RAA
REINSURANCE ASSOCIATION OF AMERICA
1445 New York Avenue, N.W., 7th Floor, Washington, D.C. 20005

Telephone: (202) 638-3690
Facsimile: (202) 638-0936
http://www.reinsurance.org

Via Electronic Mail

January 21, 2022

Commissioner Grace Arnold, Chair
Casualty Actuarial and Statistical Task Force
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Ms. Kris DeFrain
Director, Research and Actuarial
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Comments on December 7, 2021 Draft Report on Retroactive Reinsurance Reporting

Dear Commissioner Arnold and Ms. DeFrain:

The Reinsurance Association of America (RAA), headquartered in Washington, D.C., is the leading trade association of property and casualty reinsurers doing business in the United States. The RAA is committed to promoting a regulatory environment that ensures the industry remains globally competitive and financially robust. RAA membership is diverse, including reinsurance underwriters and intermediaries licensed in the U.S. and those that conduct business on a cross border basis.

The RAA appreciates the opportunity to comment on the draft report, *Schedule P Reporting for Retroactive Reinsurance Accounting Exceptions* (the report), presented to the Casualty Actuarial and Statistical Task Force (CASTF) on December 7, 2021. First, we appreciate the comprehensiveness of the report and congratulate the members of the subgroup and NAIC staff for providing a thorough review of the current accounting and reporting implications of the paragraph 36 exceptions in SSAP No. 62R. Our brief comments have been informed by only one RAA member since the comment period encompassed both the annual reinsurance renewal season and year-end reporting. Nevertheless, we wished to provide these comments now, even though we may have more to add as this project develops.

<u>Retroactive Reinsurance Exception – Paragraph 36d</u>

This issue arose at the NAIC because of a diversity in practice that was noted by COPLFR in its May 2019, letter to the CASTF and Statutory Accounting Principles Working Group (SAPWG). In that letter, COPLFR describes two loss portfolio transfer (LPT) reinsurance transactions among affiliates that were reported differently in Schedule P. Company A reported the ceded LPT premium in the current calendar year of Schedule P, while Company G allocated the ceded LPT premium to prior years on Schedule P. These transactions were accounted for as prospective reinsurance under the Paragraph 36d. exception of SSAP No. 62R. In RAA's view, there are two issues to note regarding this situation:

1. We agree with the report (page 20) that under current guidance there will be distortions in Schedule P when applying prospective accounting to retroactive reinsurance.
2. We also agree with the report (page 19) that the Schedule P instructions are clear that ceded premium in the above should be reported in the current calendar year on Schedule P.

Therefore, it appears that Company G simply did not follow the existing Schedule P instructions. Perhaps, this was a permitted practice or alternatively, the Company G concluded that this reporting was "better" because it distorted Schedule P to a lesser degree.

Response to Subgroup Proposal

Regarding the specific proposal in the report on page 20, the RAA does not believe that adding additional instructions to Schedule P for paragraphs 36c and 36d is strictly necessary. There is already specific guidance for the 36d exception, and in general, each of the exceptions listed in SSAP No. 62R already have clear guidance as to how the elements to the transaction should be treated in the financial statements; as premiums, losses, etc. Further, there already is clear guidance as to how to treat premiums or losses on Schedule P. For example – if consideration is treated as premium, one should follow the guidance on Sch P for Premiums, which currently does not provide for allocation of premium to related AY.

This does not solve the original and ongoing issue of distortions in the Schedule P data. These issues are not new and have existed for a very long time. It seems to us that in order to address that issue, a very comprehensive review of Schedule P reporting guidance may be necessary. For example, if allocating premium is viewed as preferable to the current guidance, then the current guidance on Schedule P should provide for the allocation of premium to AY for all items that can vary (other examples include reinstatement premium adjustments; audit premiums; retrospective rating provisions), and any such change should apply to direct, assumed and ceded premiums. This is a broader issue than retroactive reinsurance. The guidance, if provided, may list retroactive as one of the areas that might cause need for allocation of material amounts, but should not be the only type of transaction considered.

Thank you for the opportunity to provide these comments. We look forward to continued discussion of these issues at future meetings.

Sincerely,

Joseph B. Sieverling
Senior Vice President