

Interpretation of the Statutory Accounting Principles (E) Working Group

INT 23-04T: Life Reinsurance Liquidation Questions

INT 23-04T Dates Discussed

October 23, 2023; October 24, 2023

INT 23-04T References

Current:

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

INT 23-04T Issue

Background:

1. Liquidations of U.S. licensed reinsurers are uncommon. Due to a 2023 liquidation order of a U.S.-based life reinsurer, life industry cedents have requested an interpretation to address the accounting and reporting for reinsurance receivables from the reinsurer's estate. This interpretation is intended to be applied generically; however, the following circumstances are relevant to the accounting issues identified.

- a. The recent liquidation order was for a U.S. life reinsurance entity which was in regulatory supervision for several years.
- b. The life reinsurer was not assuming new business but was receiving ongoing premium on yearly renewable contracts.
- c. The 2023 liquidation order cancelled reinsurance contracts on a cut-off basis, effective September 30, 2023.
- d. Settlement from the reinsurer's estate is expected to exceed one year.
- e. Settlement from the reinsurer's estate to the ceding entities is expected to be less than 100%. That is, cedents are expected to receive a portion of what they are owed.
- f. Some ceding insurers established trusts to hold assets backing the reserves under the reinsurance agreements. The liquidation order prevents enforcing default clauses within the trust agreements, delaying liquidation of assets held within any trusts.

Interpretation Discussion

2. This interpretation is focused on the accounting and reporting of reinsurance recoverables from a U.S.-based reinsurer in liquidation. The Statutory Accounting Principles (E) Working Group tentative consensuses to the noted issues are included below.

Issue 1 – Commutation or Recapture of a Life Reinsurance Contract

3. If a liquidation order cancels a life reinsurance contract on a cut-off basis, should the life reinsurance commutation guidance in *Statement of Statutory Accounting Principles (SSAP) No. 61R—Life, Deposit-Type and Accident and Health Reinsurance* be used as the primary accounting guidance for the commutation?

4. Yes. SSAP No. 61R, paragraph 58, provides the primary guidance for a life reinsurance commutation. The guidance provides that:

Recaptures and Commutations

58. A recapture or a commutation of a reinsurance agreement is a transaction which results in the complete and final settlement and discharge of all present and future obligations between the parties arising out of the agreement or a portion of the agreement. Commuted and recaptured balances shall be accounted for by writing them off through the accounts, exhibits and schedules in which they were originally recorded. The assumed reserves and reserve credits taken are eliminated by the reinsurer and ceding entity, respectively. The reinsurer and ceding entity must also make any required IMR liability adjustment changes. Any net gain or loss is reported in the summary of operations.

Issue 2 – Impairment of Reinsurance Recoverables

5. The reinsurer that was previously in regulatory supervision and is now in liquidation was known to have financial difficulties and many ceding entities have either established valuation allowances and/or written off reinsurance recoverables as impairment losses. Questions have been received in response to the diversity in practice on whether the ceding entities were reporting impairment losses or were reporting a valuation allowance on all categories of their expected reinsurance recoverables from the reinsurer which is now in liquidation.

6. Do reporting entities have the choice of setting up a valuation allowance or applying the impairment guidance in SSAP No. 61R to the reinsurance recoverables from the life reinsurer in liquidation?

7. No. Reporting entities do not have a choice of a valuation allowance or applying impairment analysis. SSAP No. 61R, paragraph 42, requires impairment analysis of uncollectible reinsurance amounts in accordance with *SSAP No. 5R—Liabilities, Contingencies and Impairments of Asset*. The guidance requires that impaired amounts shall be written off through a charge to the Statement of Operations utilizing the same accounts which established the reinsurance recoverables. SSAP No. 5R and SSAP No. 61R do not permit a valuation allowance.

8. The liquidation order of a reinsurer should prompt an impairment analysis of all amounts recoverable from the reinsurer with a write-off of amounts not expected to be recovered.

9. The impairment analysis shall be updated at every reporting date.

Issue 3 – Reporting of Reinsurance Recoverables

10. The liquidation order results in a commutation and recapture of business for the ceding entity. A liquidation will determine the reinsurer's estate assets, then determine payments based on liquidation priority. This will result in a delay in settlement from the estate of the reinsurer. As previously detailed, the amounts paid by the estate shall be impaired to the amount expected to be received by the ceding entities.

11. Where shall the ceding entity report the remaining receivables for the reinsurer's estate?

12. In accordance with the recapture and commutation guidance in SSAP No. 61R, paragraph 58 (quoted above), the ceding entity shall remove balances through the schedules and exhibits originally reported. No reserve credit or contra-liabilities shall be reported. The reinsurance reserve credits shall be removed. Gains or losses are reported in the summary of operations.

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13. Based on preliminary information received, it is expected that there will be an amount receivable for paid claims incurred before the reinsurance contract cancellation. This amount shall be reported on the asset page line 16.1 - Amounts Recoverable from Reinsurers.
14. Other amounts receivable from the reinsurer's estate shall be reported on the asset page line 16.3 - Other Amounts Receivable Under Reinsurance Contracts.
15. If the ceding entity owes amounts to the reinsurer's estate, the amounts shall be reported as a liability on line 9.3 - Other Amounts Payable on Reinsurance.
16. After removing the reinsurance credit and impairing the recoverables, the amount expected to be recovered from the reinsurer's estate and any payables shall continue to be reported in annual statement Schedule S - Reinsurance. This is consistent with the concept that these are reinsurance recoverables and allows for industry-wide analysis of aggregate exposure.

Issue 4 – Admissibility of Reinsurance Recoverables

17. As noted above, quarterly impairment analysis of collectability is required. After evaluating for impairment, if there are remaining recoverables from the reinsurer's estate, do those assets qualify as admitted reinsurance recoverable assets?

Drafting Note –Comments are requested on paragraph 18 and information available to document recoverables.

18. Given the uncertainty of the reinsurance recoverables, reporting entities shall nonadmit all amounts recoverable from a life reinsurer in liquidation.

Issue 5 – Disclosures

19. Do the relevant disclosures in SSAP No. 61R and other relevant SSAPs apply to a commuted life reinsurance contract which has not been fully settled due to a liquidation?
20. Yes. The relevant disclosures in SSAP No. 61R and other relevant SSAPs continue to apply to a life reinsurance contract which is commuted and recaptured due to a liquidation. These disclosures include but are not limited to the disclosures regarding commutation, uncollectible reinsurance and anything else that is required.
21. Disclosure in the reinsurance notes to the financial statements shall include additional information necessary to obtain an understanding of the impact of reinsurance counterparties in liquidation, including information regarding the status of any collateral.

INT 23-04 Summary

22. Although readers should refer to the detailed guidance above, a summary of the key provisions is as follows:
- a. Issue 1 – Commutation or Recapture of a Life Reinsurance Contract: Follow SSAP No. 61R, paragraph 58, as it provides primary recapture and commutation guidance.
 - b. Issue 2 – Impairment of Reinsurance Recoverables: SSAP No. 61R paragraph 42, requires impairment of uncollectible reinsurance in accordance with SSAP No. 5R.

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- c. Issue 3 – Reporting of Reinsurance Recoverables: Follow the recapture and commutation guidance in SSAP No. 61R, then analyze for impairment. Any remaining reinsurance recoverables from the reinsurance counterparty after impairment assessment shall be on the asset page. Recognize as appropriate any reinsurance payable.
- d. Issue 4 – Admissibility of Reinsurance Recoverables: Nonadmit all amounts recoverable from a life reinsurer in liquidation.
- e. Issue 5 – Disclosures: Follow existing applicable disclosures and provide additional information sufficient to understand the nature and impact of a reinsurance counterparty in liquidation.

INT 23-04T Status

- 23. The tentative consensuses in this interpretation were exposed on October 24, 2023.
- 24. Further discussion is planned.

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