Attachment 6

Statutory Accounting Principles (E) Working Group
May 20 Conference Call
Comment Letters Received

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** - These comments were not received in time for distribution for the May 20, 2020 SAPWG conference call. They, however, are being posted with INT 20-08T, which was exposed at the direction of the SAPWG.

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May 14, 2020

Dale Bruggeman, Chair
Statutory Accounting Principles (E) Working Group

Via e-mail to: Julie Gann
JGann@naic.org

Re: Proposed INT 20-08T: COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends

Dear Chairman Bruggeman:

America's Health Insurance Plans (AHIP) and its members appreciate the continuing dedication and diligence that you and your colleagues show in your work to address the pandemic crisis while balancing the regulatory goals of consumer protection and company solvency. It is beyond doubt that these are extraordinary times, and they require extraordinary effort by both the regulatory community and industry.

The Statutory Accounting Principles (E) Working Group (SAPWG) recently exposed five new proposed Interpretations that address various impacts of the pandemic. AHIP is providing the following comments which pertain to one of those five exposures, specifically, INT 20-08T, *COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends.*

AHIP often signs on to comment letters submitted by a broader group of interested parties (IP), however we have chosen not to do so in this instance. That is not because of any fundamental disagreement per se with the draft of the IP letter that we reviewed. Rather, it is because, as drafted, the IP letter proposes to amend INT 20-08T to address the accounting and reporting for premium refunds, rate reductions, policyholder benefit payments and policyholder dividends attributable to COVID-19 impacts on the private passenger and commercial auto insurance business only. In light of the message we received from NAIC staff yesterday which included staff's recommended changes to INT 20-08T to specifically scope in health insurance, we believe it is best for AHIP to submit its own comments and focus directly on impacts on health plans.

Also, and given that we have had barely more than one day to review the health-specific amendments provided by NAIC staff, we have had extremely limited time to study those amendments and solicit input from our members. Accordingly, please accept the following comments as preliminary. We hope you will afford us the opportunity to expand upon them if needed in oral comments to SAPWG when it convenes by phone on May 20. With that, we offer the following comments:

1. With regards to paragraphs 1-5, some additional context that is more specific to the health insurance sector may be appropriate. For example, and to the extent known, it would be helpful to include information as to the various ways in which such premium reductions have been made in the health sector.

2. As drafted with the health-related amendments, INT 20-08T calls for "immediate adjustments to premium for voluntary accident and health premium refunds." It is not clear to us that "immediate" is necessarily appropriate depending, for example, as to whether the subject is written or earned premium. Many health plans are established as 12-month contracts. In some cases the insurer records premiums on a monthly basis as billed, and on others it records written premium for the 12-month period with corresponding unearned premium which are then reduced as premium payments are received and as premiums are earned over the coverage period, respectively. Depending on management's intent with respect to the premium reduction, it may have an intended immediate impact on earned premium, or be amortized over the remaining term of the contract.
    a. For example, it may depend if the premium reduction is in the context of past business with the insurer (expired portion of the contract or prior contracts) or in the context of continued business (unexpired portion of the contract or future contracts).
    b. Such alternatives are conceptually like the FASB guidance cited by the IPs with respect to INT 20-05T: Investment Income Due and Accrued, and the treatment of an "interest holiday."
    c. We are aware of one member which has in the past given premium holidays, usually in the first month of the policy period which is then amortized ratably over the policy period.

3. In short, we can see such health premium reductions happening in various ways, and more time is needed to assure that the INT text accommodates those variances and thus maximizing opportunities for such reductions, while at the same time providing sufficient uniformity in reporting across reporting entities in order to meet your objectives.

4. AHIP also has concerns about some aspects of the proposed disclosures proposed by INT 20-08T and references therein to SSAP 66 and experience rated contracts (which includes experience rated health contracts). It provides that "all COVID-19 inspired premium refunds, rate reductions, and policyholder dividends shall be disclosed as unusual or infrequent items." For experience-based refunds, the amount is based on the group's total experience over the contract period, and it is not practical to parse through claim details to say how much is necessarily related to Covid-19. Moreover, to the extent that claims have not been made (e.g., elective procedures have been deferred) and premiums reduced, a health plan could only surmise the cause of that impact, although certainly a good portion would be related to the pandemic - it just can't be quantified with any precision. We thus suggest the following change:

    21. To allow for aggregate, consistent assessment, the Working Group came to a tentative consensus that all COVID-19 inspired premium refunds, rate reductions, and policyholder dividends shall be disclosed as unusual or infrequent items in annual statement 21A. This disclosure is in addition to other existing disclosures on various items related to the policyholder payments. <u>For the avoidance of doubt, refunds required under the policy terms as discussed in paragraph 12 (i.e., policies that require an adjustment to premium based on either</u>

the level of exposure to insurance risk or the level of losses) are not required to be aggregated in disclosures of COVID-19 inspired premium refunds, rate reductions and policyholder dividends.

* * * * * *

Thank you for the opportunity to comment. We look forward to discussing this with you and addressing any questions you or your colleagues may have.

Kind regards,

Bob Ridgeway
Bridgeway@AHIP.org
501-333-2621
America's Health Insurance Plans

May 14, 2020

Dale Bruggeman, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners

Re: SAPWG Proposals Exposed on May 5, 2020

Dear Chairman Bruggeman:

The American Property Casualty Insurance Association (APCIA) appreciates the opportunity to comment on the items exposed by the Statutory Accounting Principles (E) Working Group on May 5, 2020. APCIA is the primary national trade association for home, auto, and business insurers. APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members represent all sizes, structures, and regions—protecting families, communities, and businesses in the U.S. and across the globe.

APCIA supports the comment letter from industry interested parties with respect to all issues except for INT 20-08T, which we address below.

INT 20-08T: COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends

The COVID-19 pandemic has introduced unprecedented challenges for the insurance industry and regulators as it has for the entire nation. While changing many aspects of their operations, insurers are undertaking substantial and extraordinary efforts to help policyholders at this challenging time. For example, companies are providing flexible payment options, waiving late fees, and pausing cancellation of coverage due to non-payment of premiums. Most significantly, property casualty insurers are returning billions of dollars to policyholders through a variety of mechanisms—including refunds, discounts, dividends, and credits.

Given the unprecedented nature and scope of this extraordinary industry action, there is understandably limited statutory accounting guidance for reporting the various methods that insurers are implementing to support policyholders. INT 20-08T proposes tentative guidance on how to account for policyholder relief issued in response to COVID-19. The proposed INT concludes that voluntary refunds and rate reductions should be accounted for as an adjustment to premium revenue, and different treatment (e.g., as an expense) must be considered a permitted or prescribed practice.

APCIA's Financial Management and Regulation Committee voted to support the conclusions reached in the INT. We agree that, under existing accounting guidance, voluntary refunds and rate reductions should be accounted for as an adjustment to premium revenue, and differing

treatment should be considered a permitted or prescribed practice. Consequently, APCIA urges the Working Group to adopt INT 20-08T in order to provide temporary guidance.

While we agree with the proposal's interpretation of existing statutory accounting principles, APCIA believes that current accounting guidance may not adequately address the wide variety of methods companies are using to deliver policyholder relief. For example, it may be appropriate to amend statutory accounting principles to allow certain types of policyholder relief to be treated as an expense, depending on the circumstances that call for such relief. Some insurers have amended their policies through manual rate filings and endorsements to provide payments or credits to policyholders; however, companies would be unable to report these amounts as an expense unless statutory accounting is amended. Because of the extraordinary circumstances in which we find ourselves as a result of COVID-19, we believe that additional substantive guidance is needed by the end of this year. Therefore, APCIA asks the Working Group to consider—on an expedited basis—a Form A containing substantive amendments to statutory accounting regarding the treatment of policyholder relief measures.

Furthermore, accounting and financial reporting issues associated with policyholder relief should be addressed holistically. Although we are experiencing a highly unusual and unexpected situation that has required extraordinary industry and regulatory action, we should not assume new unusual and unexpected situations will not occur in the future. Statutory accounting guidance must be able to adapt to sudden changes in the regulated environment, so we believe the Working Group should consider changes to statutory accounting that would be applicable to future situations where policyholder relief may be a suitable reaction to a future event. This approach would build flexibility into statutory accounting to allow timely development of necessary guidance to suit the exigent and unpredictable needs of a future crisis.

Finally, we note that APCIA agrees with interested parties' recommendation to add the following sentence to paragraph 21 of the proposed INT: "For the avoidance of doubt, refunds required under the policy terms as discussed in paragraph 12 (i.e., policies that require an adjustment to premium based on either the level of exposure to insurance risk or the level of losses) are not required to be aggregated in disclosures of COVID-19 inspired premium refunds, rate reductions and policyholder dividends."

Thank you for considering the points addressed in this letter, and please do not hesitate to contact us if you have any questions.

Sincerely,

Stephen W. Broadie
Vice President, Financial & Counsel

The Cincinnati Insurance Company • The Cincinnati Indemnity Company
The Cincinnati Casualty Company • The Cincinnati Specialty Underwriters Insurance Company
The Cincinnati Life Insurance Company

May 14, 2020

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: INT 20-08T- COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends

Dear Mr. Bruggeman:

The Cincinnati Insurance Company ("Cincinnati") appreciates the opportunity to provide comments for consideration on the Statutory Accounting Principles Working Group ("SAPWG") interpretation exposure, **INT #20-08T:** ***COVID-19 Premium Refunds, Rate Reductions, and Policyholder Dividends*** ("the Tentative INT"). Cincinnati's property casualty group is among the 25 largest groups in the United States, based upon net written premium.

The Tentative INT contemplates interpretation of policyholder relief payments in reaction to the current COVID-19 pandemic as either premium refunds, rate reductions, or policyholder dividends, and provides statutory accounting and reporting framework as such. Cincinnati supports the comment letter submitted by interested parties in adding a new Issue 4 to the Tentative INT. Cincinnati's position is based on the following:

- This was a one-time action intended to provide immediate relief to policyholders in response to the unusual and unprecedented COVID-19 pandemic.
- Payment amount was determined without specific known loss experience in order to accommodate urgency of the situation.
- Cincinnati revised the impacted policyholder contracts through rule filings to states and company letters to impacted policyholders, allowing this one-time payment benefit with the intent to treat it as a company expense.
- Companies acted with a sense of urgency, notified states of the company payment plan, and proceeded to act, in good faith, in accordance with those plans, absent any state objections.
- The INT as originally drafted does not address the situation where companies utilized rule filings with intent to allow for this one-time policyholder relief payment.

In conclusion, Cincinnati supports the comment letter submitted by interested parties, which suggests adding an Issue to the INT where companies utilized rule filings to allow this one-time payment and allow this situation to be reported as an expense following the guidance provided under *SSAP* 70 -*Allocation of Expenses.*

Sincerely,

Michael J. Sewell
Chief Financial Officer
Senior Vice President

CC: Julie Gann, NAIC Staff
Robin Marcotte, NAIC Staff
Theresa Hoffer, Senior Vice President and Treasurer
Andrew Schnell, Assistant Vice President
James Sims, Assistant Treasurer
Rachel Underwood, Technical Accounting Manager

Mailing Address: P.O. Box 145496 • Cincinnati, Ohio 45250-5496 • **Headquarters:** 6200 S. Gilmore Road • Fairfield, Ohio 45014-5141
cinfin.com • 513-870-2000

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Grange Insurance

671 S. High Street, P.O. Box 1218, Columbus, OH 43216-1218 · 1.800.422.0550 · grangeinsurance.com

May 14, 2020

Mr. Dale Bruggeman, Chair
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: INT 20-08T – COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends

Dear Mr. Bruggeman:

Grange Insurance Company ("Grange") appreciates the opportunity to provide comments for consideration on the exposure drafts released for comment by the Statutory Accounting Principles Working Group ("SAPWG") on interpretation exposure, **INT #20-08T: *COVID-19 Premium Refunds, Rate Reductions, and Policyholder Dividends*** ("the Tentative INT"). Grange's property & casualty group is among the 75 largest insurance groups in the United States of America, based upon our approximately $1.3 billion in net written premium.

The Tentative INT contemplates classifying policyholder relief payments in reaction to the current COVID-19 pandemic as either premium refunds or policyholder dividends and provides proposed statutory accounting and reporting guidance as such. Grange's comments will primarily focus on rationale to revise the Tentative INT to allow reporting these payments as other underwriting expenses due to other fact patterns that were not contemplated by the original policy exposure. Grange's position is based on the following logic:

- The payments were **intended to provide immediate financial relief to our policyholders** regardless of contractual obligations.
- The payments were made voluntarily in our operating states.
- **Loss experience data was mostly unknown at the time of announcing and issuing relief payments**, regarding the ultimate impact of federal and state shelter-in-place orders.
- These payments are more in line with a company expense, such as a policyholder dividend.
- Grange revised the impacted policyholder contracts through filing endorsements with certain states and provided company letters to all impacted policyholders to provide the contractual language needed to allow such payments.
- Formal policyholder dividends were not a viable option, as dividends must be paid to all policyholders not just the lines of business expected to be favorably impacted by the shelter-in-place orders. Also, due to required approvals, dividends would not be the most immediate payment option.
- When we looked for relative consistency in reporting treatment for payments made outside of contractual premium refunds, categorizing these payments as an expense was the closest option to policyholder dividend reporting.
- Classification as a premium refund will have unintended ancillary financial consequences, such as reducing premium taxes to state agencies. Like many of our competitors, we assured our independent agent partners, many of which are small businesses, that their commissions would not be impacted by

these payments. Accordingly, commission ratios will be impacted (elevated) if reporting as a premium refund is required.

- Reporting the payments as an expense brings an advantage to analyzing insurance company results as it will impact only the expense ratio component of the combined ratio.
- Reporting the payments as a premium refund would distort analysis of insurance company results as it will impact all components of the combined ratio: loss, dividend, and expense ratios.
- Premium adjustments, whether contractual refunds or by rate filings, include consideration of actual loss experience, which is not completely available in this situation.
- These payments are the result of an unusual and infrequent event that would be excluded from future rate filing consideration.
- Insurance companies acted with a sense of urgency in light of the pandemic, notified states of the company's payment plans, and then proceeded to act, in good faith, in accordance with those plans, absent any state objections.
- In addition to these payments to our policyholders for immediate financial relief, actual premium relief could come in the future through normal rate reviews and consideration of actual loss experience.

In light of the COVID-19 pandemic, regulators from a majority of states issued a number of bulletins, orders, advisories, and other guidance (collectively "Bulletins") urging property & casualty insurance carriers nationwide to provide some means of immediate financial relief to policyholders, at least in private passenger automotive lines. The principle was that insurers should provide immediate financial relief in anticipation of lower than expected loss experience arising from a decrease in driving activity due to federal and state shelter-in-place orders. Such payments needed to be applied reasonably and consistently in order to avoid being considered a rebate or unfair discrimination. Though payments by insurance carriers would be a voluntary action in most states, they were required in the State of California (Bulletin 2020-3). The issuance of Bulletins by each state, each with their own guideline nuances, created uncertainty across insurance carriers of how to accommodate making such payments within applicable compliance standards.

Grange considered the magnitude of the situation and guidance available at the time. A policyholder dividend was deemed inappropriate, at least in part, as it would take longer to enact given the required approval process. A premium refund would create unintended negative financial consequences to state agencies and agents (absent the decision by Grange, like many carriers, to not impact agent compensation) by reducing premium amounts, therefore reducing premium taxes and commissions. Premium refunds also have the negative impact of altering comparability for all components of the combined ratio. Additionally, these policyholder payments were based on the expectation of profits from favorable loss experience, yet the data to determine such experience has not yet occurred. Therefore, Grange communicated to states that the payment program would be treated as an expense when policy endorsements were filed. Grange included that it intends to review the actual loss experience results and adjust premiums as part of regularly planned future rate reviews. These one-time payments would be excluded from future rate calculations and filings. No state rejected Grange's payment program.

671 S. High Street, P.O. Box 1218, Columbus, OH 43216-1218 · 1.800.422.0550 · grangeinsurance.com

In the absence of any state objections, Grange acted in accordance with the payment program and contends that reporting these pandemic related payments as an expense would fall within the guidance of *SSAP 70 – Allocation of Expenses* and be disclosed in accordance with *SSAP 24 – Discontinued Operations and Unusual or Infrequent Items*. INT 20-08T already includes disclosure guidance under SSAP 24. *SSAP 70 – Allocation of Expenses*, paragraph 3 states:

> 3. Allocable expenses for property and casualty insurance companies shall be classified into one of three categories in the Underwriting and Investment Exhibit as follows:

And then goes on to list the three expense categories as a) Loss adjustment expenses, b) Investment expenses, or c) Other underwriting expenses. Other underwriting expenses are defined as allocable expenses other than loss adjustment expenses and investment related expenses. Grange would report the relief payments as a write-in item under other underwriting expenses.

In conclusion, Grange believes that INT 20-08T should provide guidance for companies to report the relief payment as an expense. The payments achieved immediate financial relief for policyholders without unintended negative consequences for state agencies and company agents. Policyholders would see premium relief, as applicable, in future rates. We believe that comparability of insurance company results is least impacted if these payments are recorded as other underwriting expenses.

Sincerely,
Brian Poling
VP - Finance

D. Keith Bell, CPA
Senior Vice President
Accounting Policy
Corporate Finance
The Travelers Companies, Inc.
860-277-0537; FAX 860-954-3708
Email: d.keith.bell@travelers.com

Rose Albrizio, CPA
Vice President
Accounting Practices
AXA Equitable.
201-743-7221
Email: rosemarie.albrizio@axa-equitable.com

May 14, 2020

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Items Exposed for Comment by the Statutory Accounting Principles Working Group on May 5 with Comments due May 14

Dear Mr. Bruggeman:

Interested parties thank the NAIC Statutory Accounting Principles (E) Working Group (the "Working Group") for your continuing effort to address the various statutory accounting issues arising from the ongoing pandemic caused by the novel coronavirus, COVID-19. We appreciate the opportunity to comment on the exposure drafts released for comment the Working Group. We offer the following comments:

INT 20-05T: Investment Income Due and Accrued

In response to COVID-19, temporary interpretations have been considered to provide exceptions to existing statutory accounting guidance with regards to the 90-day rule for various receivables, as well as guidance on the assessment of impairment and trouble debt restructurings. In response to these interpretations, a request to provide a temporary exception to *SSAP No. 34—Investment Income Due and Accrued* was made.

This interpretation is intended to assess the requirements to review investment income due and accrued and consider whether temporary exceptions could be granted in response to COVID-19. Issues addressed in the interpretation include:

a. Recognition and admittance of investment income under SSAP No. 34.

b. Review of FASB staff technical inquiries and responses on investment income.

The Working Group considered limited time collectability assessments and admittance exceptions for investment income due and accrued and reached the following tentative consensus:

a. Continue with existing guidance in SSAP No. 34 that investment income shall be recorded when due (earned and legally due) or accrued (earned but not legally due until after the reporting date). If investments have been impacted by forbearance or other modification provisions, a reporting entity shall assess whether the investment income has been earned in accordance with the modified terms. Investment income shall only be recognized when earned.

b. Continue with existing guidance in SSAP No. 34 to require an assessment of whether recorded investment income due and accrued is uncollectible.

    i. For mortgage loans, bank loans and investment products with underlying mortgage loans impacted by forbearance or modification provisions, reporting entities may presume that borrowers and investments that were current as of Dec. 31, 2019, were not experiencing financial difficulties at the time of the forbearance or modification for purposes of determining collectability. For these investments, further evaluation of collectability is not required for the 1st and 2nd quarter 2020 financial statements unless other indicators that interest would not be collected are known (e.g., the entity has filed for bankruptcy).

    ii. For investments not impacted by forbearance or modification provisions, this interpretation does not provide an assumption of collectability and the provisions of SSAP No. 34 shall be followed in evaluating collectability and assessing whether an impairment exists.

c. Provide an exception for the nonadmittance of recorded investment income due and accrued that is deemed collectible and over 90-days past due. With this exception, reported investment income interest due and accrued that becomes over 90-days past due in the 1st or 2nd quarter may continue to be admitted in the June 30th, 2020 (1st and 2nd quarter) financial statements. This exception does not encompass mortgage loans in default. Mortgage loans in default shall continue to follow the SSAP No. 34 guidance.

The Working Group considered the FASB technical guidance and reached a tentative consensus consistent with the FASB staff on how interest should be recognized when a payment holiday is given and interest is not accrued. With this guidance, either of the following methods could be applied:

a. A new effective interest rate is determined that equates the revised remaining cash flows to the carrying amount of the original debt and is applied prospectively for the

remaining term. With this approach, interest income is recognized during the payment period holiday.

b. The reporting entity recognizes interest income on the loan in accordance with the contractual terms. Under this view, the reporting entity would recognize no interest income during the payment holiday and would resume recognizing interest income when the payment holiday ends.

The exceptions and provisions detailed in the interpretation are applicable for the June 30th, 2020 (2nd quarter) financial statements. The exceptions provided in this interpretation are not applicable in the September 30, 2020 (3rd quarter) financial statements as the interpretation will automatically expire as of September 29, 2020.

Interested parties note that paragraph 10C of the INT states the following: "Provide an exception for the nonadmittance of recorded investment income due and accrued that is deemed collectible and over 90-days past due. With this exception, reported investment income interest due and accrued that becomes over 90-days past due in the 1st or 2nd quarter may continue to be admitted in the June 30th, 2020 (1st and 2nd quarter) financial statements. *This exception does not encompass mortgage loans in default. Mortgage loans in default shall continue to follow the SSAP No. 34 guidance."* (emphasis added by *italics*)

Interested parties also note that, under certain circumstances, a modified loan (in scope of SSAP No. 34) where the modification is in the scope of INT 20-03, could have an amount due and accrued (deemed collectible) that is 180 days or more past due if the number of days past due is measured in terms of the original contractual terms (prior to the modification). We recommend that INT 20-05T be clarified to state that the determination of whether a loan is in default should be done based on the terms of the modified contractual terms of the loan and not the original contractual terms of the loan (prior to the modification).

INT 20-06T: Participation in the 2020 TALF Program

The Working Group reached a tentative consensus to prescribe statutory accounting guidance for insurance reporting entity involvement in the 2020 TALF Program. Pursuant to this consensus:

a. Reporting entities borrowers who directly receive the TALF loan shall follow guidance in paragraphs 8-14 of this interpretation for the statutory accounting and reporting. As detailed in paragraph 11 of the INT, this interpretation provides an exception to allow admitted asset reporting for the pledged securities although the TALF program does not permit the pledged assets to be generally substitutable.

b. Reporting entities that do not directly receive the TALF loan but are investors to borrowers that receive the TALF loan, shall follow the provisions in paragraphs 15-16 for the statutory accounting and reporting.

The provisions detailed in this interpretation are applicable for the duration of the 2020 TALF loan program.

Interested parties propose the following clarifying edit to paragraph 13 in order to avoid unnecessary confusion for reporting entities and unintended inconsistencies in reporting:

13. Although the transaction is similar to a repurchase agreement accounted for as a secured borrowing, the TALF transaction is not a repurchase transaction. As such, the provisions and disclosures for repurchase agreements are not applicable. ~~Particularly, as each TALF loan will have a three-year maturity, the loan will not be impacted by the statutory accounting provisions that require short-term (less than one year) repurchase agreements for admittance purposes~~.

Clarification that a TALF transaction is not a repurchase agreement and that, therefore, the repurchase agreement provisions and disclosures are not applicable is sufficient for purposes of providing guidance to financial statement preparers. The sentence we suggest be stricken would not provide additional clarity, and could only serve to create extraneous ambiguities pertaining to requirements that have already been clearly established as non-applicable for the subject of this INT.

INT 20-07T: Troubled Debt Restructuring of Certain Debt Investments Due to COVID-19

The Working Group reached a tentative consensus in response to requests to consider exceptions to statutory accounting guidance for troubled debt restructurings and impairment for all debt instruments. Pursuant to this consensus:

a. This interpretation does not provide exceptions to the recognition of a troubled debt restructuring for debt securities with modifications that result in non-insignificant concessions to a debtor that is experiencing financial difficulties.
b. This interpretation does not provide exceptions to the assessment or recognition of impairment for debt instruments. Pursuant to the guidance in SSAP No. 26R, after a modification for a debt instrument, assessment of OTTI shall be based on the current terms of the debt instrument.

   (Exposure Staff Note – This statement corresponds with Agenda Item 2020-14.)

c. This interpretation does not provide exceptions for trouble debt restructuring determination and impairment assessments for situations in which the reporting entity is a direct, active participant in negotiating debt instrument modifications.

In response to assessments on the application of existing SSAP No. 36 provisions, particularly in determining whether a modification is a concession (insignificant), this consensus provides the following limited-time practical expedients in determining whether a modification is a concession under SSAP No. 36:

a. Paragraph 10.a. of SSAP No. 36 identifies that restructured payments are considered insignificant if the delay is insignificant to the unpaid principal or collateral value of the debt and will result in an insignificant shortfall in the contractual amount due. For the duration of this interpretation, debt security restructurings in response to COVID-19 are considered to be insignificant if the restructuring results with a change that reflects a 10% or less shortfall amount in the contractual amount due.

b. Paragraph 10.b. of SSAP No. 36 identifies that restructured payments are considered insignificant if the delay in timing of the restructured payment period is insignificant to the frequency of payments due under the debt, debt's original contractual maturity or the debt's original expected duration. For the duration of this interpretation, debt security restructurings in response to COVID-19 are considered to be insignificant if the restructuring results in a one-time 6-month or less delay in payment receipts. (This timeframe is consistent with the provisions in the interagency statements for loans.)

c. For the duration of this interpretation, debt security restructurings in response to COVID-19 that solely impact covenant requirements are not considered troubled debt restructurings.

In response to assessments on the application of existing SSAP No. 103R provisions, particularly in determining whether a modification that is not a troubled debt restructuring needs to be assessed as an exchange, this consensus provides the following exceptions to SSAP No. 103R:

a. Modifications that reflect a 10% or less change in contractual cash flows considered insignificant under this interpretation do not need to be further evaluated to determine whether the modification is more than minor based on the specific facts and circumstances (and other relevant considerations) surrounding the modification. As such, these investments shall not be reported as an extinguishment and a new debt instrument.

The Working Group highlighted that modifications that would be considered troubled debt restructurings, particularly as they provide a non-insignificant concession, may be presented to the domiciliary state regulatory for a permitted practice exception to prevent troubled debt restructuring recognition and disclosure. However, the Working Group concluded that the need for reliable and accurate financial information does not permit exceptions that would allow wide-spread non-insignificant restructurings to occur and not be recognized on the statutory financial statements.

This interpretation is effective for the specific purpose to provide practical expedients in assessing whether modifications in response to COVID-19 are insignificant under SSAP No. 36 and in assessing whether a change is substantive under SSAP No. 103R. This interpretation will only be applicable for the period beginning on March 1, 2020 and ending on the earlier of December 31, 2020, or the date that is 60 days after the date on which the national emergency

concerning the novel coronavirus disease (COVID–19) outbreak declared by the President on March 13, 2020 under the National Emergencies Act (50 U.S.C. 1601 et seq.) terminates.

Interested parties appreciate your responsiveness by providing accounting relief associated with COVID-19 related modifications we make to borrowers in both our loan and debt security investment portfolios. As significant investors in the capital markets, and as economic conditions have changed rapidly, we believe it is imperative that we respond as quickly as possible to help position our borrowers for financial success post-COVID-19.

For all the reasons conveyed in our April 2nd letter, we believe the same accounting relief provided to mortgage loans and bank loans in INT 20-03 and INT 20-04 should be provided to private placement debt securities. Although the exposed INT 20-07T provides some relief in assessing Troubled-Debt-Restructurings ("TDR") for private placement debt securities, when applied in practice, we do not expect it to provide sufficient relief (i.e., relief *from* assessing TDRs) based on the types of modifications we expect. The exposed INT includes a 6-month modification constraint, which is very restrictive since private placement debt modifications may potentially involve periods longer than 6 months and still be considered insignificant relative to the entire debt instrument. Modifications that insurers make for debt securities are intended to provide the borrowers relief due to temporary operational and financial issues because of COVID-19. Providing such relief now will benefit the borrowers and ultimately our policyholders as it reduces the likelihood that the borrowers will have immediate liquidity concerns resulting in longer-term financial issues and ultimately could result in insurers suffering impairments.

The remainder of these comments relate to the proposed INT and recommends some changes we believe will better align with the types of modifications expected in our private placement portfolios, while retaining the integrity and usefulness of our financial statements.

Clarifications Related to the Proposed INT

In reviewing the INT, we noted several areas of the INT for which we would like to confirm our interpretation as to how the INT would be applied. The key areas are as follows:

1) Scope- We interpret the INT to be applicable for all debt securities and not to introduce additional restrictions for loans that are in the scope of INT 20-03.

2) How the practical expedients are to be applied- After studying the practical expedients in paragraphs 15 a, b, c and 16 a, we interpret them as follows:

    - An insurer may conclude a modification for a debt security is insignificant if the modification meets the criteria in both 15a and 15b.
    - Paragraph 15a provides that to be considered insignificant, the total modified cash flows, over the remaining life of the asset, may not be more than 10% less than the then current contractual cash flows (prior to the modification) over the remaining life of the asset.

- Paragraph 15b is simply stating the modification must not result in a delay in payments (either principal or interest) that is more than 6 months.
- Paragraph 15c provides relief in that all covenant modifications are assumed to not be significant.
- If either the criteria in paragraph 15 a and 15b are not met, the practical expedients may not be employed, and the modification must be assessed for a TDR based on current practices consistent with SSAP No. 36. That is, it is still possible, based on the application of SSAP No. 36 (not using the practical expedients), that the modification does not meet the conditions to be considered a TDR.
- If the investor has concluded that the modification is not a TDR and the criteria in paragraph 15a has not been met, it is assumed that the modification would not be considered a new asset via SSAP No. 103R (i.e., not considered more than minor both quantitatively and qualitatively). That is, no additional analysis is required to determine if the modified terms result in a new asset, with a related realized capital gain/loss recorded.

Recommended Changes to the Proposed INT:

Assuming our interpretation of the INT as detailed above is accurate, we have the following recommendations:

Criteria for Paragraph 15

In discussing modifications with our private placement investment managers, we expect modifications that provide borrowers delayed payments of principal and/or interest, will likely be for a longer period than 6-months; however, the modification would still be considered insignificant when considering the remaining life of the debt security. As a result, as opposed to focusing the use of the practical expedient on insignificant modifications (determined by ensuring both criteria 15a and 15 b are met), we recommend a form of the "financial difficulty" criteria in paragraph 9 of SSAP No. 36 be introduced into the criteria that must be met for the practical expedients to be used (see recommendation below). Using such an approach introduces a higher standard in ensuring the modifications are only driven by COVID-19 temporary conditions.

We recommend removing paragraph 15b criteria so that the paragraph 15a criteria (i.e., the 10%) would be leveraged to determine if a modification was insignificant. This would allow modifications that are still considered temporary in nature, but longer than 6-months and insignificant to a specific debt security, to be considered insignificant. To introduce the "financial difficulty" criteria into the use of the practical expedient, like INT 20-03 for loans, we recommend a criterion be added (to replace paragraph 15b) to require that the debt security must have not been more than 30 days past due at December 31, 2019. The December 31, 2019 date is important because borrowers likely began to experience temporary operational and financial issues in the 1st Q of 2020. Thus, if the borrower was not more than 30 days past due at

December 31, 2019, it is presumed that they are only experiencing temporary issues due to COVID-19. The modifications are intended to help them through those temporary situations.

We also recommend moving item 15c to its own paragraph and not including it with paragraphs 15a and 15b. We believe the intent is that both paragraph 15a and 15b must be met for the practical expedients to be applied. Paragraph 15c criterion is stand-alone and not related to 15a and 15b. That is, all financial covenants are considered insignificant regardless of paragraphs 15a and 15b.

Paragraph 14c:
Paragraph 14c of the INT states "This interpretation does not provide exceptions for troubled debt restructuring determination and impairment assessments for situations in which the reporting entity is a direct, active participant in negotiating debt instrument modifications." We recommend this paragraph be struck from the final INT as it implies that the practical expedients outlined in the INT do not apply to private placement debt securities, which we believe is not your intent. We believe paragraphs 14a and 14b are enough for what is intended to be conveyed in the INT.

Example 3:
Example 3 discusses a modification related to a SSAP No. 43R investment. In paragraph 3 of the "Example 3-Application of INT 20-07T" section of the document, the example notes that "…assuming there is no collateral, a realized loss shall be recognized for the difference between fair value and amortized cost". We find the SSAP No. 43R examples to be somewhat complex in terms of conveying the message related to the criteria. We believe the objective of the example is to illustrate the need for both criteria in 15a and 15b to be met to apply the practical expedients. Should a similar example be retained in the final INT, we recommend it be simplified to use a SSAP No. 26R security rather than a SSAP No. 43R security.

Period during which INT 20-07T is effective:
Paragraph 18 of the INT notes that the interpretation would be applicable from March 1, 2020 until the earlier of 12/31/2019 or 60 days after the national emergency expires. Similar to INT 20-03 for loans, we recommend the INT be applied to a modification for the term of the modification.

We appreciate you considering our recommendations summarized above to ensure we may contribute to economic recovery post COVID-19 for the various private placement borrowers in our debt security portfolios.

INT 20-08T: COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends

The Working Group reached a tentative consensus to prescribe statutory accounting guidance for insurance reporting entities providing refunds in response to COVID-19. Pursuant to this consensus:

Issue 1: Reporting entities that provide voluntary or jurisdiction-directed refunds which are not required under the policy terms shall follow the guidance in paragraphs 8-11 of this interpretation. This guidance stipulates that such refunds shall be recognized as a reduction of premium. Refunds that are recognized in a different manner (e.g., as an expense), shall be considered a permitted or prescribed practice pursuant to SSAP No. 1.

Issue 2: Reporting entities that provide refunds in accordance with insurance policy terms shall follow paragraph 12 of this interpretation. This guidance indicates that existing statutory accounting principles in SSAP No. 53 or SSAP No. 66 shall be followed as applicable.

Issue 3: Reporting entities that provide rate reductions shall follow paragraph 13 of this interpretation. This guidance provides direction based on whether the rate reduction is for in-force or future policies.

Issue 4: Reporting entities that provide policyholder dividend shall follow the existing guidance for policyholder dividends which is summarized in paragraphs 14-18 and in addition, shall complete the disclosures described in paragraphs 19-21.

Issue 5: This interpretation, paragraphs 19-22 indicates that reporting entities shall continue to comply with all statutory accounting disclosure requirements, but also requires that all premium refunds, rate reductions and/or policyholder dividends provided because of the decreased activity due to COVID-19 shall be aggregated and reported in Note 21A.

The Working Group noted that premium taxation requirements vary by jurisdiction. Taxation is determined by the jurisdiction where the premium is written/returned to the policyholder according to the laws of that jurisdiction.

This interpretation will be automatically nullified on January. 1, 2021 and will be included as a nullified INT in Appendix H – Superseded SSAPs and Nullified Interpretations in the "as of March 2021" *Accounting Practices and Procedures Manual*.

Interested parties offer the following comments on the tentative consensus noted above:

Issue 1: Those insurers that provided voluntary or jurisdiction-directed refunds which are not required under the policy terms concluded that guidance similar to that described in paragraphs 8-11 of this interpretation is appropriate and accounted for those amounts accordingly. However, it is noted that the consensus for Issue 1 should be amended to address the effect on the unearned premium reserve by stating: . . . refunds shall be recognized as a reduction of premium and the unearned premium reserve adjusted accordingly.

Other insurers chose to provide funds or credits to policyholders by amending the terms of their policies through manual rate fillings or policy endorsements and reported the amounts provided to policyholders as an expense as part of Other Underwriting Expense based on SSAP No. 70,

Allocation of Expenses. To address the accounting treatment for policies that were amended to allow for a policy payment in circumstances related to COVID-19, those companies recommend that Issue 1 be modified, and a new issue added to the INT as marked in the attachment.

Issue 2: Interested parties agree with the tentative consensus.

Issue 3: Interested parties agree with the tentative consensus.

Issue 4: Interested parties agree with the tentative consensus.

Issue 5: Interested parties believe it would be cumbersome (and may not be possible) to aggregate workers compensation audit premium adjustments attributable to COVID-19 with premium adjustments based on either the level of exposure to insurance risk or the level of losses. To address this, we recommend that the tentative consensus be amended as follows:

> 21. To allow for aggregate, consistent assessment, the Working Group came to a tentative consensus that all COVID-19 inspired premium refunds, rate reductions, and policyholder dividends shall be disclosed as unusual or infrequent items in annual statement 21A. This disclosure is in addition to other existing disclosures on various items related to the policyholder payments. For the avoidance of doubt, refunds required under the policy terms as discussed in paragraph 12 (i.e., policies that require an adjustment to premium based on either the level of exposure to insurance risk or the level of losses) are not required to be aggregated in disclosures of COVID-19 inspired premium refunds, rate reductions and policyholder dividends.

Ref# 2020-14: Assessment of OTTI Based on Original Contract Terms

NAIC Staff recommends that the Working Group move this item to the active listing, categorized as nonsubstantive and consider revisions to add a new footnote to *SSAP No. 26R—Bonds* to clarify the interrelationship between SSAP No. 26R, SSAP No. 36 and SSAP No. 103 when there is a modification to a debt instrument.

> ***SSAP No. 26R—Bonds***
>
> Impairment
>
> 13. An other-than-temporary(INT 06-07) impairment shall be considered to have occurred if it is probable that the reporting entity will be unable to collect all amounts due according to the contractual terms of a debt security in effect at the date of acquisition [FN]. A decline in fair value which is other-than-temporary includes situations where a reporting entity has made a decision to sell a security prior to its maturity at an amount below its carrying value. If it is determined that a decline in the fair value of a bond is other-than-temporary, an impairment loss shall be recognized as a realized loss equal to the entire difference between the bond's carrying value and its fair value at the balance sheet date of the reporting period for which the assessment is made. The measurement of the impairment loss shall not include partial recoveries of fair value subsequent to the balance sheet date. For reporting entities required to maintain an AVR/IMR, the

> accounting for the entire amount of the realized capital loss shall be in accordance with SSAP No. 7. The other-than-temporary impairment loss shall be recorded entirely to either AVR or IMR (and not bifurcated between credit and non-credit components) in accordance with the annual statement instructions.
>
> New Footnote: If a bond has been modified from original acquisition, the guidance in *SSAP No. 36—Troubled Debt Restructuring* and paragraph 22 of *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* shall be followed, as applicable. After modification of original terms, future assessments to determine other-than-temporary impairment shall be based on the current contractual terms of the debt instrument.

Interested parties recommend that the new footnote be modified to clarify that after modification of original terms, future assessments to determine other-than-temporary impairment should be based on the modified contractual terms of the debt instrument. Use of the term "current" may not be clear to preparers and auditors.

* * *

Thank you for considering interested parties' comments. If you have any questions in the interim, please do not hesitate to contact us.

Sincerely,

D. Keith Bell Rose Albrizio

Interpretation of the Statutory Accounting Principles Working Group

INT 20-08T: COVID-19 Premium Refunds, Rate Reductions, Policyholder Benefits and Policyholder Dividends

INT 20-08T Dates Discussed

Email Vote to Expose

INT 20-08T References

SSAP *No. 5—Liabilities, Contingencies and Impairments of Assets*
SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items
SSAP No. 53—Property Casualty Contracts—Premiums
SSAP No. 65—Property and Casualty Contracts
SSAP No. 66—Retrospectively Rated Contracts
SSAP No. 70- Allocation of Expenses

INT 20-08T Issue

COVID 19

1. A previously unknown virus began transmitting between October 2019 and March 2020, with the first deaths in the U.S. reported in early March 2020. The disease caused by the virus is known as Coronavirus Disease 2019 (COVID-19). Several states and cities ~~have~~ issued "stay home" orders and forced all non-essential businesses to temporarily close. This led to a significant increase in unemployment and the potential permanent closure of many businesses. Total economic damage is still being assessed however the total impact is likely to exceed $1 trillion in the U.S. alone.

Premium Refunds, Rate Reductions, Policyholder Benefits and Policyholder Dividends

2. The federal, state or local government orders requiring non-essential workers to "stay home" caused a significant reduction in commercial and non-commercial activity, including automotive usage. Some consumer groups wrote letters and issued press releases calling for insurance premium refunds or pricing decreases, which included specific comments directed toward consumer automotive lines. The comments presumed that the decrease in activity would result in fewer losses.

3. ~~Many~~Recognizing the extraordinary economic hardship experienced by their policyholders together with the reduction in auto accident frequency resulting from the decline in economic activity, insurers ~~began issuing~~designed various programs to provide a portion of the favorable experience realized from reduced accident frequency to policyholders. The underlying objective of the programs is to provide temporary relief to customers during the period that various government-based shelter in place orders remain in effect resulting in a significant decline in general economic activity accident frequency levels remaining significantly below historic levels. The methods utilized to deliver temporary relief to policyholders include voluntary premium refunds, future rate reductions~~or~~, policyholder benefit payments (in certain instances, based on manual rule filings or policy endorsements) and policyholder dividends~~ because of the decreased activity. The majority of the refunds were related~~. Most of the relief payments (or programs) relate to automotive lines of business. Insurers have provided ~~the reductions~~policyholder relief in a variety of ways~~. Some of~~

~~the rate reductions were specific~~including direct relief payments for in-force policies~~, whereas some of the~~ as well as relief payments/programs designed as rate reductions ~~would apply~~to be applied to future policy renewals.

Voluntary

4. The majority of ~~the refunds or rate reductions~~company actions taken are being offered voluntarily and are not amounts required under the existing policy terms. The aggregate monetary amount of the ~~return of funds~~payments and adjustments is considered materially significant.

Jurisdiction Directed

5. In addition, a few jurisdictions have issued bulletins directing refunds and rate reductions on varying lines of property and casualty insurance, including but not limited to: private passenger automobile, commercial automobile, workers' compensation, commercial multiple peril, commercial liability and medical professional liability. In addition, some jurisdictions have indicated support for refunds~~or~~, rate reductions, and policyholder benefits but also directed that payment of such amounts require either premium rate filings or policy form amendments.

Accounting Issues

6. ~~This~~The intent of this interpretation is to address ~~questions related to~~the accounting and reporting for premium refunds, rate reductions, policyholder benefit payments and policyholder dividends ~~in response to the decreased activity related~~attributable to COVID-19~~. Because there are a variety~~impacts on the private passenger and commercial auto insurance business. Due to the severity of ~~ways~~ the event and the speed at which it emerged, different insurers designed and implemented policyholder relief programs that ~~reporting entities are accomplishing~~are fundamentally different even if designed to achieve a similar objective. The intent of ~~returning money or reducing premiums, this~~this guidance is to ensure that for accounting purposes, the programs are accounted for in accordance with their design and execution. Separately, to provide policyholders and other stakeholders with information about the size and scope of the programs, required comprehensive disclosures should be utilized. This interpretation provides guidance on the following issues:

- Issue 1: How to account for premium refunds not required under the existing policy terms.
- Issue 2: How to account for refunds required under the existing policy terms.
- Issue 3: How to account for rate reductions on inforce and renewal business.
- Issue 4: How to account for policyholder benefit payments under modified policy terms (e.g., manual rule filings or certain policy endorsements).
- Issue 5: How to account for policyholder dividends.
- Issue ~~5~~6: Where to disclose premium refunds, rate reductions, policyholder benefit payments and policyholder dividends related to covid-19 decreases in activity.

INT 20-08T Discussion

7. As an overall guiding principle, the accounting shall follow existing statutory accounting principles and annual statement reporting where feasible consistent with the design and execution of the program.

Issue 1: How to Account for Premium Refunds Not Required Under the Policy Terms

8. The Working Group reached a tentative consensus that company actions whose intent is a voluntary ~~refunds because of~~premium refund based on reduced auto accident frequency attributed to decreased activity related to COVID-19 and other jurisdiction-directed premium refunds which are not required by the policy terms, ~~are fundamentally a return of premium. Such refunds~~ shall be accounted for as immediate adjustments to premium. The premium refund will be an adjustment to written or earned premium.

9. ~~Refunds~~Premium refunds shall be recognized as a liability when the definition of a liability in *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets* is met. For example, the declaration of a voluntary dividend by the board of directors will trigger liability recognition. In cases where the refunds are directed by a jurisdiction, the SSAP No. 5 definition of a liability shall be used to determine timing of liability recognition.

10. Immediate adjustment to premium is consistent with the existing guidance in *SSAP No. 53—Property Casualty Contracts—Premiums.* SSAP No. 53 guidance requires adjustments to the premium charged for changes in the level of exposure to insurance risk. It is also consistent with the treatment of loss sensitive premium adjustments in *SSAP No. 66—Retrospectively Rated Contracts*. While some of the voluntary or jurisdiction-directed refunds may not be required by the explicit policy terms, the principle of reversing premium in the same way that the premium was originally recognized continues to apply.

11. ~~Reporting the~~A voluntary or jurisdiction-directed premium refund shall not be reported as an expense~~is not consistent with statutory accounting guidance and would inappropriately present the expense ratios in the statutory accounting financial statements. Reporting the~~Reporting a premium refund as an expense~~, or any other method besides a decrease to premium,~~ would be considered a permitted or prescribed practice and shall be disclosed as required by *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures*.

~~a. Reporting the refunded amounts as a miscellaneous underwriting expense is not consistent with the underwriting expense description. This reporting option is inconsistent with the characterization of the amount as a return of premium.~~

~~b. Reporting the refunds as premium balances charged off (e.g., bad debt expense) is inconsistent with guidance in 53, paragraph 14, on earned but uncollected premium. It is also inconsistent with the annual statement instructions as the amount is not an uncollectible amount, but rather a voluntary choice by the reporting entity to reduce the amount charged.~~

Issue 2: How to Account for Premium Refunds Required Under the Policy Terms

12. While most of the premium refunds are voluntary or jurisdiction-directed and not required under the policy terms, some policies have terms that require an adjustment to premium based on either the level of exposure to insurance risk or the level of losses. If the policy terms change the amount charged, existing guidance in SSAP No. 53 or SSAP No. 66 continues to apply:

a. SSAP No. 53 provides guidance for policies in which the premium amount is adjusted for changes in the level of exposure to insurance risk. This is often seen in commercial lines of business such as workers' compensation. The guidance notes that audits often occur after the policy term or mid-term in the policy. SSAP No. 53 refers to the adjustment to premium (either due to the customer or to the insurer) as earned but unbilled (EBUB) premium. SSAP No. 53 requires such adjustment to premium to be made immediately either through written premium or earned premium. SSAP No. 53 also requires recognition of the related liabilities and expenses such as commissions and premium taxes based on when the premium is earned.

b. SSAP No. 66 provides guidance for policies whose terms or legal formulas determine premium based on losses. SSAP No. 66 references other applicable statements based on contract type for the initial accrual of premium. Estimates of premium adjustments are accrued based on activity to date and result in immediate adjustments to premium. SSAP No. 66 guidance specifies the corresponding annual statement reporting lines for different entity types.

Issue 3: How to Account for Rate Reductions

13. Some reporting entities are offering rate reductions instead of premium refunds. Some of these rate reductions provide one-time price decreases to future payments on in-force policies. Other reporting entities have provided offers of rate reductions on future renewals. Some of the offers for future rate reductions are only applicable to inforce policyholders as of a specified date. Some reporting entities have offered one-time rate reductions for future renewals for both existing and new policyholders for 2020.

a. Rate reductions on in-force business, shall be recognized as immediate adjustments to premium.

b. Rate reductions on future renewals shall be reflected in the premium rate charged on renewal. This is because it is outside of the policy boundary to require the accrual before contract inception. While the amount of future rate reduction can be estimated, it is not a change to existing policy terms and policyholders are not obligated to renew at the reduced rate, therefore, payment of the amount is avoidable. Such amounts shall be disclosed as discussed in Issue No. 5.

Issue 4: How to Account for Policyholder Benefit Payments Under Modified Policy Terms (e.g. Manual Rule Filings or Policy Endorsements)

14. In an effort to expedite relief to policyholders, certain insurers filed manual rule filings or policy endorsements to modify the terms of their insurance contracts to allow for the payment of discretionary policy benefits. In these instances, policy endorsements or manual rule filings were determined to be the most efficient method to provide relief to policyholders.

15. The manual rules filings or policy endorsements in paragraph 14 allowed for discretionary benefit payments to policyholders that were not otherwise provided under the contract (e.g. the payments did not result from an indemnifiable loss or a premium adjustment based on changes in insurance risk attributable to a policy change or cancellation) and were stated to be in response to circumstances surrounding COVID-19. The manual rule filings or policy endorsement was utilized to expedite providing relief to policyholders. As the manual rule filings or policy endorsements would not impact written

premium and would, therefore, not result in adjustments to either premium tax returns or agent commissions. The following was considered in determining the appropriate accounting and presentation of discretionary policy benefit payments provided through the manual rule filings or policy endorsements:

a. Accounting for discretionary policy benefits paid in accordance with contract terms modified through a manual rule filing or endorsement authorizing payments to policyholders that are not directly related to a change in the level of insurance risk is not specifically addressed in existing statutory accounting literature.

b. SSAP 70, *Allocation of Expenses,* does however state that allocable expenses for property and casualty insurance companies shall be classified into one of three categories in the Underwriting and Investment Exhibit as follows; loss adjustment expenses, investment expenses, other underwriting expenses. Other underwriting expenses are defined as allocable expenses other than loss adjustment expenses and investment related expenses.

c. In those circumstances when an insurer modifies the terms of its insurance contracts to allow for discretionary payments that are not directly related to the level of insurance risk under the contract and not designed as a premium refund, the payment shall be accounted for consistent with its nature and design; as an underwriting expense. These payments affect the results of the underwriting activities of the insurer since they are related to the policy and are not precluded in the literature from being classified as underwriting expenses.

16. Policyholder payments shall be recognized as a liability when the definition of a liability in *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets* is met.

Issue 5: How to Account for Policyholder Dividends

17. *SSAP No. 65—Property and Casualty Contracts,* paragraph 46 requires that dividends to policyholders immediately become liabilities of the reporting entity when they are declared by the board of directors and shall be recorded as a liability.

18. The Working Group noted that policyholder dividends are typically only provided on participating policies or policies issued by non-stock companies, such as mutual entities and other corporate entity types in which profits are shared with policyholders.

19. Research during the development of this item identified that a small number of jurisdictions have legal restrictions which only allow policyholder dividends to be provided after the expiration of the policy period for which the dividend was earned. This interpretation only addresses policyholder dividends which are permitted by the applicable jurisdiction.

20. The property and casualty annual statement blank provides specific reporting lines for policyholder dividends including, but not limited to a liability line and a line in the income statement and statement of cash flow. For those entities whose policies are participating or whose corporate shell type and/or membership structure allow for policyholder dividends, the accounting for policyholder dividends is unchanged by this interpretation.

21. *SSAP No. 72—Surplus and Quasi-Reorganizations,* paragraph 22 requires disclosure of dividend amounts and dates. In addition, SSAP No. 65, paragraph 47 also requires disclosure of dividend restrictions. The disclosures from both statements are in annual statement Note 13 Capital

and Surplus, Dividend Restrictions and Quasi-Reorganizations. This interpretation does not change the dividend disclosure but provides additional guidance that such policyholder dividends issued in response to COVID-19 decreases in activity shall also be disclosed as discussed in Issue 5.

Issue ~~5~~6: Where to Disclose Premium Refunds, Rate Reductions, Policyholder Benefit Payments and Policyholder Dividends Related to COVID-19 Decreases in Activity

22. There are various places in the notes to the statutory annual statement where disclosures of various aspects of premium refunds, premium reductions or policyholder dividends are required. This interpretation does not recommend changes to those existing disclosures. This interpretation does, however, recommend a consistent annual statement disclosure for all such amounts to allow for comparable disclosures.

23. *SSAP No. 24—Discontinued Operations and Unusual or Infrequent Items* requires disclosure of the nature and financial effects of each unusual or infrequent event or transaction. Gains or losses of a similar nature that are not individually material shall be aggregated. This disclosure shall include the line items which have been affected by the event or transaction considered to be unusual and/or infrequent. This disclosure is currently required to be reported in annual statement Note 21A. (Reporting entities shall maintain jurisdiction-specific information to be made available upon request from department of insurance or revenue regulators.)

24. To allow for aggregate, consistent assessment, the Working Group came to a tentative consensus that all COVID-19 inspired premium refunds, rate reductions, policyholder benefit payments and policyholder dividends shall be disclosed as unusual or infrequent items in annual statement 21A. This disclosure is in addition to other existing disclosures on various items related to the policyholder payments. For the avoidance of doubt, refunds required under the policy terms as discussed in paragraph 12, (i.e., policies that require an adjustment to premium based on either the level of exposure to insurance risk or the level of losses) are not required to be aggregated in disclosures of COVID-19 inspired premium refunds, rate reductions, policyholder benefit payments and policyholder dividends.

INT 20-08T Tentative Consensus

25. The Working Group reached a tentative consensus to prescribe statutory accounting guidance for insurance reporting entities providing refunds and discretionary policyholder benefits in response to COVID-19. Pursuant to this consensus:

a. Reporting entities that provide voluntary or jurisdiction-directed premium refunds which are not required under the policy terms shall follow the guidance in paragraphs 8-11 of this interpretation. This guidance stipulates that such premium refunds shall be recognized as a reduction of premium. ~~Refunds~~Premium refunds described in paragraphs 8-11 that are recognized in a ~~different~~ manner ~~(e.g.,~~other than as ~~an expense),~~a decrease to premium, shall be considered a permitted or prescribed practice pursuant to SSAP No. 1.

b. Reporting entities that provide premium refunds in accordance with insurance policy terms shall follow paragraph 12 of this interpretation. This guidance indicates that existing statutory accounting principles in SSAP No. 53 or SSAP No. 66 shall be followed as applicable.

c. Reporting entities that provide rate reductions shall follow paragraph 13 of this interpretation. This guidance provides direction based on whether the rate reduction is for in-force or future policies.

d. Reporting entities that provide for the payment of discretionary policy benefits through a manual rule filing or policy endorsement that authorizes payments to policyholders not otherwise provided under the contract (e.g. not a payment resulting from an indemnifiable loss or a return of premium based on changes in insurance risk related to the policy or not related to a policy change or cancellation) shall account for the payment in accordance with the guidance in paragraphs 14-16. This INT addresses and is limited to the accounting for the particular circumstance when policyholder payments as specified in the modified policy terms are related to conditions resulting from COVID 19 for manual rule filings or policy endorsements filed in response to COVID 19 activity.

e. Reporting entities that provide policyholder dividend shall follow the existing guidance for policyholder dividends which is summarized in paragraphs ~~14-18~~17-21 and in addition, shall complete the disclosures described in paragraphs ~~19-21~~22-24.

f. This interpretation, paragraphs ~~19-~~22-24 indicates that reporting entities shall continue to comply with all statutory accounting disclosure requirements, but also requires that all premium refunds and payments, rate reductions and/or policyholder dividends provided because of the decreased activity due to COVID-19 shall be aggregated and reported in Note 21A.

26. The Working Group noted that premium taxation requirements vary by jurisdiction. Taxation is determined by the jurisdiction where the premium is written/returned to the policyholder according to the laws of that jurisdiction.

27. This interpretation will be automatically nullified on January 1, 2021 and will be included as a nullified INT in Appendix H – Superseded SSAPs and Nullified Interpretations in the "as of March 2021" *Accounting Practices and Procedures Manual*.

INT 20-08T Status

28. Further discussion is planned.

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317.875.5250 | [F] 317.879.8408
3601 Vincennes Road, Indianapolis, Indiana 46268

202.628.1558 | [F] 202.628.1601
20 F Street N.W., Suite 510 | Washington, D.C. 20001

May 14, 2020

Dale Bruggeman
Chair, Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
VIA Email Transmission: jgann@naic.org; rmarcotte@naic.org

RE: INT 20-08T: COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends

Dear Mr. Bruggeman:

The following comments are submitted on behalf of the member companies of the National Association of Mutual Insurance Companies[1] regarding the interpretive reporting guidance issued to account for premium refunds, rate reductions, and policyholder dividends.

As the COVID-19 global pandemic continues to disrupt our national and state economies, insurers are hard at work continuing to adapt and innovate to best serve policyholders in their time of need. Like every other business in America, our members are navigating the new challenges and demands that come from remote work arrangements, implementing business continuity plans, making best efforts to educate and communicate updates to staff, and much more. These complications notwithstanding, our members continue to remain focused on providing regular service to policyholders in addition to taking proactive steps to alleviate the financial hardships facing many consumers, including cancellation suspensions, fee waivers, and premium relief. NAMIC members remain committed to working with all policyholders to provide flexibility where possible for the duration of this crisis.

Several states and cities have issued "stay home" orders and forced all non-essential businesses to temporarily close leading to a significant increase in unemployment and the potential permanent closure of many businesses. The federal, state or local government orders requiring non-essential workers to "stay home" caused a significant reduction in commercial and non-commercial activity, including automotive usage. Many NAMIC members responded proactively and implemented various programs in response to the reduction in auto accident frequency due to the decline in economic activity. These programs were designed to provide relief to policyholders experiencing economic hardship and to recognize the improvement in loss experience due to less miles driven on the roads.

[1] NAMIC is the largest property/casualty insurance trade association in the country, with more than 1,400-member companies representing 39 percent of the total market. NAMIC supports regional and local mutual insurance companies on main streets across America and many of the country's largest national insurers. NAMIC member companies serve more than 170 million policyholders and write more than $230 billion in annual premiums. Our members account for 54 percent of homeowners, 43 percent of automobile, and 32 percent of the business insurance markets. Through our advocacy programs we promote public policy solutions that benefit NAMIC member companies and the policyholders they serve and foster greater understanding and recognition of the unique alignment of interests between management and policyholders of mutual companies.

NAMIC members view this issue from many different perspectives, and for some, treating these refunds/credits as a reduction in premium makes the most sense for how the company manages its' operations and ultimately how it reports it in the annual statement. For others, treating these refunds as a policyholder dividend or an expenditure similar to a policyholder dividend is in line with the types of policies they issue. Still others prefer to treat the funds distributed to policyholders as a premium charge-off, as that makes the most sense for the insurer based on their unique circumstances.

The reasons for an accounting interpretation of this nature is to respond to various approaches taken by insurers during these unprecedented times; therefore, NAMIC believes the accounting treatment for these transactions needs to recognize the unusual nature and the infrequency of an event of this scale. The proposed interpretive guidance does not fully consider the nuances of a mutual insurance company's participating structure, contract form, and financial reporting considerations. NAMIC members respectfully request the working group consider more flexibility in their guidance; this would allow companies to continue classifying funds returned to policyholders in the same consistent manner with how they have done so historically in the financial statements.

Participating Insurance Contracts

The payment of a dividend is considered a component of an insurer's combined ratio and for mutual insurance companies that offer participating policies, a dividend is typically paid to policyholders when favorable operating profits are realized. The proposed interpretation does not consider insurers returning funds to policyholders (other than dividends) for a period of favorable underwriting experience as a similar situation, and therefore the proposal treats all refunds/credits/rate reductions as a return of premium. NAMIC members do not believe that treating funds returned to policyholders as a premium credit is the only way to account for these distributions of funds. Depending on the design of the program, insurers should be afforded the flexibility to account for these refunds similar to a policyholder dividend.

Paragraph 10 of INT 20-08T states that the guidance in SSAP No. 53 – Property Casualty Contracts – Premiums "requires adjustments to the premiums charged for changes in the level of exposure to insurance risk." Paragraph 7 of SSAP No. 53 also states, "the exposure to insurance risk for most property and casualty insurance contracts does not vary significantly during the contract period." Mutual insurance companies that provide participating insurance contracts designed to return operating profits resulting from favorable loss experience to policyholders didn't experience any change in loss exposure, rather it is their loss experience that improved. Because the level of exposure to insurance risk is unchanged and loss experience has improved, many mutual insurers returning money to policyholders do not view these payments as a premium credit, rather they view them very similarly to a dividend payment.

The INT makes reference to certain types of policies that require premium refunds under the policy terms; however, the guidance is nonapplicable to participating insurance contracts. The reference to paragraph 12.b of INT 20-08T is appropriate for retrospectively rated contracts, such as workers compensation polices – these policies are designed to include a return mechanism. For these policies, the INT states that SSAP No. 66 – Retrospective Rated Contracts, "provides guidance for policies whose terms or legal formulas determine premium based on losses" and that "estimates of premium adjustments

are accrued based on activity to date and result in immediate adjustments to premium." For participating insurance contracts, the return mechanism is designed to return shared operating profits to policyholders as a separate payment (usually a dividend), not as a return of premium. Our view is these payments are funds returned to policyholders related to the accelerated recognition of favorable loss experience and are similar to making a dividend payment; therefore, insurers should not be forced to treat these as premium credits.

Material Unusual and Infrequent Item

Many mutual insurance companies offering participating policies view the amounts already returned to policyholders as a shared benefit of favorable loss experience and were planning to include them as a component of the combined ratio and treat as an expenditure similar to a policyholder dividend. In this case and in response to the uniqueness of the COVID-19 situation, the expenditure should be considered a material unusual and infrequent item. The abrupt nature of this refund was unique in circumstance and the sense of urgency to return these funds in an expedient manner was not readily possible within most mutual insurer's administrative systems. Although in substance these policyholder payments were consistent with the intent of a dividend payment, they were not remitted in the form of a dividend. For these reasons, we believe insurers that offer participating policyholder payments should be afforded the option to account for these policyholder payments similarly to a dividend, so as not to force all insurers to net them within premiums in the annual statement.

The rationale for optionality is supported by paragraph 9 of SSAP No. 24 – Discontinued Operations and Unusual or Infrequent Items, which states, "a material event or transaction that an entity considers to be of an unusual nature or of a type that indicates infrequency of occurrence or both shall be reported consistently with the reporting entity's reporting of continued operations."

Premium Balance Charge-Off

Other insurers are looking at this from an entirely different perspective and have made the decision to pay for a percentage of auto premiums for their policyholders for policies in force. This approach has no impact on agents or the insured only that the insurer is helping to pay the policyholder's bill. These companies were planning to record the total amount in billing assistance as a premium charge-off in their financial statements[2]. These companies are looking to avoid impacting the combined ratio, as these amounts are significant in size and certainly qualify as unusual and infrequent. Availing flexibility for insurers in this situation recognizes the need to call out these unique and unusual transactions in the financial statements, so as not to distort the core operations, assisting regulators in their examination and analysis of the financial results of an impacted company.

Paragraph 11.b of INT 20-08T states that reporting refunds as premium balances charged off is "inconsistent with guidance in SSAP No. 53, paragraph 14, on earned but uncollected premiums." However, in certain cases the premium was earned *and* collected. Instead of issuing a refund, some insurers paid off a portion of the policyholders billed premium. Thus, it was collected and the premium was then earned by the company. It makes more sense for companies in this situation to treat

[2] Premium Balances Charge Off – Page 4, Line 12 of the P/C Annual Statement

the reduction in loss experience as a one-time premium charge-off instead of telling the policyholder to not pay their bill only to then write it off.

Disclosing Premium Refunds, Rate Reductions, and Policyholder Dividends Related to COVID-19

The disclosure of dividend amounts and dates required by SSAP No. 72, paragraph 22, as referenced by paragraph 18 of INT 20-08T, applies to stockholder dividends only, and not policyholder dividends. Therefore, this reference should be removed from INT 20-08T as a requirement for disclosure of policyholder dividends. Note 13 Capital and Surplus, Dividend Restrictions and Quasi-Reorganizations only requires disclosure of policyholder dividend restrictions as required by SSAP 65, paragraph 47.

NAMIC members recommend paragraph 18 of INT 20-08 be reworded as follows to clarify the required disclosure of policyholder dividends:

> *18. SSAP No. 65, paragraph 47 requires disclosure of dividend restrictions. This disclosure is in annual statement Note 13 Capital and Surplus, Dividend Restrictions and Quasi-Reorganizations. This interpretation does not change the dividend disclosure but provides additional guidance that such policyholder dividends issued in response to COVID-19 decreases in activity shall also be disclosed as discussed in Issue 5.*

Thank you for your consideration of these comments on this matter of importance to NAMIC, its member companies and their policyholders. If there are any questions, please feel free to contact me at 317-876-4206.

Sincerely,

Jonathan Rodgers
Director of Financial and Tax Policy
National Association of Mutual Insurance Companies

May 14, 2020

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: INT 20-08T: *COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends*

Dear Mr. Bruggeman:

Thank you, the Working Group and NAIC staff for responding quickly to the issues that are arising as a result of the rapid spread of the Coronavirus Disease 2019 (COVID-19). Travelers appreciates the opportunity to comment on INT 20-08T: *COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends* (INT 20-08T) of the NAIC Statutory Accounting Principles Working Group (the Working Group), which was exposed for comment with comments due May 14.

During the past couple of months, state and/or local government orders requiring non-essential workers to "stay home" caused a significant reduction in economic activity, including automotive usage. As a result, many insurers, including Travelers, began issuing voluntary premium refunds, future rate reductions, or policyholder dividends. As stated in the INT, insurers provided the reductions in a variety of ways. Some of the rate reductions were specific to in-force policies, whereas some of the rate reductions apply to future policy renewals. In most cases, the refunds or rate reductions were not amounts required under the policy terms.

Travelers agrees with the conclusions reached for Issues 1 through 4 of INT 20-08T that adjustments to premium is consistent with the statutory accounting guidance in SSAP No. 53, *Property Casualty Contracts – Premiums*, SSAP No. 65, *Property and Casualty Contracts* and SSAP No. 66, *Retrospectively Rated Contracts*. We also believe that there should be consistent reporting by property and casualty insurers of voluntary premium refunds, temporary future rate reductions, and policyholder dividends resulting from COVID-19.

Other than the treatment of policyholder dividends specifically referenced in Issue 4 of INT-20-08T, we do not believe that payments to policyholders that are based on past or current premiums and are the result of reduced insured exposure due to COVID-19 should be characterized as an expense. SSAP No. 70, *Allocation of Expenses*, provides for three types of reportable expense classifications for property and casualty insurers: loss adjustment expenses, investment expenses and other underwriting expenses. Premium refunds and temporary future rate reductions to policyholders are clearly not loss adjustment or investment expenses, nor are

such payments other underwriting expenses, the latter of which is meant to capture the allocable underwriting expenses of the insurer. Rather, these refunds, payments and credits are the result of changes in insured exposures (such as lower miles driven related to auto policies due to federal, state or local government orders requiring non-essential workers to "stay home"). Additionally, we agree that if such premium refund payments or credits to policyholders are reported as expenses, such treatment should be disclosed as a permitted practice.

Regarding Issue 5 ("Where to Disclose Refunds, Rate Reductions and Policyholder Dividends Related to COVID-19 Decreases in Activity"), Travelers has concerns regarding the proposed disclosure requirement in paragraph 21 that all COVID-19 inspired premium refunds, rate reductions, and policyholder dividends be disclosed as unusual or infrequent items. We believe that this proposed disclosure is not practicable as it concerns certain commercial policies, especially loss sensitive policies and policies subject to retrospective rating or audit adjustment. For such policies, it will not be practical to separate refunds and rate reductions from changes in premium due to loss experience.

Thank you for the opportunity to comment on INT 20-08T. If you have any questions or would like to discuss our comments, please feel free to call me at (860) 277- 0537.

Best regards,

D. Keith Bell

THE CINCINNATI INSURANCE COMPANIES

The Cincinnati Insurance Company • The Cincinnati Indemnity Company
The Cincinnati Casualty Company • The Cincinnati Specialty Underwriters Insurance Company
The Cincinnati Life Insurance Company

May 20, 2020

Mr. Dale Bruggeman, Chairman
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: Addendum to original comments regarding INT 20-0ST - COVID-19 Premium Refunds, Rate Reductions and Policyholder Dividends

Dear Mr. Bruggeman:

Thank you for this opportunity to share additional comments on INT 20-08T for your consideration. And thank you again to the Working Group for your effort in this endeavor during such extraordinary times. We value and appreciate your partnership and guidance.

The Cincinnati Insurance Company offers the following additional comments:

When a state mandates that companies make a payment, this is typically accounted for as some sort of an expense to the company, such as assessments, surcharges, guaranty funds, fines, taxes.

For purpose of context, I would like to use a general example for comparison:
A state enacts a fee whereby companies are required to pay an amount equal to 5% of premiums for a specific product line. Companies have the option to collect all, or part, of this fee from impacted policyholders. If the company chooses to NOT collect the fee from policyholders, the amount incurred by the company is an expense.

Now, substitute this example with the nature of the current relief payment:
States have strongly encouraged, and in some cases mandated, that companies pay a civic donation to policyholders for, at least, a specific product line. This request, or order, is based on the premise that companies will experience favorable loss experience, but not based on actual loss experience.

Assuming contracts are non-participating and premium refunds are not required under the policy terms, this relief payment should also be an expense.

- Companies are essentially incurring an expense, in place of a loss.
- As an expense, companies bear the majority of the financial burden for the payment. As opposed to the financial burden being shared by further exacerbating revenue shortfalls
    - for state governments through reduced premium taxes and
    - for small businesses through commission clawbacks.
- States allowed payments to be made directly to policyholders, rather than sending payments to the states and the state making payments directly to impacted policyholders.

Whether viewed as most aligned with an assessment, surcharge, donation, or marketing, we propose these payments are appropriately reported as expense. In accounting treatment, reporting payments as an expense limits the combined ratio impact to the expense ratio. Given the fact that some companies have the option of making these payments under normal policyholder dividend guidelines, limiting the impact to dividend and expense ratios provides a level of industry consistency. If treated as premium, all aspects of the combined ratio, including the loss ratio, are impacted, which does not seem appropriate. Given that the premise of the payment request is for companies to share their anticipated favorable loss experience, it seems counterintuitive that loss experience ratios be negatively impacted by the payment.

Mailing Address: P.O. Box 145496 • Cincinnati, Ohio 45250-5496 • **Headquarters:** 6200 S. Gilmore Road • Fairfield, Ohio 45014-5141
cinfin.com ■ 513-870-2000

For these reasons, The Cincinnati Insurance Company respectfully proposes that relief payments made on non-participating contracts, and outside of policy terms that existed at the time of state orders, are fundamentally an expense and should be accounted for as such.

Sincerely,

Andrew Schnell
Assistant Vice President

CC: Robin Marcotte, NAIC Staff
Michael Sewell, Chief Financial Officer and Senior Vice President
Theresa Hoffer, Senior Vice President and Treasurer
James Sims, Assistant Treasurer
Rachel Underwood, Technical Accounting Manager

Mailing Address: P.O. Box 145496 • Cincinnati, Ohio 45250-5496 ■ **Headquarters:** 6200 S. Gilmore Road • Fairfield, Ohio 45014-5141
www.cinfin.com ■ 513-870-2000