**NAIC Accounting Practices and Procedures Manual**

**Editorial and Maintenance Update**

**December 7, 2019**

Maintenance updates provide revisions to the *Accounting Practices and Procedures Manual*, such as editorial corrections, reference changes and formatting.

| **SSAP/Appendix** | **Description/Revision1** |
| --- | --- |
| SSAP No. 62R  | Update references in Exhibit A – Implementation Questions and Answers, question 31, which provides a retroactive reinsurance illustration. This revision does not revise the illustrated journal entries it just revises the referenced “item numbers” to the appropriate SSAP No. 62R, paragraph 34 references.  |
| SSAP No. 62R | Update reference in SSAP No. 62R, paragraph 85 to match the current format of property casualty annual statement Schedule F - Reinsurance**.** |
| Various SSAPs | Revise all references to the annual statement instructions for consistency and combine the life and fraternal references. * Generic references: annual statement instructions
* Specific Names:
	+ *Property/Casualty Annual Statement Instructions*
	+ *Life, Accident and Health/Fraternal Annual Statement Instructions*
	+ *Title Annual Statement Instructions*
	+ *Health Annual Statement Instructions*

Note: Only the changes to combine the Fraternal and Life references will be tracked as edits to the AP&P Manual. Since the other changes are just consistency changes to existing title references, those changes will not be tracked in the AP&P Manual. (Since there are several instances, they are not individually shown in this Form A.)  |

**Recommendation:**

NAIC staff recommends that the Statutory Accounting Principles (E) Working Group move this agenda item to the active listing, categorized as nonsubstantive, and expose editorial revisions, as illustrated below.

**Status:**

On December 7, 2019, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to *SSAP No. 62R—Property and Casualty Reinsurance* and various other SSAPs, as illustrated herein.

1. Update references in Exhibit A – Implementation Questions And Answers, question 31, which provides a retroactive reinsurance illustration. The revisions do not revise the illustrated journal entries. The revisions are to the update the referenced “item numbers” to the appropriate related SSAP No. 62R, paragraph 34 references. For example, journal entry #1 includes a references retroactive reinsurance reserves with an explanatory note of “see item #3” becomes “see paragraph 34.c.” which discusses the accounting for retroactive reinsurance reserves. The item numbers are being updated to the related subparagraph of paragraph 34; “see item #4” becomes “see paragraph 34.d.” NAIC staff has verified that the referenced paragraph 34 subparagraphs are relevant to the journal entry explanatory note and illustrated SSAP No. 62R, paragraph 34 for ease of review below the changes.

**SSAP No. 62R Property and Casualty Reinsurance - Tracked revisions**

## EXHIBIT A – IMPLEMENTATION QUESTIONS AND ANSWERS

31. Q: What accounting entries would a ceding entity make to report a retroactive reinsurance contract?

A: Accounting Entries for a Ceding Entity to Report a Retroactive Reinsurance Contract:

Entry 1

Retroactive Reinsurance Reserves

 Ceded or Assumed (B/S) 10,000

Retroactive Reinsurance Gain (I/S) 2,000

Cash 8,000

To record initial portfolio transfer see paragraph 34.c. and paragraph 34.h. The ceding entity must establish the segregated surplus per paragraph 34.d.

Entry 1A

Retro. Reins. Gain 2,000

Profit/Loss Account 2,000

To close gain from retroactive transaction.

Entry 1B

Profit/Loss Account 2,000

Special Surplus from Retro. Reins. 2,000

To close profit from retroactive reinsurance to special surplus.

Entry 2

Cash 2,000

Retroactive Reinsurance Reserves 2,000

 Ceded or Assumed (B/S)

To record recovery of paid losses from the reinsurer. Outstanding ceded reserves after this recovery equals $8,000, and special surplus from retroactive reinsurance account equals $2,000; therefore, segregated surplus account is not changed per paragraph 34.j.

Entry 3

Retroactive Reinsurance Reserves

Ceded or Assumed (B/S) 3,000

Retroactive Reinsurance Gain (I/S) 3,000

To record subsequent revision of the initial reserves ceded per paragraph 34.j. The segregated surplus account is increased to $5,000 as a result of this upward development.

Entry 3A

Retro. Reinsurance Gain 3,000

Profit/Loss Account 3,000

To close profit from retroactive reinsurance.

Entry 3B

Profit/Loss (I/S) 3,000

Special Surplus from Retro. Reins. 3,000

To close profit and loss account to special surplus. (Retroactive reinsurance reserves ceded or assumed account balance equals $11,000. Special Surplus from retroactive reinsurance balance equals $5,000.)

Entry 4

Cash 4,000

Retroactive Reinsurance Reserves

 Ceded or Assumed (B/S) 4,000

To record recovery of paid losses from the reinsurer. Outstanding ceded reserves after this recovery equals $7,000, therefore segregated surplus account is not changed per paragraph 34.j.

Entry 5

Cash 3,000

Retroactive Reinsurance Reserves

 Ceded or Assumed (B/S) 3,000

To record recovery of paid losses from reinsurer. Outstanding ceded reserves after recovery equals $4,000, therefore the following entry is needed per paragraph 34.f. and paragraph 34.j.

Entry 5A

Special Surplus—Retro. Reins. 1,000

Unassigned Funds 1,000

Retroactive Reinsurance reserves ceded or assumed after this entry equals $4,000.

Entry 6

Retroactive Reinsurance Loss (I/S) 1,000

Retroactive Reinsurance Reserves

 Ceded or Assumed (B/S) 1,000

To record subsequent revision of the initial reserves ceded per paragraph 34.j. The segregated surplus account is decreased as a result of this downward development to $3,000. The following entry is needed per paragraph 34.f. and paragraph 34.j.

Entry 6A

Profit/Loss Account 1,000

Retro. Reins. Loss 1,000

To close loss to profit and loss account.

Entry 6B

Special Surplus from Retro. Reins. 1,000

Profit/Loss Account 1,000

To close profit and loss account to special surplus. (Remaining balance of retroactive reinsurance reserve ceded or assumed account equals $3,000.) (Special surplus from retro. reins. account balance equals $3,000.)

Entry 7

Cash 2,500

Retroactive Reinsurance Gain (I/S) 500

Retroactive Reinsurance Reserves

Ceded or Assumed (B/S) 3,000

Entry 7A

Profit and Loss Account 500

Retro. Reins. Gain 500

To close other income to profit and loss account.

Entry 7B

Special Surplus from Retro. Reins. 500

Profit/Loss Account 500

To close profit and loss account to special surplus. (Remaining balance of special surplus from retro. reins. account equals $2,500.) (Remaining balance of retroactive reinsurance reserve ceded or assumed account -0-.)

Entry 7C

Special Surplus from Retro. Reins. 2,500

Unassigned Funds 2,500

To close remaining special surplus account to unassigned surplus.

**For ease of review, the referenced SSAP No. 62R, paragraphs 33 and 34 are illustrated below (No revisions are proposed to these paragraphs):**

**Accounting for Retroactive Reinsurance Agreements**

1. Certain reinsurance agreements which transfer both components of insurance risk cover liabilities which occurred prior to the effective date of the agreement. Due to potential abuses involving the creation of surplus to policyholders and the distortion of underwriting results, special accounting treatment for these agreements is warranted.
2. All retroactive reinsurance agreements entered into, renewed or amended on or after January 1, 1994 (including subsequent development of such transactions) shall be accounted for and reported in the following manner:
3. The ceding entity shall record, without recognition of the retroactive reinsurance, loss and loss expense reserves on a gross basis on the balance sheet and in all schedules and exhibits;
4. The assuming entity shall exclude the retroactive reinsurance from loss and loss expense reserves and from all schedules and exhibits;
5. The ceding entity and the assuming entity shall report by write-in item on the balance sheet, the total amount of all retroactive reinsurance, identified as retroactive reinsurance reserve ceded or assumed, recorded as a contra-liability by the ceding entity and as a liability by the assuming entity;
6. The ceding entity shall, by write-in item on the balance sheet, restrict surplus resulting from any retroactive reinsurance as a special surplus fund, designated as special surplus from retroactive reinsurance account;
7. The surplus gain from any retroactive reinsurance shall not be classified as unassigned funds (surplus) until the actual retroactive reinsurance recovered exceeds the consideration paid;
8. The special surplus from retroactive reinsurance account for each respective retroactive reinsurance agreement shall be reduced at the time the ceding entity begins to recover funds from the assuming entity in amounts exceeding the consideration paid by the ceding entity under such agreement, or adjusted as provided in paragraph 34.j.;
9. For each agreement, the reduction in the special surplus from retroactive reinsurance account shall be limited to the lesser of (i) the actual amount recovered in excess of consideration paid or (ii) the initial surplus gain resulting from the respective retroactive reinsurance agreement. Any remaining balance in the special surplus from retroactive reinsurance account derived from any such agreement shall be returned to unassigned funds (surplus) upon elimination of all policy obligations subject to the retroactive reinsurance agreement;
10. The ceding entity shall report the initial gain arising from a retroactive reinsurance transaction (i.e., the difference between the consideration paid to the reinsurer and the total reserves ceded to the reinsurer) as a write-in item on the statement of income, to be identified as Retroactive Reinsurance Gain and included under Other Income;
11. The assuming entity shall report the initial loss arising from a retroactive reinsurance transaction, as defined in the preceding paragraph 34.g., as a write-in item on the statement of income, to be identified as Retroactive Reinsurance Loss and included under Other Income;
12. Any subsequent increase or reduction in the total reserves ceded under a retroactive reinsurance agreement shall be reported in the manner described in the preceding paragraphs 34.h. and 34.i., in order to recognize the gain or loss arising from such increase or reduction in reserves ceded. The Special Surplus from Retroactive Reinsurance Account write-in entry on the balance sheet shall be adjusted, upward or downward, to reflect such increase or reduction in reserves ceded. The Special Surplus from Retroactive Reinsurance Account write-in entry shall be equal to or less than the total ceded reserves under all retroactive reinsurance agreements in-force as of the date of the financial statement. Special surplus arising from a retroactive reinsurance transaction shall be considered to be earned surplus (i.e., transferred to unassigned funds (surplus)) only when cash recoveries from the assuming entity exceed the consideration paid by the ceding entity as respects such retroactive reinsurance transaction; and
13. The consideration paid for a retroactive reinsurance agreement shall be reported as a decrease in ledger assets by the ceding entity and as an increase in ledger assets by the assuming entity.

(For an illustration of ceding entity accounting entries see question 31 in Exhibit A.)

**2. Update reference in SSAP No. 62R, paragraph 85 to match the current format of property casualty annual statement Schedule F - Reinsurance.**

Provision for Reinsurance

85. The NAIC Property/Casualty Annual Statement Instructions Schedule F, Part 3 - Ceded Reinsurance, references the provision for overdue reinsurance provides for a minimum reserve for uncollectible reinsurance with an additional reserve required if an entity’s experience indicates that a higher amount should be provided. The minimum reserve provision for reinsurance is recorded as a liability and the change between years is recorded as a gain or loss directly to unassigned funds (surplus). Any reserve over the minimum amount shall be recorded on the statement of income by reversing the accounts previously utilized to establish the reinsurance recoverable.

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