropriately captured in the existing financial statement disclosure requirements and blanks. (Ref #2019-39)
  2. Agenda Item 2019-41: Eliminating Financial Modeling Process: This item proposed revisions to *SSAP No. 43R—Loan-Backed and Structured Securities* to remove the financial modeling process. This item was proposed in response to initial action by the Valuation of Securities (E) Task Force. As the Task Force has taken a different approach, this agenda item was disposed without statutory revisions. (Ref #2019-41)
- f. The effective dates for the following INTs are as follows:
1. INT 20-02, INT 20-04 and INT 20-05 are effective for the March 31, 2020, and June 30, 2020, financial statements only, but consideration of an extension will occur in August 2020.
  2. INT 20-03 and INT 20-07 have an effective date that mirrors the CARES Act and will only be applicable for the period beginning on March 1, 2020, and ending on the earlier of Dec. 31, 2020, or the date that is 60 days after the date on which the national emergency concerning the COVID-19 outbreak terminates.
  3. INT 20-08 is effective on its June 15, 2020, adoption and is effective for 2020 reporting.
2. Adopted INT 20-08
- a. The Task Force took a separate vote on *INT 20-08: COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends*, which was adopted by the Statutory Accounting Principles (E) Working Group with a two thirds majority vote. This vote was to allow for discussion of additional industry comments. This interpretation provides guidance on how to account for premium refunds, rate reductions and policyholder dividends in response to decreased insured activity related to COVID-19. With regards to premium refunds that are outside of policy terms, the interpretation identifies that these shall be reported as a reduction of premium (and not as an expense). The INT provides that reporting in expenses would require a prescribed or permitted practice. It also provides guidance on premium reductions and policyholder dividends. The interpretation directs an aggregate disclosure to allow for identification of the full impact from COVID-19 in the financial statements. INT 20-08 notes that premium taxation is determined by the respective jurisdiction and not the interpretation. This item was adopted by a two-thirds majority vote of the Task Force. (INT 20-08)
3. Adopted the report of the Blanks (E) Working Group, which met via conference call May 28 and took the following action:
- a. Adopted its Dec. 17, 2019, minutes.
  - b. Adopted 24 proposals:
    1. 2019-25BWG – Modify the instruction for Column 10 (Schedule F, Part 3 – Property and Schedule F, Part 2 – Life/Fraternal Workers’ Compensation Carve-out supplement) to remove instruction to exclude adjusting and other reserves from the column and add instruction to include those reserves with the defense and cost containment reserves. Add a new instruction for Column 12 for the same schedules. Add crosschecks to Schedule P, Part 1.
    2. 2019-28BWG – Modify the instruction for Supplemental Investment Risk Interrogatories lines 13.02 through 13.11 clarifying when to identify the actual equity interests within a fund and aggregate those equity interests for determination of the 10 largest equity interests.

3. 2019-29BWG – Modify the instruction and blank for Supplemental Investment Risk Interrogatories Question 14.01.
4. 2019-30BWG – Add a category and instructions for reciprocal jurisdiction companies in Schedule S for the life/fraternal and health blanks and to Schedule F for the property and title blanks. Add a list of identification numbers in instruction to Schedule Y, Part 1A; Schedule Y, Part 2; and Schedule D, Part 6, Section 1 for reciprocal jurisdiction companies. Add a reference to reciprocal Companies in the Trusteed Surplus Statement instructions for life/fraternal, health and property statements.
5. 2020-01BWG – Add crosschecks to lines 13 and 14 of the Exhibit of Premiums, Enrollment and Utilization (State Page) to lines 10 and 11 of the Underwriting and Investment Exhibit, Part 1. Add crosschecks to lines 9, 10 and 11 of the Underwriting and Investment Exhibit, Part 1 and Schedule T, line 61.
6. 2020-03BWG – Modify the instruction and illustration for 13(11) to the Notes to Financial Statement. Change the numbering from 1 through 13 to A through M to reflect the disclosure addition for SSAP No. 41R being adopted by the Statutory Accounting Principles (E) Working Group and correct the instruction.
7. 2020-04BWG – Modify the instruction and illustration for Note 23A – Unsecured Reinsurance Recoverables to reflect the disclosure addition for SSAP No. 62R being adopted by the Statutory Accounting Principles (E) Working Group.
8. 2020-05BWG – Modify the instruction and illustration for Note 2 – Accounting Changes and Correction of Errors to reflect the disclosure addition for SSAP No. 3 and SSAP No. 51R being adopted by the Statutory Accounting Principles (E) Working Group.
9. 2020-07BWG – Add new disclosure Note 23 – Reinsurance for reinsurance credit (23H – Life/Fraternal, 23E Health and 23K Property) to reflect the disclosure additions for SSAP No. 61R adopted by the Statutory Accounting Principles (E) Working Group.
10. 2020-08BWG – Add a disclosure instruction for 10C to the Notes to Financial Statement for related party transactions not captured on Schedule Y to reflect the disclosure addition for SSAP No. 25 being adopted by the Statutory Accounting Principles (E) Working Group. Combine existing 10C into 1B instructions and illustration narrative.
11. 2020-09BWG – Modify the Annual Statement Instructions for Schedule F, Part 3 to reflect the factors for all uncollateralized reinsurance recoverable from unrated reinsurers be the same for authorized, unauthorized, certified and reciprocal reinsurance.
12. 2020-10BWG – Revise the column 10 header in the Variables Annuities Supplement blank to be Contract Level Reserves Less Cash Surrender Value. Revise the line descriptions in lines 1 through 3 in the footer and add a line for the Reserve Credit from Other Reinsurance and for Post-Reinsurance Ceded Aggregate Reserve. Adjust the instructions to correspond with changes made to the blanks, as well as changes in the 2020 *Valuation Manual* for the new Variable Annuities Framework.
13. 2020-11BWG – For the VM-20 Reserves Supplement Blank, split Part 1 into Part 1A and Part 1B.
  - a. For Part 1A, change the description header for column 3 to “Due and Deferred Premium Asset” to match the instructions. Add “XXX” in the two places needed to indicate that a due and deferred premium asset does not need to be reported in the lines shown for Total Reserves. Change the reporting units for all columns to be in dollars rather than in thousands. Expand all columns to allow room for a number as large as 999,999,999,999. Change the product labels for clarity.
  - b. For Part 1B, change the reporting units for the reserve columns to be in dollars rather than in thousands. Expand the reserve columns to allow room for a number as large as 999,999,999,999. Expand the face amount columns to allow room for a number as large as 9,999,999,999. Change the product labels for clarity. Remove Part 2 and renumber the remaining parts. Adjust the instructions according to the changes made to the blanks. Clarify instructions and add examples for Parts 1A and 1B.
14. 2020-12BWG – The proposal will require appointed actuaries to attest to meeting continuing education (CE) requirements and participate in the Casualty Actuarial Society (CAS)/Society of Actuaries (SOA) CE review procedures, if requested.
15. 2020-13BWG – Remove line 24.04 from the General Interrogatories, Part 1 and renumber remaining lines for Interrogatory Question 24. Modify lines 24.05 and 24.06 to require reporting amounts for conforming and nonconforming collateral programs.

16. 2020-14BWG – Modify the columns and rows on the blank pages for the Long-Term Care Experience Reporting Forms 1 through 5 and make appropriate changes to the instructions for those forms.
17. 2020-15BWG – Contains a new Private Flood Insurance Supplement collecting residential and commercial private flood insurance data and revisions to the Credit Insurance Experience Exhibit (CIEE) to collect lender-placed flood coverages.
18. 2020-16BWG – Modify questions 3.1 and 3.2 of General Interrogatories Part 2 and provide instructions.
19. 2020-17BWG – Adjust the asset valuation reserve (AVR) presentation to include separate lines for each of the expanded bond designation categories.
20. 2020-18BWG Modified – Clarify the instructions to indicate which funds reported on Schedule D, Part 2, Section 2 (annual filing) and Schedules D, Part 3 and Part 4 (quarterly filing) must have an NAIC designation, NAIC designation modifier and Securities Valuation Office (SVO) administrative symbol. Modify the reference to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) found in the following investment instructions.
21. 2020-19BWG – Add a code of “%” to the code column for all investments that have been reported on Schedule DA, Part 1 and Schedule E, Part 2 for more than one consecutive year. Add certification to the General Interrogatories, Part 1 inclusion of these investments on Schedule DA, Part 1 and Schedule E, Part 2 (SAPWG 2019-20).
22. 2020-20BWG – For Schedule D, Part 1, add code “10” to Column 26 – Collateral Type for ground lease financing. Renumber “Other” code to “11”
23. 2020-21BWG – Add a new line 4.05 for valuation allowance for mortgage loans to the Summary Investment Schedule and renumber existing line 4.05 to 4.06. Modify the instructions to include a crosscheck for new line 4.05 back to Schedule B – Verification Between Years. Clarify the instructions for 4.01–4.04 to explicitly show crosschecking to Column 8 of Schedule B, Part 1.
24. 2020-23BWG – Add footnote to Exhibit 5 (life/fraternal & health – life supplement) and Exhibit 3 separate accounts to disclose cases when a mortality risk is no longer present or a significant factor – i.e., due to a policyholder electing a payout benefit (SAPWG 2019-08).

c. Adopted its editorial listing.

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**CAPITAL ADEQUACY (E) TASK FORCE**  
**June 30, 2020****DRAFT**  
**Meeting Summary Report**

The Capital Adequacy (E) Task Force met June 30, 2020 via conference call. During this meeting, the Task Force:

1. Adopted its 2019 Fall National Meeting minutes.
2. Adopted its Jan. 27, 2020 minutes, which included the following action:
  - a. Adopted its Dec. 30, 2019 minutes which included exposing the bond designation structure for a 45-day comment period ending Feb. 14, 2020.
  - b. Adopted the 2019 Catastrophe Events List.
  - c. Agreed to sponsor Blanks (E) Working Group proposal regarding changes to Interrogatory #24 in all 2020 annual NAIC financial statement blanks.
3. Adopted its April 30, 2020 minutes, which included the following actions:
  - a. Adopted the Bond Designation structure for all RBC formulas.
  - b. Adopted Proposal 2019-13-L to modify the structure to include a charge for Longevity Risk for Life /Fraternal.
4. Adopted Proposal 2020-05CA (Table of Contents and Heading Modifications to RBC Instructions).
5. Adopted Proposal 2020-06-L ( Longevity risk factors instructions).
6. Adopted Proposal 2018-19-P (Vulnerable 6 and Unrated Reinsurers) to modify the instructions to reflect factors for all uncollateralized reinsurance recoverable from unrated reinsurers.
7. Adopted Proposal 2020-01-P ( P/C Line 1 Premium and Reserve Factors).

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*Conference Call*

**VALUATION OF SECURITIES (E) TASK FORCE  
May 14, 2020**

**Summary Report**

The Valuation of Securities (E) Task Force met May 14, 2020. During this meeting, the Task Force:

1. Adopted its Feb. 4, 2020, and 2019 Fall National Meeting minutes, which included the following action:
  - a. Adopted a *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) amendment to reflect the U.S. Securities and Exchange Commission's (SEC)' adoption of a new rule to modernize regulation of exchange-traded funds (ETFs). This amendment was exposed for 45-day public comment period ending Jan. 23, 2020.
  - b. Discussed an amendment to the P&P Manual to remove the financial modeling instruction for residential mortgage-backed securities (RMBS)/commercial mortgage-backed securities (CMBS) securities and have Investment Analysis Office (IAO) staff produce NAIC designations and NAIC designation categories for these securities. Directed IAO staff to draft an updated amendment mapping NAIC designation categories to the financial modeled price break-point NAIC designations.
  - c. Discussed an amendment to the P&P Manual to clarify that the sovereign rating limitation applies to filing exempt (FE) transactions. Directed SVO staff to develop criteria for an acceptable sovereign rating exception methodology.
  - d. Received an updated amendment to the P&P Manual with the definition and instructions for principal protected notes (PPNs). The amendment was exposed for a 30-day public comment period ending March 5, 2020.
2. Adopted an updated amendment to the P&P Manual to map financially modeled RMBS/CMBS security NAIC designations to NAIC designation categories, including mapping the zero-loss bonds to the 1.A NAIC designation category. This amendment was exposed for a 30-day public comment period ending March 11, 2020.
3. Adopted an amendment to the P&P Manual for principal protected securities (PPS), with an updated description, definition and instructions; removing these securities from FE eligibility; and requiring all PPS, including those currently designated under the FE process, to be submitted to the Securities Valuation Office (SVO) for review under their Subscript S authority beginning Jan. 1, 2021, and filed with the SVO by July 1, 2021, if previously owned. This amendment was exposed for a 30-day public comment period ending March 5, 2020.
4. Received an IAO issue paper on IAO staff concerns about bespoke securities and reliance on credit rating provider (CRP) ratings. The issue paper, along with the April 28, 2010, adopted recommendations of the Ratings Agency (E) Working Group, were exposed for a 90-day public comment period ending Aug. 16, 2020. The Task Force directed IAO staff to begin drafting incremental recommendations for the Task Force to consider addressing the risks identified in the issue paper.
5. Received a proposed amendment to the P&P Manual with updated instructions for nonconforming credit tenant loan (CTL) transactions that relied upon credit ratings, along with an update to the Task Force policy on "The Use of Credit Ratings of NRSROs in NAIC Processes." The amendment was exposed for a 30-day public comment period ending June 17, 2020, and was also referred to the Statutory Accounting Principles (E) Working Group.
6. Received a proposed amendment to the P&P Manual for technical NAIC designation category corrections. The amendment was exposed for a 30-day public comment period ending June 17, 2020.
7. Discussed temporarily extending insurers' 2020 initial filing deadline from 120 days to 165 days for newly acquired or in-transition securities. The Task Force decided this was a temporary change and directed SVO staff to include in the minutes instructions that the filing deadline for the initial filing of newly acquired or in-transition securities for 2020 would be 165 days instead of the usual 120 days.
8. Heard staff reports from:
  - a. Structured Securities Group (SSG) on RMBS and CMBS "through the cycle" modeling.
  - b. Capital Markets Bureau (CMB) on rating agency actions year-to-date.
  - c. SVO on requirements for material credit events and issuer amendments or refinancing an existing issue.
  - d. SVO on the year-end process and carry-over.

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INT 20-08

## Interpretation of the Statutory Accounting Principles Working Group

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

#### INT 20-08 Dates Discussed

Email Vote to Expose May 5, 2020; May 20, 2020; June 15, 2020

#### INT 20-08 References

*SSAP No. 5R—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 20-08 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.

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## 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 20-08 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 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 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. 5R* 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.

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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.

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

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. 54R* 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. 54R* 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

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would continue to be reported as retrospective or redetermination premium liabilities if applicable.

- 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

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

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.

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.

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.

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

19. 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.

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

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.

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 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 20-08 Consensus**

23. The Working Group reached a 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 13 of this interpretation. This guidance indicates that existing statutory accounting principles in SSAP No. 53, SSAP No. 54R or SSAP No. 66 shall be followed as applicable.
- c. Reporting entities that provide rate reductions shall follow paragraph 14 of this interpretation. This guidance provides direction based on whether the rate reduction is for in-force or future policies.

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- d. Reporting entities that provide policyholder dividend shall follow the existing guidance for policyholder dividends which is summarized in paragraphs 15-19 and in addition, shall complete the disclosures described in paragraphs 20-22.
- e. This interpretation, paragraphs 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 as unusual or infrequent items.

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.

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 20-08 Status**

26. Further discussion is planned.

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