Statutory Accounting Principles (E) Working Group

**Maintenance Agenda Submission Form**

**Form A**

## **Issue:** Reporting of Funds Withheld and Modco Assets

**Check (applicable entity):**

 P/C Life Health

Modification of Existing SSAP [x]  [x]  [x]

New Issue or SSAP [ ]  [ ]  [ ]

Interpretation [ ]  [ ]  [ ]

Description of Issue: During 2023, as a result of rising interest rates, the Statutory Accounting Principles (E) Working Group addressed the issue of net negative (disallowed) interest maintenance reserve for statutory accounting with *Interpretation (INT) 23-01 Net Negative (Disallowed) Interest Maintenance Reserve*, as a short-term solution. Later in 2023, the IMR Ad Hoc Group was formed to find a more permanent solution to address IMR for statutory accounting. During the IMR Ad Hoc Group’s review process and discussions, it was noted that there were issues with identifying assets that are subject to funds withheld or modified coinsurance (modco) arrangements within the financial statements and reporting schedules. The intent of this agenda item is to make it easier to identify assets that are subject to a funds withheld or modco arrangements through updated reporting in the financials. This agenda item does not intend to change statutory accounting for these arrangements.

Funds withheld and modco arrangements are defined in the glossary to *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance*:

* Funds withheld assets - “*Assets that would normally be paid over to a reinsurer but are withheld by the ceding entity to permit statutory credit for nonadmitted reinsurance, to reduce a potential credit risk, or to retain control over investments. Under certain conditions, the reinsurer may withhold funds from the ceding entity*.”
* Modco arrangements - “*Indemnity life insurance that differs from coinsurance only in that the reserves are retained by the ceding entity, which represents a prepayment of all or a portion of the reinsurer’s future obligation. Periodically an adjustment is made to the mean reserve on deposit with the ceding entity. This is usually done quarterly but may be done more frequently. If the reserve increases, the increase in mean reserve less interest on the mean reserve held at the end of the previous accounting period is paid by the reinsurer to the ceding entity. If the mean reserve decreases, the decrease and interest are paid by the ceding entity to the reinsurer. The appropriate interest rate is defined in the treaty*.”

Although this issue of clarity of reporting of funds withheld and modco assets was raised as part of the IMR project, which is focused on life insurance, funds withheld also exist for property/casualty insurance, so this agenda item proposes to add this updated reporting to all the annual statement blanks.

The initial recommendation is to add a new part to the reinsurance Schedule S in the Life/Fraternal and Health annual statement blanks and Schedule F in the Property/Casualty and Title annual statement blanks. The new part would be similar in structure to Schedule DL and would include all assets held under a funds withheld arrangement and would include a separate signifier for modco assets.

Existing Authoritative Literature:

Funds withheld and modco arrangements are noted in *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance*. Funds withheld are also discussed in *SSAP No. 62R—Property and Casualty Reinsurance* and Appendix A-785 Credit for Reinsurance.

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): None

**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 Recommendation:

NAIC staff recommend that the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP clarification and expose the recommendation to add a new part to the reinsurance Schedule S in the Life/Fraternal and Health annual statement blanks and Schedule F in the Property/Casualty and Title annual statement blanks, that is similar in structure to Schedule DL and would include all assets held under a funds withheld arrangement and would include a separate signifier for modco assets.

Staff Review Completed by: Jake Stultz, NAIC Staff—February 2024

Status:

On March 16, 2024, the Statutory Accounting Principles (E) Working Group exposed a project which proposes to add a new part to the reinsurance Schedule S in the Life/Fraternal and Health annual statement blanks and Schedule F in the Property/Casualty (P/C) and Title annual statement blanks, which is similar in structure to Schedule DL and would include all assets held under a funds withheld arrangement and would include a separate signifier for modified coinsurance assets.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2024/03-16-24 Spring National Meeting/Exposures/24-07 - Modco Reporting.docx