

June 25, 2020

Hon. Scott A. White
Commissioner
Virginia Bureau of Insurance
Chair, NAIC Financial Condition (E) Committee
P.O. Box 1157
Richmond, Virginia 23218

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

Dear Commissioner White:

The American Property Casualty Insurance Association (APCIA) requests NAIC's Financial Condition (E) Committee to adopt an exception to NAIC's accounting interpretation, INT 20-08T. This interpretation provides the accounting treatment for relief given to policyholders during the COVID-19 pandemic. APCIA is the primary national trade association for home, auto, and business insurers. APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members represent all sizes, structures, and regions—protecting families, communities, and businesses in the U.S. and across the globe.

As the interpretation recognizes, insurers utilized different methods to provide immediate relief to policyholders impacted by governmental "stay-at-home" orders. Accounting guidance was silent as to how this relief should be treated, and in the meantime, many insurers filed policy endorsements or manual rate filings with states and disclosed their conclusion that the cost of the relief programs are properly reported as "other underwriting expenses". These companies acted expeditiously and in good faith, in order to provide needed relief to policyholders.

Subsequently, the Statutory Accounting Principles (E) Working Group and the Accounting Practices and Procedures (E) Task Force took up the accounting issue of whether the costs of these relief programs must be accounted for as a reduction in premium, or whether other accounting treatment (e.g., as an expense) could be appropriate as well. After extensive public debate, the interpretation, as drafted by NAIC staff, was eventually approved by both the working group and the task force, with the requirement that payments to existing policyholders that were not required by policy terms must be reported as adjustments to premium, rather than as expenses. As a result, companies that committed to reporting the cost of their programs as expenses would be required to unwind their earlier relief programs or obtain prescribed or permitted practices from their domiciliary states to continue reporting on an expense basis.

Although APCIA agrees with the basic position taken in INT 20-08T, this interpretation would be an unfair and unnecessary burden for those companies that had earlier adopted expense treatment, especially since that accounting treatment had already been disclosed to regulators. For that reason, APCIA supports INT 20-08T with the following exception:

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

This approach enables all companies that responded to the need to provide immediate relief to policyholders to be treated fairly. All relief provided to policyholders would be appropriately disclosed so that regulators, financial analysts, investors, and the public would have all the information they need.

By the terms of the interpretation, this limited, one-time guidance would apply only to 2020, as insurers took urgent action to respond to unprecedented circumstances.

State regulators and companies have both widely recognized the need to provide flexibility to policyholders on many issues during this extraordinary period of time. We believe companies should be accorded the same degree of flexibility here. Allowing that flexibility does not adversely impact anyone.

If you have any questions or comments about our letter, please contact me at phillip.carson@apci.org or my colleague Matthew Vece (matthew.vece@apci.org). We look forward to discussing this issue with you during the next call of the Financial Condition (E) Committee.

Sincerely,

A handwritten signature in black ink that reads "Phillip L. Carson". The signature is written in a cursive, flowing style.

Phillip L. Carson
Department Vice President – Financial Regulation

Cc: All members of the Financial Condition (E) Committee, by e-mail