

## Interpretation of the Emerging Accounting Issues Working Group

### INT 00-23: Reinsurance of Deposit Type Contracts

#### ISSUE NULLIFIED BY SSAP NO. 61

##### INT 00-23 Dates Discussed

June 12, 2000; September 11, 2000

##### INT 00-23 References

Appendix A-791, *Life and Health Reinsurance Agreements* (A-791)

Appendix A-785, *Credit for Reinsurance* (A-785)

*SSAP No. 50—Classifications and Definitions of Insurance or Managed Care Contracts In Force* (SSAP No. 50)

*SSAP No. 52—Deposit-Type Contracts* (SSAP No. 52)

*SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance* (SSAP No. 61)

##### INT 00-23 Issue

1. In the situation under consideration, an insurer issues a guaranteed interest contract or funding agreement to an institutional customer that provides for the accumulation of a deposit at a fixed or variable interest rate. The contract either has a specific maturity date or it has a notice period for withdrawal (for example 180 days) in lieu of a specific maturity date. Depending on the customer, the contract may provide for interim contract withdrawals for interest accumulated, for specific events (such as 401K plan benefit payments), or for any event with certain notice periods. The contracts may or may not have a market value adjustment or surrender charge for certain types of early withdrawals.
2. These contracts sold to institutions may or may not include life contingent purchase rate guarantees for annuitization. It depends upon the state in which the contract form is filed and the domiciliary state of the issuer as to whether that language is required for form approval. If the language is included in the form, there is no annuitant listed on the schedule page, but one could be announced by the policyholder at a later date. It is not the intention of the policyholder or the expectation of the issuer that annuities will be purchased to settle the terms of the contract. Instead, it is always expected to be settled in cash at the withdrawal date.
3. For this situation, the state in which the contract form is filed does not require language for life contingent purchase rate guarantees for annuitization to be included in the contract, so it is not in the contract.
4. The liability under this contract is ceded from the insurer to an affiliated insurance entity under a 100% coinsurance agreement that meets the transfer of appropriate economic risks under A-791 for guaranteed interest contracts of credit risk, reinvestment risk and disintermediation risk. In addition, the reinsurance contract meets the other accounting requirements listed in A-791.
5. The assuming insurer is licensed to transact insurance or reinsurance or is accredited as a reinsurer in the domiciliary state of the ceding insurer, so it meets the criteria to receive reinsurance credit under A-785.

6. The accounting issue is how to account for the liability that has been ceded on the issuer's balance sheet when the contract does not contain life contingent purchase rate guarantees for annuitization.

7. There is conflicting reporting guidance promulgated between SSAP No. 52, paragraph 10, which allows the deduction to be made from the policy or claim reserves of the ceding insurer for the amount ceded and SSAP No. 61, paragraph 51, which does not allow the deduction to be made from the policy or claim reserves of the ceding insurer and instead requires a receivable to be established by the ceding insurer.

8. SSAP No. 50 paragraphs 43, 44 and 45, indicate that contracts that do not incorporate insurance risk (i.e., do not have any life or disability contingencies) should be accounted for as deposit-type contracts. SSAP No. 52 paragraph 2 further defines insurance risk "A mortality or morbidity risk is present, if, under the terms of the contract, the reporting entity is required to make payments or forego required premiums contingent upon the death or disability (in the case of life and disability insurance contracts) or the continued survival (in the case of annuity contracts) of a specified individual or group of individuals." Based on this definition, it appears the contract described above meets the definition of a deposit type contract and should be accounted for in accordance with SSAP No. 52.

9. SSAP No. 52, paragraph 10 indicates that "Policy reserves shall be increased for reinsurance assumed and decreased for reinsurance ceded as further described in SSAP No. 61." This reference would lead a knowledgeable reader to come to the reasonable conclusion that the ceding insurer would decrease its reserve liability held for the ceded contracts by the amount ceded to the reinsurer.

10. However, there is conflicting language in SSAP No. 61 as it relates to SSAP No. 52, paragraph 10. SSAP No. 61, paragraph 18 indicates "All reinsurance agreements covering products that transfer significant risk shall follow the guidance for reinsurance accounting contained in this statement. All reinsurance contracts covering products that do not provide for sufficient transfer of risk shall follow the guidance for Deposit Accounting."

11. SSAP No. 61 paragraph 51 states "To the extent that a reinsurance contract does not, despite its form, provide for sufficient transfer of risk, amounts exchanged between the parties are to be accounted for and reported as follows:

- a. At the outset of the reinsurance contract, the net consideration exchanged between the parties shall be recorded as an asset by the payer of the net considerations and as a liability by the receiver. The amount to be admitted as an asset is subject to the limitations for transactions with unauthorized reinsurers described in Appendix A-785. Throughout the life of the contract, receipts and disbursements shall be recorded through the asset/liability accounts. Income and losses shall be recognized by a party when, according to the terms of the contract, it has earned the amount and the other party has no recourse to repayment of such amount in future periods. When the contract is completed, or when there is a loss payment in excess of the deposit, any difference between consideration and recoveries shall be recorded as other miscellaneous insurance income or miscellaneous insurance loss;"

12. It further goes on in paragraph 51.b. to state: "No deduction shall be made from the policy or claim reserves on the balance sheet, schedules and exhibits."

**INT 00-23 Discussion**

13. The working group reached a consensus to allow a ceding insurer to reduce deposit-type contract reserves for the amount ceded, provided the criteria in Appendices A-785 and A-791 are met.

**INT 00-23 Status**

14. No further discussion is planned.