

**Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A**

Issue: A-791 Paragraph 2.c.

Check (applicable entity):

| | P/C | Life | Health |
|-------------------------------|--------------------------|-------------------------------------|-------------------------------------|
| Modification of Existing SSAP | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| New Issue or SSAP | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Interpretation | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Description of Issue:

The Valuation Analysis (E) Working Group sent a referral to the Statutory Accounting Principles (E) Working Group which recommends making a clarifying edit to A-791, Life and Health Reinsurance Agreements, Section 2.c's, Question and Answer by removing the first sentence, which reads, "Unlike individual life insurance where reserves held by the ceding insurer reflect a statutorily prescribed valuation premium above which reinsurance premium rates would be considered unreasonable, group term life has no such guide." **(See Existing Authoritative Literature)** The referral notes that:

First, this sentence is unnecessary, as it is an aside in a discussion about group term life. More importantly, this statement is being misinterpreted as supporting the use of Commissioner's Standard Ordinary (CSO) rates as a "safe harbor," at or below which YRT rates would be automatically considered not to be excessive.

The 791 section 2c QA guidance does not provide a safe harbor based on CSO. It indicates that if the YRT reinsurance premium is higher than the proportionate underlying direct premium for the risk reinsured, then the reinsurance premium is excessive. VAWG observes that the prudent mortality under the *Valuation Manual*, Section 20: Requirements for Principle-Based Reserves for Life Products (VM-20), may appropriately be either higher or lower than the CSO rate depending on the facts and circumstances.

Existing Authoritative Literature:

A-791, Life and Health Reinsurance Agreements, paragraph 2c:

2. No insurer shall, for reinsurance ceded, reduce any liability or establish any asset in any statutory financial statement if, by the terms of the reinsurance agreement, in substance or effect, any of the following conditions exist:
 - c. The ceding insurer is required to reimburse the reinsurer for negative experience under the reinsurance agreement, except that neither offsetting experience refunds against current and prior years' losses under the agreement nor payment by the ceding insurer of an amount equal to the current and prior years' losses under the agreement upon voluntary termination of in force reinsurance by the ceding insurer shall be considered such a reimbursement to the reinsurer for negative experience. Voluntary termination does not include situations where termination occurs because of unreasonable provisions which allow the reinsurer to reduce its risk under the agreement. An example of such a provision is the right of the reinsurer to increase reinsurance premiums or risk and expense charges to excessive levels forcing the ceding company to prematurely terminate the reinsurance treaty;

A-791, Life and Health Reinsurance Agreements, paragraph 2c's, Question and Answer (Underlining added for Emphasis):

Q – If group term life business is reinsured under a YRT reinsurance agreement (which includes risk-limiting features such as with an experience refund provision which offsets refunds against current and/or prior years' losses (i.e., a "loss carryforward" provision), under what circumstances would any provisions of the reinsurance agreement be considered "unreasonable provisions which allow the reinsurer to reduce its risk under the agreement" thereby violating subsection 2.c.?

A – Unlike individual life insurance where reserves held by the ceding insurer reflect a statutorily prescribed valuation premium above which reinsurance premium rates would be considered unreasonable, group term life has no such guide. So long as the reinsurer cannot charge premiums in excess of the premium received by the ceding insurer under the provisions of the YRT reinsurance agreement, such provisions would not be considered unreasonable. Any provision in the YRT reinsurance agreement which allows the reinsurer to charge reinsurance premiums in excess of the proportionate premium received by the ceding insurer would be considered unreasonable. The revisions to this QA regarding group term life yearly renewable term agreements is effective for contracts in effect as of January 1, 2021.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups): On January 10, 2024, the Statutory Accounting Principles (E) Working Group received the referral from the Valuation Analysis (E) Working Group and directed NAIC staff to prepare an agenda item for future Working Group discussion.

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:
None

Convergence with International Financial Reporting Standards (IFRS): Not applicable.

Staff Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing of the maintenance agenda, categorized as a SAP clarification, and expose revisions to remove the first sentence of the A-791, paragraph 2c's Question and Answer as illustrated below. In addition, the Working Group should notify the Valuation Analysis (E) Working Group, the Life Actuarial (A) Task Force and the Reinsurance (E) Task Force of the exposure.

As noted by the referral, the sentence is not necessary as it is more of an introductory aside. If it is causing confusion and misapplication, as noted by the VAWG, it is better to remove the sentence.

Proposed revision to A-791, Life and Health Reinsurance Agreements, paragraph 2c:

2. No insurer shall, for reinsurance ceded, reduce any liability or establish any asset in any statutory financial statement if, by the terms of the reinsurance agreement, in substance or effect, any of the following conditions exist:
 - c. The ceding insurer is required to reimburse the reinsurer for negative experience under the reinsurance agreement, except that neither offsetting experience refunds against current and prior years' losses under the agreement nor payment by the ceding insurer of an amount equal to the current and prior years' losses under the agreement upon voluntary termination of in force reinsurance by the ceding insurer shall be considered such a reimbursement to the reinsurer for negative experience. Voluntary termination does not include situations where termination occurs because of unreasonable provisions which allow the reinsurer to reduce its risk under the agreement. An example of such a provision is the right of the reinsurer to increase reinsurance premiums or risk and expense charges to excessive levels forcing the ceding company to prematurely terminate the reinsurance treaty;

A-791, Life and Health Reinsurance Agreements, paragraph 2c's, Question and Answer):

Q – If group term life business is reinsured under a YRT reinsurance agreement (which includes risk-limiting features such as with an experience refund provision which offsets refunds against current and/or prior years' losses (i.e., a “loss carryforward” provision), under what circumstances would any provisions of the reinsurance agreement be considered “unreasonable provisions which allow the reinsurer to reduce its risk under the agreement” thereby violating subsection 2.c.?

A –~~Unlike individual life insurance where reserves held by the ceding insurer reflect a statutorily prescribed valuation premium above which reinsurance premium rates would be considered unreasonable, group term life has no such guide.~~ So long as the reinsurer cannot charge premiums in excess of the premium received by the ceding insurer under the provisions of the YRT reinsurance agreement, such provisions would not be considered unreasonable. Any provision in the YRT reinsurance agreement which allows the reinsurer to charge reinsurance premiums in excess of the proportionate premium received by the ceding insurer would be considered unreasonable. The revisions to this QA regarding group term life yearly renewable term agreements ~~is~~ are effective for contracts in effect as of January 1, 2021.

Staff Review Completed by: Robin Marcotte – NAIC Staff, February 2024

Status:

On March 16, 2024, the Statutory Accounting Principles (E) Working Group exposed the above illustrated revisions to remove the first sentence of *Appendix A-791—Life and Health Reinsurance Agreements* (A-791), paragraph 2c's Question and Answer. In addition, the Working Group directed NAIC staff to notify the Valuation Analysis (E) Working Group, the Life Actuarial (A) Task Force and the Reinsurance (E) Task Force of the exposure.

On August 13, 2024, the Statutory Accounting Principles (E) Working Group re-exposed this agenda to allow more time for comments and discussion on this agenda item.

On December 17, 2024, the Statutory Accounting Principles (E) Working Group received a preliminary overview of the comments received from the August 2024 exposure. The Working Group directed NAIC staff to schedule a joint meeting with the Life Actuarial (A) Task Force to further discuss the referral from the Valuation of Assets (E) Working Group and the comments received.

On April 10, 2025, the Statutory Accounting Principles (E) Working Group and the Life Actuarial (A) Task Force held a joint meeting. The meeting discussed this agenda item and agenda item 2024-06: Risk Transfer Analysis on Combination Reinsurance Contracts; heard a presentation from the American Council of Life Insurers (ACLI) on statutory risk transfer considerations and heard a presentation on combined coinsurance funds withheld YRT agreements from the LATF chair.

On May 30, 2025, a small group of regulators from the SAPWG and Life Actuarial (A) Task Force recommended re-exposure of the previously exposed revisions to this agenda item. These revisions delete a sentence from the A-791 paragraph 2c QA as illustrated above. There are no revisions from the prior exposure for this item.

On June 2, 2025, the Statutory Accounting Principles (E) Working Group re-exposed the previously exposed revisions to this agenda item. These revisions delete a sentence from the A-791 paragraph 2c QA as illustrated above. There are no revisions from the prior exposure for this item.

On August 11, 2025, the Statutory Accounting Principles (E) Working Group adopted, as final, the exposed revisions to delete a sentence from the answer to A-791 paragraph 2.c. QA as illustrated above.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2025/08-11-25SummerNationalMeeting/Adoptions/24-05-A791par2c.docx>