

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

Issue: Risk Transfer Analysis on Combination Reinsurance Contracts

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	☐	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue:

This agenda item is to address a December 2023, referral by the Valuation Analysis (E) Working Group (VAWG) regarding reinsurance risk transfer and reserve credit for a particular form of reinsurance being observed by regulators in the life industry. The referral noted that:

VAWG has identified that issues arise when evaluating reinsurance for risk transfer in accordance with *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance*, when treaties involve more than one type of reinsurance, and there is interdependence of the types of reinsurance, including but not limited to an experience refund that is based on the aggregate experience. In such cases, VAWG regulators find that these types of reinsurance must be evaluated together and cannot be evaluated separately for the purpose of risk transfer. For example, where a treaty includes coinsurance and YRT with an aggregate experience refund and the inability to independently recapture the separate types of reinsurance, it is not adequate to separately review the coinsurance and YRT pieces of the transaction for risk transfer. The treaty as a whole is non- proportional. This complexity is not immediately apparent to the regulatory reviewer, and it is important that this issue be raised broadly, so that individual state regulators are aware. Individual regulators are encouraged to contact VAWG if they would like additional perspective when reviewing such treaties.

Generally, VAWG regulators observe that some companies are reporting an overstated reserve credit due to a bifurcated risk transfer analysis. Specifically, some companies reported a proportional reserve credit for a coinsurance component, despite in aggregate the reinsurer only being exposed to loss in tail scenarios. From an actuarial perspective, there is consensus among VAWG members that it is not appropriate for a ceding company to take a proportional reserve credit that reflects the transfer of all actuarial risks when not all actuarial risks are transferred.

VAWG recommends that SAPWG discuss this issue, to 1) increase familiarity with the issue and 2) consider whether any clarifications to risk transfer requirements is appropriate

SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance contains guidance for life and health reinsurance agreements. Additionally, SSAP No. 61R refers to Appendix A-791, *Life and Health Reinsurance Agreements* for risk transfer criteria applicable to all forms of life and health reinsurance other than Yearly Renewable Term (YRT) agreements and certain non-proportional contracts such as stop loss and catastrophe reinsurance. YRT agreements are required to comply with specific parts of A-791. Furthermore, contracts that do not meet the conditions for reinsurance accounting in SSAP No. 61R, including the applicable parts of A-791, receive deposit accounting.

As noted in the referral above, regulators have observed reinsurance transactions that combine both coinsurance and YRT, typically applicable to different underlying policies, but that are interdependent. There exists an aggregate experience refund and recapture provisions that allow for recapture by the cedant, but only if both components are recaptured simultaneously.

VAWG observed that some insurers have assessed these components under A-791 as if they were separate agreements, concluding that the requirements for risk transfer are met for each. Reserve credit was then taken on each component; a proportional credit for the quota share on the coinsured policies, and a YRT credit for the YRT component. Note that YRT contracts ordinarily cover a percentage of the one-year mortality risk for the net amount at risk on a policy. A simple way to describe net amount at risk is the difference between the policy reserve held and the face value of the policy.

The concern raised by regulators is that the substance of this interdependent agreement design is more akin to the risk transferred under a nonproportional reinsurance agreement. This is because in aggregate, proportionate amounts of the risk are not transferred. The agreements are designed to compensate the cedant for aggregate experience only in tail scenarios, which is accomplished through the design of the aggregate experience refund. In most reasonably expected scenarios, the net effect of the reinsurance is such that the cedant pays a financing charge to the reinsurer for a designated period of time until an expected recapture date and no additional net funds exchange hands. As a result, taking a full proportional reserve credit on the coinsured component is not reflective of the actual risk being transferred. SSAP No. 61R, paragraph 36 notes that the reinsurance credit is only for the risk reinsured. As noted in the referral, there was consensus among VAWG members that it is not appropriate for a ceding company to take a proportional reserve credit that reflects the transfer of all actuarial risks when not all actuarial risks are transferred. NAIC staff agrees with the VAWG consensus and proposes to incorporate a version of existing guidance from SSAP No. 62R that addresses this point. The inclusion of this guidance is intended to require risk transfer to be analyzed for the entire contract when multiple interdependent types of reinsurance are present.

SSAP No. 62R—Property and Casualty Reinsurance Exhibit A – Implementation Questions and Answers, question 10 provides guidance on interdependent contract features. This agenda item proposes to incorporate key aspects of the SSAP No. 62R, Exhibit A question 10 into SSAP No. 61R to provide more clarity on evaluation of risk transfer on contracts with interdependent features. The answer requires that features of the contract(s) that directly or indirectly compensate the reinsurer or related reinsurers for losses be considered in determining if a particular contract transfers risk. The *SSAP No. 62R—Property and Casualty Reinsurance Exhibit A – Implementation Questions and Answers* question 10 provides the following:

10A: A contract is not defined, but is essentially a question of substance. It may be difficult in some circumstances to determine the boundaries of a contract. **For example, the profit-sharing provisions of one contract may refer to experience on other contracts and, therefore, raise the question of whether, in substance, one contract rather than several contracts exist.**

The inconsistency that could result from varying interpretations of the term *contract* is limited by requiring that features of the contract or other contracts or agreements that directly or indirectly compensate the reinsurer or related reinsurers for losses be considered in evaluating whether a particular contract transfers risk. Therefore, if agreements with the reinsurer or related reinsurers, in the aggregate, do not transfer risk, the individual contracts that make up those agreements also would not be considered to transfer risk, regardless of how they are structured.

As historical background, the guidance for SSAP No. 62R, Exhibit A, question 10, originated from *GAAP EITF Topic D-34, Accounting for Reinsurance: Questions and Answers about FASB Statement No. 113* (EITF D-34). 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 *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance* as illustrated below. The proposed revisions incorporate guidance to SSAP No. 61R which is consistent with the guidance currently in SSAP No. 62R, Exhibit A Implementation Questions and Answers, question 10 and also add reference to A-791, paragraph 6 guidance in the YRT guidance paragraph. (See Authoritative Literature). FASB Statement No. 113 was adopted with modification in both SSAP No. 62R and SSAP No. 61R. Topic 944 Reinsurance Contracts in the current FASB Codification Implementation Guide continues to include the guidance from EITF D-34.

The example reinsurance contract that VAWG observed contained yearly renewable term reinsurance. Per SSAP No. 61R, paragraph 19, only certain parts of *A-791 Life and Health Reinsurance Agreements* apply to YRT

contracts. Specifically, YRT contracts only have to pass A-791, paragraphs 2.b., 2.c., 2.d., 2.h., 2.i., 2.j. or 2.k. to result in reinsurance accounting. In addition, paragraph 3 of A-791 on deferral of gain on cession of prior year blocks of business also applies. As described above, YRT contracts do not transfer all of the risk inherent in the contract as they typically only cover a percentage of the net amount at risk for typically one year. Note that the reinsurance accounting credit from a YRT contract per the guidance in SSAP No. 61R, paragraph 37 is computed as the one-year term mean reserve on the amount of insurance ceded. Therefore, a YRT credit is typically less than what a proportional coinsurance contract which transfers all significant risks would typically provide.

The VAWG reinsurance contract example also included coinsurance contracts which must pass all of A-791 to receive reinsurance accounting. The example contract contained a shared experience refund between the two contract types. This interdependent feature is a key element. NAIC staff agrees with VAWG that an interdependent reinsurance payment in a contract requires a single risk transfer assessment. However, the combined interdependent contract when assessed in aggregate would likely cause it to either not meet the conditions for reinsurance accounting or would result in a smaller reinsurance credit than VAWG observed some entities taking.

A-791, paragraph 2e contains the guidance which limits the amounts paid to the reinsurer to the income realized on the underlying reinsured policy and paragraph 2f contains the guidance on transferring all the significant risk of the business reinsured. Adding YRT coverage with coinsurance would likely result in a “fail” of the criteria in A-791 because not all of the significant risks of the underlying reinsured policies would be likely to be passed to the reinsurer (thus failing the criteria in A-791, paragraph 2f). Combining YRT and coinsurance in the same contract could also cause that contract to fail A-791 if the reinsurance contract charged more than the income on the underlying policy.

In addition, A-791, paragraph 6 requires that the reinsurance contract include provisions that the agreement shall constitute the entire agreement between the parties with respect to the business being reinsured thereunder and that there are no understandings between the parties other than as expressed in the agreement. This paragraph does not currently apply to YRT but is recommended to apply.

Existing Authoritative Literature:

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

Types of Reinsurance Arrangements

11. Once an entity has decided to reinsure amounts in excess of its desired retention, it may proceed in one of several basic arrangements—coinsurance, modified coinsurance, yearly renewable term or non-proportional. Such contracts may have funds withheld.

Coinsurance

12. In this arrangement, the risks are reinsured on the same plan as that of the original policy. The direct writer and the reinsurer share in the risk in the same manner. The ceding entity pays the reinsurer a proportional part of the premiums collected from the insured. In return, the reinsurer reimburses the ceding entity for the proportional part of the death or accident and health claim payments and other benefits provided by the policy, including nonforfeiture values, policy dividends, experience rating refunds, commissions, premium taxes, and other direct expenses agreed to in the contract. The reinsurer must also establish the required reserves for the portion of the policy it has assumed. A single policy can be coinsured with more than one entity or under more than one reinsurance contract with the same entity as long as the combined total of reinsurance and the retention of the ceding entity is not more than 100% of the risk.

13. In coinsurance of participating policies, the reinsurer may reimburse the ceding entity for its portion of the dividends paid to the policyholder. In determining its schedule of dividends, the ceding entity takes into account the experience on the business as written. If the reinsurer reimburses dividends it will typically accept the ceding entity's schedule but may require input into the schedule. Changes to the schedule may have to be agreed to by the reinsurer. Coinsurance of all or a portion of a block of business also is used in situations where a severe strain is placed on the direct writing entity's surplus in the first policy year. For example, the premium received by the direct writer during the first policy year usually is insufficient to pay

the high first-year commissions and other costs of issue and to establish the initial reserve. In such an example, coinsurance relieves some of the surplus strain of adding large amounts of new insurance.

Modified Coinsurance

14. The “modified coinsurance” or “modco” arrangement is a variation of coinsurance. The ceding entity has transferred all or a portion of the net policy liabilities on the reinsured policies to the reinsurer, and the reinsurer is required to indemnify the ceding entity for the same amount. The assets necessary to support the reserves for the original policies are maintained by the ceding entity instead of the reinsurer. This is accomplished by designating in the contract the transfer of the net policy liabilities to the assuming entity and an immediate transfer back to the extent of the modco deposit. Under modified coinsurance, the assuming entity shall transfer to the ceding entity the increase in the reserve on the reinsured portion. This transaction reflects the reinsurer’s risk with respect to the reinsured business and its obligation to maintain the reserves supporting such obligation. In some cases, a policy may be reinsured partially on a coinsurance arrangement and partially on a modified coinsurance arrangement. This may be accomplished through the use of two contracts or in a single contract.

Yearly Renewable Term (YRT)

15. Under this arrangement of reinsurance, the ceding entity transfers the net amount at risk on the portion reinsured to the reinsurer and pays a one-year term premium. The “net amount at risk”—as defined in the contract—is usually the amount of insurance provided by the policy in excess of the ceding entity’s reserve on it.

Non-Proportional

16. Other forms of reinsurance are also available, such as catastrophe and stop loss coverage. These arrangements provide for financial protection to the ceding entity for aggregate losses rather than providing indemnification for an individual policy basis as described in the preceding three reinsurance arrangements. Catastrophic and stop loss reinsurance are written on an annual basis to protect the ceding entity from excessive aggregate losses. Usually, the coverage does not extend over the life of the underlying policy nor is there any requirement on the ceding entity to renew the arrangement.

Transfer of Risk

17. **Reinsurance agreements must transfer risk from the ceding entity to the reinsurer in order to receive the reinsurance accounting treatment discussed in this statement.** If the terms of the agreement violate the risk transfer criteria contained herein, (i.e., **limits or diminishes the transfer of risk by the ceding entity to the reinsurer**), the agreement shall follow the guidance for Deposit Accounting. In addition, any contractual feature that delays timely reimbursement violates the conditions of reinsurance accounting.

18. This paragraph applies to all life, deposit-type and accident and health reinsurance agreements except for yearly renewable term reinsurance agreements and non-proportional reinsurance agreements such as stop loss and catastrophe reinsurance. 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.

19. **Yearly renewable term (YRT)** reinsurance agreements that transfer a proportionate share of mortality or morbidity risk inherent in the business being reinsured and do not contain any of the conditions described in **Appendix A-791, paragraphs 2.b., 2.c., 2.d., 2.h., 2.i., 2.j. or 2.k.,** shall follow the guidance for reinsurance accounting, including paragraphs 55-57 of this statement that apply to indemnity reinsurance. Contracts that fail to meet the requirements for reinsurance accounting shall follow the guidance for Deposit Accounting. For all treaties entered into on or after January 1, 2003, the deferral guidance in paragraph 3 of A-791 shall also apply to YRT agreements. Since YRT agreements only transfer the mortality or morbidity risks to the reinsurer, the recognition of income shall be reflected on a net of tax basis, as gains emerge based on the mortality or morbidity experience.

20. For non-proportional reinsurance agreements such as stop loss and catastrophe reinsurance agreements, contract terms shall be evaluated to assess whether they transfer significant risk to the reinsurer. For example, prepayment schedules and accumulating retentions from multiple years are contractual features inherently designed to delay the timing of reimbursement to the ceding entity limits the risk to the reinsurer. Regardless of what a particular feature might be called, any feature that can delay timely reimbursement violates the conditions for reinsurance accounting. Transfer of insurance risk requires that the reinsurer's payment to the ceding entity depend on and directly vary with the amount and timing of claims settled under the reinsured contracts. Contractual features that can delay timely reimbursement prevent this condition from being met. Reinsurance accounting shall apply to all non-proportional agreements that transfer significant risk and do not contain any provisions that protect the reinsurer from incurring a loss. Contracts that fail to meet the requirements for reinsurance accounting shall follow the guidance for Deposit

Credits for Ceded Reinsurance

36. The credit taken by the ceding entity under the coinsurance arrangement is calculated using the same methodology and assumptions used in determining its policy and claim reserves. It is, of course, only for the percentage of the risk that was reinsured. Under modified coinsurance, the reserve credit is reduced by the modco deposit retained by the ceding entity. If the entity reinsures on a yearly renewable term basis, it is itself buying insurance for the portion of the ceded amount at risk. The amount of yearly renewable term reinsurance that is required on a given policy generally decreases each year as the entity's reserve increases. The net amount at risk may increase, however, on interest sensitive products such as universal life. The amount at risk on accident and health yearly renewal term reinsurance will remain level and the reinsurance premium will increase each year.

37. The reserve credit taken by the ceding entity is reported as a reduction to the reserves and not as an asset of the entity. **The ceding entity's reserve credit and assuming entity's reserve for yearly renewable term reinsurance shall be computed as the one year term mean reserve on the amount of insurance ceded. The ceding entity must use the same mortality and interest bases which were used for valuing the original policy before reinsurance.** The credit may also be computed on a pro rata basis if the result is not materially different from the credit computed on the mean reserve basis. For all types of reinsurance, the ceding entity also takes credit for other amounts due from the reinsurer such as unpaid claims and claims incurred but not reported. If contemplated by the reinsurance contract, recognition of related assets and liabilities must occur (policy loans, due and deferred premiums, etc.).

38. Non-proportional reinsurance is entered into on an annual basis to limit the claims experience of the ceding entity and thereby protect its financial integrity. When the period of the arrangement exceeds one year, the contract must be carefully reviewed to determine if the end result more closely follows proportional reinsurance. **No reserve credit is taken for non-proportional reinsurance unless the aggregate attachment point has in fact been penetrated. In order for an entity to reflect reserve credits on a prospective basis, the entity will need to demonstrate that the present value of expected recoveries using realistic assumptions, to be realized from the reinsurer are in excess of the present value of the reinsurance premiums guaranteed to be paid by the ceding entity under the terms of the contract.** Because non-proportional reinsurance aggregates experience, and does not indemnify the ceding entity for each policy loss, the use of statutory assumptions underlying the insured policies is inappropriate for determining any reserve credit to be taken by the ceding entity. Historical experience, pricing assumptions and asset shares shall be considered in determining if the reinsurer may be reasonably expected to pay any claims. The reserve credit taken shall only reflect these reasonable expectations. **This treatment of non-proportional reinsurance is similar to the way property and casualty (P&C) reinsurance is considered. This is because these modes of reinsurance more closely follow P&C indemnification principles than life insurance formula basis, and because these coverages are very similar to excess insurance on P&C products. In determining the appropriate reserve credit, the probability of a loss penetrating to the reinsurer's level of coverage (using reasonable assumptions) must be multiplied by the expected amount of recovery.** This is the same as reserve credits on coinsurance where the probability of a claim (i.e., mortality) is multiplied by the expected return (i.e., death benefit). In that the coverage is for aggregate experience, the mortality assumptions underlying any one policy risk are inappropriate to analyze the appropriate credits for non-proportional coverage.

- **SSAP No. 61R, adopts FAS 113 with modifications.**

Relevant Literature

86. This statement adopts with modification *FASB Statement No. 113, Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts*. The statutory accounting principles established by this statement differ substantially from GAAP, reflecting much more detailed guidance, as follows:

- a. Reserve credits taken by ceding companies as a result of reinsurance contracts are netted against the ceding entity's policy and claim reserves and unpaid claims;
- b. First year and renewal ceding commissions on indemnity reinsurance of new business are recognized as income. Ceding commissions on ceded in-force business are included in the calculation of initial gain or loss;
- c. As discussed in SSAP No. 50, statutory accounting defines deposit-type contracts as those contracts which do not include any mortality or morbidity risk. GAAP defines investment contracts as those that do not subject the insurance enterprise to significant policyholder mortality or morbidity risk. (The distinction is any mortality or morbidity risk for statutory purposes vs. significant mortality or morbidity risk for GAAP purposes.) Therefore, a contract may be considered an investment contract for GAAP purposes, and that same contract may be considered other than deposit-type for statutory purposes. A reinsurance treaty covering contracts that have insignificant mortality or morbidity risk (i.e., contracts classified as other than deposit-type contracts for statutory purposes, but investment contracts for GAAP purposes) that does not transfer that mortality or morbidity risk, but does transfer all of the significant risk inherent in the business being reinsured (e.g., lapse, credit quality, reinvestment or disintermediation risk) qualifies for reinsurance accounting for statutory reporting purposes, but would not qualify for reinsurance accounting treatment for GAAP purposes;
- d. Initial gains on indemnity reinsurance of in-force blocks of business have unique accounting treatment. A portion of the initial gain (equal to the tax effect of the initial gain in surplus) is reported as commissions and expense allowances on reinsurance ceded in the statement of operations. The remainder of the initial gain is reported on a net-of-tax basis as a write-in for gain or loss in surplus in the Capital and Surplus Account. In subsequent years, the ceding entity recognizes income on the reinsurance ceded line for the net-of-tax profits that emerged on the reinsured block of business with a corresponding decrease in the write-in for gain or loss in surplus;
- e. This statement prohibits recognition of a gain or loss in connection with the sale, transfer or reinsurance of an in-force block of business between affiliated entities in a non-economic transaction. Any difference between the assets transferred by the ceding entity and the liabilities, including unamortized IMR, shall be deferred and amortized under the interest method;
- f. This statement requires that a liability be established through a provision reducing surplus for unsecured reinsurance recoverables from unauthorized reinsurers;
- g. This statement prescribes offsetting certain reinsurance premiums.

87. This statement incorporates Appendices A-785 and A-791.

- **SSAP No. 61R, Glossary Excerpts:**

Net Amount at Risk

The excess of the death benefit of a policy over the policy reserve. It is the amount which must come from surplus in the event of a death claim.

Non-Proportional Reinsurance

Reinsurance that is not secured on individual lives for specific individual amounts of reinsurance, but rather reinsurance that protects the ceding entity's overall experience on its entire portfolio of business, or at least as broad as noted in paragraph 19 of SSAP No. 61 segment of it. The most common forms of non-proportional reinsurance are stop loss reinsurance and catastrophe reinsurance.

Non-proportional reinsurance is a form of casualty insurance. Usually neither the premium nor continuance of coverage is guaranteed beyond a specified term.

Pool

A method of allocating reinsurance among several reinsurers. Using this method, each reinsurer receives a specified percentage of risk ceded into the pool. Percentages may vary by reinsurer.

Proportional Reinsurance

Reinsurance on a particular life for a specified amount or share generally, though not necessarily, secured at the time the policy is issued to the insured. The continuation of coverage guarantees for the reinsurance generally parallel those in the life insurance coverage reinsured. Most life reinsurance conducted in the United States is done so on a proportional basis.

Yearly Renewable Term (YRT)

A form of life reinsurance under which the mortality or morbidity risks, but not the permanent plan reserves, are transferred to the reinsurer for a premium that varies each year with the amount at risk and the ages of the insureds. The amount of reinsurance, which may change annually, is generally the amount of insurance provided by the policy in excess of the primary insurer's reserve.

- **SSAP No. 62R—Property and Casualty Reinsurance Exhibit A – Implementation Questions and Answers**

10. Q: For purposes of evaluating whether a contract with a reinsurer transfers risk, what constitutes a contract?

- A: A contract is not defined, but is essentially a question of substance. It may be difficult in some circumstances to determine the boundaries of a contract. For example, the profit-sharing provisions of one contract may refer to experience on other contracts and, therefore, raise the question of whether, in substance, one contract rather than several contracts exist.

The inconsistency that could result from varying interpretations of the term *contract* is limited by requiring that features of the contract or other contracts or agreements that directly or indirectly compensate the reinsurer or related reinsurers for losses be considered in evaluating whether a particular contract transfers risk. Therefore, if agreements with the reinsurer or related reinsurers, in the aggregate, do not transfer risk, the individual contracts that make up those agreements also would not be considered to transfer risk, regardless of how they are structured.

The original GAAP source of the above in SSAP No. 62R is *EITF D-34 Accounting for Reinsurance: Questions and Answers about FASB Statement No. 113, question 13*

13. Q—For purposes of evaluating whether a contract with a reinsurer transfers risk, what constitutes a contract?

A—Statement 113 does not define what constitutes a "contract," which is essentially a question of substance. It may be difficult in some circumstances to determine the boundaries of a contract. For example, the profit-sharing provisions of one contract may refer to experience on other contracts and, therefore, raise the question of whether, in substance, one contract rather than several contracts exist.

Statement 113 limits the inconsistency that could result from varying interpretations of the term contract by requiring that features of the contract or other contracts or agreements that directly or indirectly compensate the reinsurer or related reinsurers for losses be considered in evaluating whether a particular contract transfers risk. Therefore, if agreements with the reinsurer or related reinsurers, in the aggregate, do not transfer risk, the individual contracts that make up those agreements also would not be considered to transfer risk, regardless of how they are structured.

Certain guidance relevant to determining the boundaries of a contract is provided in the accounting literature. As described in paragraph 8 of Statement 113, provisions of other related contracts may be considered part of the subject contract under certain circumstances. Likewise, paragraphs 59 and 60 of Statement 113 indicate that the Board did not intend for different kinds of exposures combined in a program of reinsurance to be evaluated for risk transfer and accounted for together, because that would allow contracts that do not meet the conditions for reinsurance accounting to be accounted for as reinsurance by being designated as part of a program. In addition, Question 12 above refers to the fact that an amendment of a contract may create a new contract. [Revised 12/98.]

The legal form and substance of a reinsurance contract generally will be the same, so that the risks reinsured under a single legal document would constitute a single contract for accounting purposes. However, that may not always be the case. Accordingly, careful judgment may be required to determine the boundaries of a contract for accounting purposes. [Revised 12/98.]

If an agreement with a reinsurer consists of both risk transfer and nonrisk transfer coverages that have been combined into a single legal document, those coverages must be considered separately for accounting purposes. [Revised 12/98.]

Topic 944 Reinsurance Contracts in the current FASB Codification Implementation Guide continues to include the guidance from EITF D-34

Reinsurance Contracts Implementation Guidance

What Constitutes a Contract

944-20-55-27

This implementation guidance discusses, for purposes of evaluating whether a contract with a reinsurer transfers risk, what constitutes a contract, which is essentially a question of substance. It may be difficult in some circumstances to determine the boundaries of a contract.

944-20-55-28

For instance, the profit-sharing provisions of one contract may refer to experience on other contracts and, therefore, raise the question of whether, in substance, one contract rather than several contracts exist.

944-20-55-29

The guidance in the Financial Services—Insurance Topic on reinsurance limits the inconsistency that could result from varying interpretations of the term contract by requiring that features of the contract or other contracts or agreements that directly or indirectly compensate the reinsurer or related reinsurers for losses be considered in evaluating whether a particular contract transfers risk. Therefore, if agreements with the reinsurer or related reinsurers, in the aggregate, do not transfer risk, the individual contracts that make up those agreements also would not be considered to transfer risk, regardless of how they are structured.

944-20-55-30

Certain guidance relevant to determining the boundaries of a contract is provided in the accounting literature.

944-20-55-31

Paragraph 944-20-15-40 states that provisions of other related contracts may be considered part of the subject contract under certain circumstances.

944-20-55-32

Different kinds of exposures combined in a program of reinsurance shall not be evaluated for risk transfer and accounted for together, because that would allow contracts that do not meet the conditions for reinsurance accounting to be accounted for as reinsurance by being designated as part of a program.

944-20-55-33

In addition, paragraph 944-20-15-65 refers to the fact that an amendment of a contract may create a new contract.

944-20-55-34

The legal form and substance of a reinsurance contract generally will be the same, so that the risks reinsured under a single legal document would constitute a single contract for accounting purposes. However, that may not always be the case. Accordingly, careful judgment may be required to determine the boundaries of a contract for accounting purposes.

944-20-55-35

Paragraph 944-20-15-56 states that, if an agreement with a reinsurer consists of both risk transfer and nonrisk transfer coverages that have been combined into a single legal document, those coverages shall be considered separately for accounting purposes.

- ***A-791 Life and Health Reinsurance Agreements***

A-791, paragraph 1, provides the following:

1. This Appendix shall not apply to assumption reinsurance, yearly renewable term reinsurance or certain nonproportional reinsurance such as stop loss or catastrophe reinsurance.

Q – Aside from assumption reinsurance, what other types of reinsurance are exempt from the accounting requirements?

A – Yearly renewable term (YRT) and **certain nonproportional reinsurance arrangements, such as stop loss and catastrophe reinsurance are exempt** because these do not normally provide significant surplus relief and therefore are outside the scope of this Appendix. If a catastrophe arrangement takes a reserve credit for actual losses beyond the attachment point or the unearned premium reserve (UPR) of the current year's premium, there will most likely be no regulatory concern.

Similarly, if a YRT treaty provides incidental reserve credits for the ceding insurer's net amount at risk for the year with no other allowance to enhance surplus, there will most likely be no regulatory concern. For purposes of this exemption, a treaty labeled as YRT does not meet the intended definition of YRT if the surplus relief in the first year is greater than that provided by a YRT treaty with zero first year reinsurance premium and no additional allowance from the reinsurer.

Additional pertinent information applicable to all YRT treaties and to non-proportional reinsurance arrangements is contained in paragraphs 19 and 20 of SSAP No. 61R.

A-791, paragraph 2e contains the guidance which limits the reinsurance to the amount realized on the reinsured policy.

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:

- e. The reinsurance agreement involves the possible payment by the ceding insurer to the reinsurer of amounts other than from income realized from the reinsured policies. For example, it

is improper for a ceding company to pay reinsurance premiums, or other fees or charges to a reinsurer which are greater than the direct premiums collected by the ceding company;

A-791, paragraph 2f contains the guidance on transferring all of the significant risk of the business reinsured.

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:

f. The treaty does not transfer all of the significant risk inherent in the business being reinsured. The following table identifies for a representative sampling of products or type of business, the risks which are considered to be significant. For products not specifically included, the risks determined to be significant shall be consistent with this table.

Risk categories:

i. Morbidity

ii. Mortality

iii. Lapse

This is the risk that a policy will voluntarily terminate prior to the recoupment of a statutory surplus strain experienced at issue of the policy.

iv. Credit Quality

This is the risk that invested assets supporting the reinsured business will decrease in value. The main hazards are that assets will default or that there will be a decrease in earning power. It excludes market value declines due to changes in interest rate.

v. Reinvestment

This is the risk that interest rates will fall and funds reinvested (coupon payments or monies received upon asset maturity or call) will therefore earn less than expected. If asset durations are less than liability durations, the mismatch will increase.

vi. Disintermediation

This is the risk that interest rates rise and policy loans and surrenders increase or maturing contracts do not renew at anticipated rates of renewal. If asset durations are greater than the liability durations, the mismatch will increase. Policyholders will move their funds into new products offering higher rates. The company may have to sell assets at a loss to provide for these withdrawals.

+ - Significant 0 - Insignificant

RISK CATEGORY

	i.	ii.	iii.	iv.	v.	vi.
Health Insurance - other than LTC/LTD*	+	0	+	0	0	0
Health Insurance - LTC/LTD*	+	0	+	+	+	0
Immediate Annuities	0	+	0	+	+	0
Single Premium Deferred Annuities	0	0	+	+	+	+
Flexible Premium Deferred Annuities	0	0	+	+	+	+
Guaranteed Interest Contracts	0	0	0	+	+	+
Other Annuity Deposit Business	0	0	+	+	+	+
Single Premium Whole Life	0	+	+	+	+	+
Traditional Non-Par Permanent	0	+	+	+	+	+

Traditional Non-Par Term	0	+	+	0	0	0
Traditional Par Permanent	0	+	+	+	+	+
Traditional Par Term	0	+	+	0	0	0
Adjustable Premium Permanent	0	+	+	+	+	+
Indeterminate Premium Permanent	0	+	+	+	+	+
Universal Life Flexible Premium	0	+	+	+	+	+
Universal Life Fixed Premium	0	+	+	+	+	+
Universal Life Fixed Premium dump-in premiums allowed	0	+	+	+	+	+
*LTC = Long Term Care Insurance						
LTD = Long Term Disability Insurance						

6. The reinsurance agreement shall contain provisions which provide that:
- The agreement shall constitute the entire agreement between the parties with respect to the business being reinsured thereunder and that there are no understandings between the parties other than as expressed in the agreement;** and
 - Any change or modification to the agreement shall be null and void unless made by amendment to the agreement and signed by both parties.

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): The referral from VAWG was formally received by the Working Group on January 10, 2024 and NAIC staff was directed to draft an agenda item for discussion.

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

Convergence with International Financial Reporting Standards (IFRS): None

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

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 *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance* as illustrated below. The proposed revisions incorporate guidance to SSAP No. 61R which is consistent with the guidance currently in SSAP No. 62R, Exhibit A Implementation Questions and Answers, question 10 and also add reference to A-791, paragraph 6 guidance in the YRT guidance paragraph.

As described in the summary of issues, NAIC staff agrees that risk transfer analysis of a reinsurance contract or contracts with interdependent features that directly or indirectly compensate the reinsurer, requires that all parts of the contract be evaluated in aggregate. Appendix A-791, paragraph 6 already contains guidance that the agreement must constitute the entire agreement. While NAIC staff agrees with the concern that VAWG raised regarding some entities taking too large of a reinsurance credit, the existing guidance in SSAP No. 61R regarding risk transfer requires that reporting entities should not take reinsurance credit for amounts greater than the risk ceded should be sufficient to address those concerns. However, NAIC staff would be willing to develop a more extensive implementation guidance or other revisions if desired.

Status:

On March 16, 2024, the Statutory Accounting Principles (E) Working Group exposed revisions to incorporate guidance to *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance* that is consistent with the guidance currently in *SSAP No. 62R—Property and Casualty Reinsurance*, Exhibit A Implementation Questions and Answers, question 10. This guidance requires risk transfer to be evaluated in aggregate for contracts with

interrelated contract features such as experience rating refunds. The revisions also adds a reference in *Appendix A-791 Life and Health Reinsurance Agreements* (A-791), paragraph 6 regarding the entirety of the contract. 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.

Proposed Revisions SSAP No. 61R:

Transfer of Risk

17. Reinsurance agreements must transfer risk from the ceding entity to the reinsurer in order to receive the reinsurance accounting treatment discussed in this statement. If the terms of the agreement violate the risk transfer criteria contained herein, (i.e., limits or diminishes the transfer of risk by the ceding entity to the reinsurer), the agreement shall follow the guidance for Deposit Accounting. In addition, any contractual feature that delays timely reimbursement violates the conditions of reinsurance accounting.

~~17.~~**18.** For purposes of evaluating whether a contract with a reinsurer transfers risk, what constitutes a contract is essentially a question of substance. It may be difficult in some circumstances to determine the boundaries of a contract. For instance, the profit-sharing provisions of one contract may refer to experience on other contracts and, therefore, raise the question of whether, in substance, one contract rather than several contracts exist. The inconsistency that could result from varying interpretations of the term contract is limited by requiring that features of the contract or other contracts or agreements that directly or indirectly compensate the reinsurer or related reinsurers for losses be considered in evaluating whether a particular contract transfers risk. Therefore, if agreements with the reinsurer or related reinsurers in the aggregate do not transfer risk, the individual contracts that make up those agreements also would not be considered to transfer risk, regardless of how they are structured.

~~18.~~**19.** This paragraph applies to all life, deposit-type and accident and health reinsurance agreements except for yearly renewable term reinsurance agreements and non-proportional reinsurance agreements such as stop loss and catastrophe reinsurance. 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.

~~19.~~**20.** Yearly renewable term (YRT) reinsurance agreements that transfer a proportionate share of mortality or morbidity risk inherent in the business being reinsured and do not contain any of the conditions described in **Appendix A-791, paragraphs 2.b., 2.c., 2.d., 2.h., 2.i., 2.j. or 2.k.,** shall follow the guidance for reinsurance accounting, including paragraphs 55-57 of this statement that apply to indemnity reinsurance. Contracts that fail to meet the requirements for reinsurance accounting shall follow the guidance for Deposit Accounting. For all treaties entered into on or after January 1, 2003, the deferral guidance in paragraph 3 of A-791 shall also apply to YRT agreements. YRT agreements shall follow the requirements of A-791, paragraph 6, regarding the entire agreement and the effective date of agreements. Since YRT agreements only transfer the mortality or morbidity risks to the reinsurer, the recognition of income shall be reflected on a net of tax basis, as gains emerge based on the mortality or morbidity experience.

20. For non-proportional reinsurance agreements such as stop loss and catastrophe reinsurance agreements, contract terms shall be evaluated to assess whether they transfer significant risk to the reinsurer. For example, prepayment schedules and accumulating retentions from multiple years are contractual features inherently designed to delay the timing of reimbursement to the ceding entity limits the risk to the reinsurer. Regardless of what a particular feature might be called, any feature that can delay timely reimbursement violates the conditions for reinsurance accounting. Transfer of insurance risk requires that the reinsurer's payment to the ceding entity depend on and directly vary with the amount and timing of claims settled under the reinsured contracts. Contractual features that can delay timely reimbursement prevent this condition from being met. Reinsurance accounting shall apply to all non-proportional agreements that transfer significant risk and do not contain any provisions that protect the reinsurer from incurring a loss. Contracts that fail to meet the requirements for reinsurance accounting shall follow the guidance for Deposit Accounting.

On August 13, 2024, the Statutory Accounting Principles (E) Working Group re-exposed this agenda item to allow for further discussion. The Working Group direct NAIC staff to forward the comments received to the Valuation Analysis (E) Working Group, Life Actuarial (A) Task Force and the Reinsurance (E) Task Force.

The Working Group requested industry input on the following:

1. Industry examples.
2. Details on both the dollar impact and the number of existing YRT combination contracts might not meet risk transfer from the exposed revision.
3. Specific language regarding the concept that interdependent contract features should be analyzed in aggregate.

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 2024-05: A-791 Paragraph 2.c.; 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.

The Working Group chair indicated that the Working Group will consider different options in in how a future recommendation is presented. For example, a new paragraph, as proposed; or provide more detailed explanations in an A-791 Q&A format; or even combine both approaches. He stated that he is not in favor of using an interpretation, which the Statutory Accounting Principles (E) Working Group occasionally does. He stated that, instead, incorporating changes into a new paragraph in SSAP No. 61 or expanding the A-791 Q&A seems like a more practical approach. He and the Task Force chair noted that many of these issues require a qualitative rather than purely quantitative evaluation. It is about recognizing when something does not seem right, when something raises yellow or even red flags. This approach can help ensure they address the nuances effectively.

On June 2, 2025 the Statutory Accounting Principles (E) Working Group exposed by email vote, the May 30, 2025 recommendation. The exposed revisions to SSAP No. 61 and to A-791 QA are illustrated below.

May 30, 2025 Recommendation for Email Vote Exposure

On May 30, 2025, a small group of SAPWG and Life Actuarial (A) Task Force regulators recommended exposure of revisions to *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance and the QA of Appendix A-791, Life and Health Reinsurance Agreements* as illustrated below. The revisions to SSAP No. 61 have been revised and expanded from the prior exposures and is shown tracked as new revisions. The revisions to A-791 have not been previously exposed.

SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance as illustrated below

Transfer of Risk

17. Reinsurance agreements must transfer risk from the ceding entity to the reinsurer in order to receive the reinsurance accounting treatment discussed in this statement.

- a. If the terms of the agreement violate the risk transfer criteria contained herein, (i.e., limits or diminishes the transfer of risk by the ceding entity to the reinsurer), the agreement shall follow the guidance for Deposit Accounting. In addition, any contractual feature that delays timely reimbursement violates the conditions of reinsurance accounting.

b. For purposes of evaluating whether a reinsurance agreement/contract (for this paragraph “contract”) transfers risk under statutory accounting, the determination of what constitutes a contract is essentially a question of substance. It may be difficult in some circumstances to determine the boundaries of a contract. Multiple contracts, whether on one or multiple blocks of policies, must be evaluated together for risk transfer purposes where considerations to be exchanged under one contract depend on the performance of the other contract(s) whether they are entered into together, or separately, directly or indirectly, that achieve one overall planned effect. For contracts that contemplate reinsurance on both a YRT and coinsurance basis, where there are interdependent features such as a combined experience refund or an inability to independently recapture, each of the YRT and coinsurance reinsurance components satisfying risk transfer requirements on their respective bases is necessary but not sufficient for the contract as a whole to satisfy risk transfer. When evaluated in its entirety, such contract(s) cannot 1) potentially deprive the ceding insurer of surplus at the reinsurer’s option or automatically upon the occurrence of some event; 2) potentially require payments to the reinsurer for amounts other than the income realized from the reinsured policies, nor; 3) contain any of the other conditions prohibited by Appendix A-791 related to risk transfer.

18. This paragraph applies to all life, deposit-type and accident and health reinsurance agreements except for yearly renewable term reinsurance agreements and non-proportional reinsurance agreements such as stop loss and catastrophe reinsurance. 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.

19. Yearly renewable term (YRT) reinsurance agreements that transfer a proportionate share of mortality or morbidity risk inherent in the business being reinsured and do not contain any of the conditions described in Appendix A-791, paragraphs 2.b., 2.c., 2.d., 2.h., 2.i., 2.j. or 2.k., shall follow the guidance for reinsurance accounting, including paragraphs 55-57 of this statement that apply to indemnity reinsurance. Contracts that fail to meet the requirements for reinsurance accounting shall follow the guidance for Deposit Accounting. For all treaties entered into on or after January 1, 2003, the deferral guidance in paragraph 3 of A-791 shall also apply to YRT agreements. YRT agreements shall follow the requirements of A-791, paragraph 6, regarding the entire agreement and the effective date of agreements. Since YRT agreements only transfer the mortality or morbidity risks to the reinsurer, the recognition of income shall be reflected on a net of tax basis, as gains emerge based on the mortality or morbidity experience. See paragraph 17.b. for additional requirements if a YRT agreement has interdependent contract features with reinsurance on a different basis (such as coinsurance).

Appendix A-791, Life and Health Reinsurance Agreements first Q&A

1. This Appendix shall not apply to assumption reinsurance, yearly renewable term reinsurance or certain nonproportional reinsurance such as stop loss or catastrophe reinsurance.

Q – Aside from assumption reinsurance, what other types of reinsurance are exempt from the accounting requirements?

A – Yearly renewable term (YRT) and certain nonproportional reinsurance arrangements, such as stop loss and catastrophe reinsurance are exempt because these do not normally provide significant surplus relief and therefore are outside the scope of this Appendix. If a catastrophe arrangement takes a reserve credit for actual losses beyond the attachment point or the unearned premium reserve (UPR) of the current year’s premium, there will most likely be no regulatory concern.

Similarly, if a YRT treaty provides incidental reserve credits for the ceding insurer’s net amount at risk for the year with no other allowance to enhance surplus, there will most likely be no regulatory concern. For purposes of this exemption, a treaty labeled as YRT does not meet the intended

definition of YRT if the surplus relief in the first year is greater than that provided by a YRT treaty with zero first year reinsurance premium and no additional allowance from the reinsurer.

For contracts that contemplate reinsurance on both a YRT and coinsurance basis, where there are interdependent features such as a combined experience refund or an inability to independently recapture, risk transfer can only occur if there is no potential for payments out of surplus at the reinsurer's option or automatically upon the occurrence of some event, meaning that in all cases there would be an established liability to absorb any possible payments. The YRT premium simply being at or below the valuation net premium does not ensure that payments from surplus are not possible.

Additional pertinent information applicable to all YRT treaties and to non-proportional reinsurance arrangements is contained in paragraphs 19 and 20 of SSAP No. 61.

On August 11, , 2025 the Statutory Accounting Principles (E) Working Group unanimously adopted exposed revisions to SSAP No. 61, with the addition of an editorial paragraph break suggested by the ACLI which divided the exposed SSAP No. 61 paragraph 17.b. into paragraph 17.b. and 17, c. and the addition of an effective date directed by the Working Group. The adopted clarifications are immediately effective for new/newly amended contracts, with provisions to allow a December 31, 2026, for reporting existing contracts to allow time for industry and regulator assessment. The revisions to A-791 were adopted as exposed. The adopted revisions are illustrated below.

Note: On August 12, 2025, the Accounting Practices and Procedures (E) Task Force also adopted the revisions with two states opposed. On August 13, 2025, the Financial Condition (E) Committee announced that it would hold a separate meeting to consider this agenda item.

The Financial Condition (E) Committee held 2 separate meetings on Oct. 27 and Nov. 20, 2025, to discuss this agenda item 2024-06. The Financial Condition (E) Committee adopted the revisions that the Working Group adopted on December 11, 2025, with minor clarification that the revisions are accounted for as a change in accounting principles when applied. This additional language is shown as shaded text in paragraph 94 below. The reason for the additional language is that discussions with certified public accountants, noted that it would be helpful to be explicit that the change for existing contracts is reflected as a change in accounting principles. This clarification does not change the scope of the affected contracts from what was unanimously adopted at the Working Group, and is helpful to be explicit to avoid prior year restatements. The wording is consistent with the Working Group's intended prospective treatment of existing contracts as of the Dec. 31, 2026, reporting date.

SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance on Aug. 11, 2025, the Working Group added a paragraph break dividing paragraph 17.b. into 17.b. and 17.c., and the effective date language in paragraph 94. The effective date clarification was added by the Financial Condition (E) Committee on Dec. 11, 2025, which clarified that the revisions are accounted for as a change in accounting principles when applied to existing contracts is shown as shaded text in paragraph 94 below.

Transfer of Risk

20. Reinsurance agreements must transfer risk from the ceding entity to the reinsurer in order to receive the reinsurance accounting treatment discussed in this statement.

a. If the terms of the agreement violate the risk transfer criteria contained herein, (i.e., limits or diminishes the transfer of risk by the ceding entity to the reinsurer), the agreement

shall follow the guidance for Deposit Accounting. In addition, any contractual feature that delays timely reimbursement violates the conditions of reinsurance accounting.

- a.b. For purposes of evaluating whether a reinsurance agreement/contract (for this paragraph “contract”) transfers risk under statutory accounting, the determination of what constitutes a contract is essentially a question of substance. It may be difficult in some circumstances to determine the boundaries of a contract. Multiple contracts, whether on one or multiple blocks of policies, must be evaluated together for risk transfer purposes where considerations to be exchanged under one contract depend on the performance of the other contract(s) whether they are entered into together, or separately, directly or indirectly, that achieve one overall planned effect.
- b.c. For contracts that contemplate reinsurance on both a YRT and coinsurance basis, where there are interdependent features such as a combined experience refund or an inability to independently recapture, each of the YRT and coinsurance reinsurance components satisfying risk transfer requirements on their respective bases is necessary but not sufficient for the contract as a whole to satisfy risk transfer. When evaluated in its entirety, such contract(s) cannot 1) potentially deprive the ceding insurer of surplus at the reinsurer’s option or automatically upon the occurrence of some event; 2) potentially require payments to the reinsurer for amounts other than the income realized from the reinsured policies, nor; 3) contain any of the other conditions prohibited by Appendix A-791 related to risk transfer.

21. This paragraph applies to all life, deposit-type and accident and health reinsurance agreements except for yearly renewable term reinsurance agreements and non-proportional reinsurance agreements such as stop loss and catastrophe reinsurance. 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.

22. Yearly renewable term (YRT) reinsurance agreements that transfer a proportionate share of mortality or morbidity risk inherent in the business being reinsured and do not contain any of the conditions described in Appendix A-791, paragraphs 2.b., 2.c., 2.d., 2.h., 2.i., 2.j. or 2.k., shall follow the guidance for reinsurance accounting, including paragraphs 55-57 of this statement that apply to indemnity reinsurance. Contracts that fail to meet the requirements for reinsurance accounting shall follow the guidance for Deposit Accounting. For all treaties entered into on or after January 1, 2003, the deferral guidance in paragraph 3 of A-791 shall also apply to YRT agreements. YRT agreements shall follow the requirements of A-791, paragraph 6, regarding the entire agreement and the effective date of agreements. Since YRT agreements only transfer the mortality or morbidity risks to the reinsurer, the recognition of income shall be reflected on a net of tax basis, as gains emerge based on the mortality or morbidity experience. See paragraph 17.b. for additional requirements if a YRT agreement has interdependent contract features with reinsurance on a different basis (such as coinsurance).

94. The disclosure for compliance with Model #787 or AG 48 shall be effective for reporting periods ending on or after December 31, 2015. The revisions adopted in November 2018 to expand liquidity disclosures are effective year-end 2019, concurrent with the inclusion of data-captured financial statement disclosures. The disclosures captured in paragraphs 78-84 which help to identify certain reinsurance contract features are effective for reporting periods ending on or after December 31, 2020. Clarifications of existing guidance adopted in August 2025 regarding risk transfer on interdependent reinsurance agreements in paragraphs 17 and 19 are effective immediately for new/newly amended contracts., For existing contracts, the clarification shall be accounted for as a change in accounting principles in accordance with SSAP No. 3—Accounting Changes and Corrections of Errors, on or before ~~with a December 31, 2026 effective date for other existing contracts.~~

Appendix A-791, Life and Health Reinsurance Agreements first Q&A (adopted as exposed)

20. This Appendix shall not apply to assumption reinsurance, yearly renewable term reinsurance or certain nonproportional reinsurance such as stop loss or catastrophe reinsurance.

Q – Aside from assumption reinsurance, what other types of reinsurance are exempt from the accounting requirements?

A – Yearly renewable term (YRT) and certain nonproportional reinsurance arrangements, such as stop loss and catastrophe reinsurance are exempt because these do not normally provide significant surplus relief and therefore are outside the scope of this Appendix. If a catastrophe arrangement takes a reserve credit for actual losses beyond the attachment point or the unearned premium reserve (UPR) of the current year's premium, there will most likely be no regulatory concern.

Similarly, if a YRT treaty provides incidental reserve credits for the ceding insurer's net amount at risk for the year with no other allowance to enhance surplus, there will most likely be no regulatory concern. For purposes of this exemption, a treaty labeled as YRT does not meet the intended definition of YRT if the surplus relief in the first year is greater than that provided by a YRT treaty with zero first year reinsurance premium and no additional allowance from the reinsurer.

For contracts that contemplate reinsurance on both a YRT and coinsurance basis, where there are interdependent features such as a combined experience refund or an inability to independently recapture, risk transfer can only occur if there is no potential for payments out of surplus at the reinsurer's option or automatically upon the occurrence of some event, meaning that in all cases there would be an established liability to absorb any possible payments. The YRT premium simply being at or below the valuation net premium does not ensure that payments from surplus are not possible.

Additional pertinent information applicable to all YRT treaties and to non-proportional reinsurance arrangements is contained in paragraphs 19 and 20 of SSAP No. 61.

[https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2025/08-11-25 Summer National Meeting/Hearing/18 - 24-06 - RT YRT-Combo contracts.docx](https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2025/08-11-25SummerNationalMeeting/Hearing/18-24-06-RTYRT-Combocontracts.docx)