

## Interpretation of the Emerging Accounting Issues Working Group

### INT 03-01: Application of SSAP No. 35 to the Florida Hurricane Catastrophe Fund

ISSUE NULLIFIED DUE TO FLORIDA LEGISLATIVE CHANGES  
SEE SSAP NO. 35 FOR GUIDANCE

#### INT 03-01 Dates Discussed

March 9, 2003; June 22, 2003; March 5, 2006

#### INT 03-01 References

*SSAP No. 35—Guaranty Fund and Other Assessments (SSAP No. 35)*

#### INT 03-01 Issue

1. Balance-sheet treatment of assessments to property and casualty companies by the Florida Hurricane Catastrophe Fund (“FHCF”) is governed by *SSAP No. 35—Guaranty Fund and Other Assessments* (SSAP No. 35). This request for interpretation or interim guidance seeks recognition of a gross asset and limitation, given certain conditions, of the assessment liability required by SSAP No. 35.

2. The FHCF is a practical measure imposed by government to mitigate the financial shock attendant on the occurrence or prospect of extreme weather in developed areas with dense population. Risks from hurricanes faced by residential property insurers are clear and present; the necessity to maintain insurance capacity to cover the consequences of hurricanes is the object of the FHCF, which pays residential policyholders’ hurricane-related claims through reinsurance provided to primary companies. Depending on the severity of the weather catastrophe, the FHCF is empowered to issue debt in the form of revenue bonds for payment of residential property-casualty claims in Florida.

3. Such debt issuance in the wake of a hurricane will result in assessments for service of that debt over long periods of time to most primary property and casualty companies doing business in Florida. (Premium revenue from virtually all lines, save for workers’ compensation, is subject to the assessment.) The aggregate magnitude of FHCF assessments to subject companies is dependent on a number of variables, most prominent among which are the extent of damage caused by the weather event, the amount of capital on hand, and costs of debt and its issuance. Assessments to individual companies will be levied as a percentage of their premium in the year prior to assessment. Companies that have exited the Florida market are no longer subject to FHCF assessment and companies entering the Florida market after the event are subject to the assessment.

4. The accounting issues are:

Issue 1: The nature of FHCF debt and allocation of the consequent debt service, which are the principal drivers of FHCF assessments.

Issue 2: The absence of treatment of the revenue received by subject companies that elect to recover the assessment in a rate filing.

5. With respect to issue one, FHCF revenue bonds are likely to be issued in decades-long maturities. Allocation of that debt service to individual companies is dependent on those companies' status in, or share of, the Florida property-casualty market.

6. With respect to issue 2, conditions of Paragraph 10 of SSAP No. 35 do not appear to contemplate the "deemed-approved" election or surcharge available to subject insurers for rate elements to cover the amount of FHCF assessments made to those subject insurers. Although such rate elements can be and are separately identified on many insurers' premium billings, insurers subject to the FHCF are themselves liable for assessments rather than being collectors and remitters of assessment amounts. Balance-sheet presentation of a liability for FHCF assessments, in the event of their declaration, would appear to be required, therefore, if SSAP No. 35 is applicable.

7. Further, with respect to issue 2, collections by subject insurers would yield revenue, perhaps diminished by some proportion of uncollectibles, as an admitted asset. Because of the nature of the relationship between the subject insurer and the FHCF, *SSAP No. 64—Offsetting and Netting of Assets and Liabilities* (SSAP No. 64) would appear to preclude netting of such cash against FHCF assessments. It is crucial to note, however, that SSAP No. 35, Paragraph 9 admits, in the presence of policy surcharges, the possibility of an admitted asset existing in relation to assessments "paid before premium tax credits are realized or policy surcharges are collected ...."

8. *SSAP No. 5—Liabilities, Contingencies and Impairments of Assets*, and SSAP No. 35, Paragraph 4, draw attention to the future period within which the reporting entity may be able to reliably estimate the amount of FHCF assessments for recognition as a liability. This Interpretation identifies the major variables for calculation of the aggregate amount of the FHCF assessment: amount of damages, capital on hand, costs of debt and issuance. In addition to these variables, and necessary for allocating that aggregate assessment to individual subject companies, is the individual company's share of the market. That is, both the total market and the individual subject company's share of the market, both clearly subject to change, are used in allocation of the aggregate amount of the assessment. It is these latter factors, crucial in determining the FHCF assessment to a subject entity, which preclude reliable estimation of FHCF assessments beyond the near future.

9. In practice, the time horizon of subject insurers' business plans and the dynamics of the property and casualty market suggest strongly that the amount of yearly FHCF assessments to a subject entity may be reliably or reasonably estimated through three years in the future but that such reliability diminishes with greater prospect. Unless management has reason and information to support reliable estimation through a future period longer than three years, it is reasonable to presume that quantification of a liability for FHCF assessments should extend through no less than three years in the future.

### INT 03-01 Discussion

10. The working group reached a consensus as follows:

- a) Assessments made by the FHCF are presumed to be reasonably estimable through no less than three years in the future;
- b) An asset shall be allowed for deemed-approved rate elements or surcharges that have been imposed by the reporting entity and filed with the regulator and that are specifically intended to match the period stated within a., to recoup FHCF assessments, which asset shall be reduced by amounts not expected to be collected by the reporting entity; and

- c) Disclosure is made of the remaining term of the assessment.

**INT 03-01 Status**

- 11. No further discussion is planned.