

Interpretation of the Statutory Accounting Principles Working Group

INT 20-08: COVID-19 Premium Refunds, [Limited-Time Exception](#), Rate Reductions and Policyholder Dividends

INT 20-08 Dates Discussed

Email Vote to Expose May 5, 2020; May 20, 2020; June 15, 2020, [July 22, 2020](#)

INT 20-08 References

SSAP No. 5R—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. 54R—Individual and Group Accident and Health Contracts

SSAP No. 65—Property and Casualty Contracts

SSAP No. 66—Retrospectively Rated Contracts

INT 20-08 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.

Refunds, Rate Reductions 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 insurers began issuing voluntary premium refunds, future rate reductions or policyholder dividends because of the decreased activity. The majority of the refunds were related to automotive lines of business [however, some accident and health products also provided payments](#). Insurers have provided the reductions in a variety of ways. Some of the rate reductions were specific for in-force policies, whereas some of the rate reductions would apply to future policy renewals. [Insurers provided unprecedentedly large payments to policyholders in an expedited fashion. These payments were viewed by regulators and insurers as being in the best interests of policyholders.](#)

Voluntary

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

Jurisdiction Directed

5. In addition, a few jurisdictions have issued bulletins directing refunds and rate reductions on accident and health insurance and 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, but also directed that payment of such amounts require either premium rate filings or policy form amendments.

Accounting Issues

6. This intent of this interpretation is to address questions related to refunds, rate reductions and policyholder dividends in response to the decreased activity related to COVID-19. Because there are a variety of ways that reporting entities are accomplishing a similar objective of returning money or reducing premiums, this interpretation provides guidance on the following issues:

- Issue 1: How to account for refunds not required under the policy terms.
- Issue 2: How to account for refunds required under the policy terms.
- Issue 3: How to account for rate reductions on inforce and renewal business.
- Issue 4: How to account for policyholder dividends.
- Issue 5: Where to disclose refunds, rate reductions and policyholder dividends related to COVID-19 decreases in activity.

INT 20-08 Discussion

7. As an overall guiding principle, the accounting shall follow existing statutory accounting principles and annual statement reporting where feasible [with more specific accounting applicable for the issues within this interpretation](#).

[INT 20-08 Consensus](#)

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

~~7.~~8. The Working Group reached a consensus that voluntary refunds, because of decreased activity related to COVID-19 and jurisdiction-directed refunds which are not required by the policy terms, are fundamentally a return of premium. [Absent meeting the criteria for the limited-time exception to report as an aggregate write in for other underwriting expense as discussed in paragraphs 12-13, s](#)Such refunds shall be accounted for as immediate adjustments to premium. The refunds shall be recognized as a reduction to written or earned premium and the unearned premium reserve adjusted accordingly.

~~8.~~9. 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. 5R definition of a liability shall be used to determine timing of liability recognition.

~~9.~~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. Immediate adjustments to premium for voluntary accident and health premium refunds is also consistent with the guidance in *SSAP No. 54R—Individual and Group Accident and Health Contracts* on contracts subject to redetermination. 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. The liability for voluntary health premium refunds attributable to COVID-19 and which are not required under the policy terms shall be recognized in aggregate write-ins for other liabilities.

Limited-Time Exception – Expense Reporting

12. Reporting the voluntary or jurisdiction-directed refund as an expense is not consistent with statutory accounting guidance. However, due to the variety of ways that COVID-19 premium reductions were approved by the various jurisdictions, this interpretation grants a limited-time exception to the existing reporting guidance to allow underwriting expense reporting. This limited-time exception applies to property and casualty lines of business in which the reporting entity filed policy endorsements or manual rate filings prior to June 15, 2020 which allow for discretionary payments to policyholders due to the COVID-19 related issues. In these cases, the reporting entities disclosed to the jurisdictions where the policies are written their intention to report their payments to policyholders as expenses. These property and casualty lines of business are permitted to report such policyholder payments as other underwriting expenses. This interpretation intends to be clear that manual rate filings and policy endorsements are not a source of authoritative accounting and this limited-time exception should not be used as an analogy for application to other such filings.

13. Application of this limited-time exception shall also be subject to the additional disclosures provided in Issue 5 below. Reporting the COVID-19 premium reductions as an expense as provided for in this limited-time exception, shall be disclosed as if it were a permitted practice. The reporting entity shall complete the permitted practices disclosures required by *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures* in annual statement Note 1 and any other disclosures pursuant to Issue 5 of this interpretation. This interpretation provides a limited-time exception for reporting premium refunds, and does not require domiciliary jurisdiction approval as a permitted practice if the requirements of this interpretation are met. However, disclosure in Note 1 in a manner consistent with permitted practices is required because of the impact on premium which is a key measurement metric for insurers. If a domestic jurisdiction disapproved reporting as an underwriting expense, the limited-time exception does not apply.

~~12. — Reporting the voluntary or jurisdiction-directed refund 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 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 SSAP No. 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 Refunds Required Under the Policy Terms

~~13.~~14. 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, SSAP No. 54R 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. 54R provides guidance for policies subject to redetermination in which the premium is subject to adjustments by contract terms. This is commonly seen in federal and state groups. The guidance notes that estimates are based on experience to date and premium adjustments are estimated for the portion of the policy that has expired. Accrued return premiums are recorded as a liability with a corresponding entry to written premium. Refunds required under the policy terms would continue to be reported as retrospective or redetermination premium liabilities if applicable.
- c. 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

~~14.~~15. 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 in-force 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 Dividends

~~15.~~16. *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.

~~16.~~17. 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.

~~17.~~18. 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.

~~18.~~19. 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

~~19.~~20. This interpretation does not change the policyholder dividend disclosure or reporting 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: Where to Disclose Refunds, Rate Reductions and Policyholder Dividends Related to COVID-19 Decreases in Activity

~~20.~~21. 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~~providesa consistent annual statement disclosure for all such amounts to allow for comparable disclosures.

~~21.~~22. *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.)

23. To allow for aggregate, consistent assessment, the Working Group came to a consensus that all COVID-19 inspired premium refunds, rate reductions, and policyholder dividends shall be disclosed as unusual or infrequent items in annual statement Note 21A. This disclosure is in addition to other existing disclosures on various items related to the policyholder payments.

- a. For clarification, refunds required under policy terms in-force prior to the federal declaration of emergency for the COVID-19 pandemic as discussed in paragraph 13 (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.
- b. Policies whose terms were modified after the declaration of emergency in response to COVID-19 are required to disclose the COVID-19 inspired premium refunds, rate reductions and policyholder dividends.

24. All reporting entities shall provide the following information regarding their COVID-19 premium refunds, limited-time exception payments, rate reductions and policyholder dividends as unusual or infrequent items:

- a. A description of the accounting practice.
- b. The amount of COVID-19 “payments” to policyholders by major category (premium refunds, limited-time exception payments, rate reductions or policyholder dividends).

25. Reporting entities that utilize the limited-time exception expense reporting described in paragraphs 12 and 13 shall additionally provide the following to illustrate in annual statement Note 1 the impact of reporting the payments as an aggregate underwriting expense rather than a return of premium as if it were a permitted practice. As detailed in paragraph 13 domiciliary jurisdiction approval as a permitted practice is not required to apply the limited-time exception. Disclosure is required because of the impact on premium which is a key measurement metric for insurers:

- a. A statement that the accounting practice is a limited-time exception to recognize such amounts as an aggregate underwriting expense rather than an return of premium. This disclosure shall include the financial statement reporting line(s) predominantly impacted by the limited-time exception. (Although most practices impact net income or surplus, direct reference to those lines should be avoided. The intent is to capture the financial statement line(s) reflecting the practice which ultimately impacts net income or statutory surplus.) Additionally, a reference to Note 1 shall be included in the individual notes to financial statements impacted by the limited-time exception as applicable.
- b. The monetary effect on revenue and expense.
- c. If a reporting entity’s risk-based capital would have triggered a regulatory event had it not used the limited-time exception, that fact should be disclosed.

- d. The reasons the reporting entity elected to use the limited-time exception rather than as a return of premium.
- e. Note 1 shall also identify the impact of not reporting such amounts as a return of premium on the operating percentages and other percentages reported in the Five Year Historical Data Exhibit and disclose the percentages/ratios as reported and as adjusted to report payments to policyholders as a return of premium.
 - i. The operating ratios to be reported include:
 - 1. Premium earned,
 - 2. Losses incurred,
 - 3. Loss expenses incurred,
 - 4. Other underwriting expenses incurred, and
 - 5. Net underwriting gain or loss.
 - ii. The other ratios to be reported include:
 - 1. Other underwriting expenses to net premiums written,
 - 2. Losses and loss expenses incurred to premiums earned, and
 - 3. Net premiums written to policyholder's surplus.

26. If a domiciliary jurisdiction's prescribed or permitted practices allow voluntary COVID-19 payments which are either consistent with the limited-time exception or different from a reduction in premium, the reporting entity shall complete the disclosures in Note 1 which identify that a permitted or prescribed practice was applied and in paragraphs 24 and 25 of this Interpretation. The disclosure in paragraph 25 in such instances shall reflect the impact on the ratios in paragraph 25 compared to the default premium treatment.

INT 20-08 Consensus

~~22. The Working Group reached a consensus to prescribe statutory accounting guidance for insurance reporting entities providing refunds in response to COVID-19. Pursuant to this consensus:~~

- ~~a. Reporting entities that provide voluntary or jurisdiction-directed refunds which are not required under the policy terms shall follow the guidance in paragraphs 8-12 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.~~
- ~~b. Reporting entities that provide refunds in accordance with insurance policy terms shall follow paragraph 13 of this interpretation. This guidance indicates that existing statutory accounting principles in SSAP No. 53, SSAP No. 54R or SSAP No. 66 shall be followed as applicable.~~

- ~~e. Reporting entities that provide rate reductions shall follow paragraph 14 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 policyholder dividend shall follow the existing guidance for policyholder dividends which is summarized in paragraphs 15-19 and in addition, shall complete the disclosures described in paragraphs 20-22.~~
- ~~e. This interpretation, paragraphs 20-22 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 as unusual or infrequent items.~~

Does Not Address Premium Taxation

~~27.~~ The Working Group noted that premium taxation requirements vary by jurisdiction and this interpretation is not intended to address premium taxation in any jurisdiction. Taxation is determined by the jurisdiction where the premium is written/returned to the policyholder according to the laws, regulations and general administrative rules applicable to all insurance enterprises licensed in a ~~of~~ that jurisdiction. This interpretation defers to each jurisdiction's premium tax requirements for purposes of determining taxable amounts.

Effective Date

~~23,28.~~ The limited-time exception allowance for expense reporting for endorsements and rate filings prior to June 15, 2020, applies only to these specific issues arising from COVID-19, is effective for second quarter reporting and will sunset January 1, 2021. 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 20-08 Status

~~24,29.~~ This interpretation was amended on July 22, 2020 to include the limited-time exception and specific related disclosures by a two-thirds majority of the Accounting Practices and Procedures (E) Task Force membership. No fFurther discussion is planned.

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