Date: August 26, 2021

To: Kent Sullivan, Chair, represented by Mike Boerner, Chair of Life Actuarial (A) Task Force

Eric A. Cioppa, represented by Marti Hooper, Chair of Health Actuarial (B) Task Force,

Grace Arnold represented by Phil Vigliaturo , Chair of Casualty Actuarial and Statistical (C) Task Force

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

RE: Notice of Exposure Draft Agenda Item 2021-13: Salvage - Legal Recoveries

The Statutory Accounting Principles (E) Working Group (SAPWG) is providing notification of the exposure of agenda item 2021-13: Salvage - Legal Recoveries (attached). The agenda item recommends revisions to *SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses* to clarify that salvage and subrogation estimates and recoveries can include amounts related to both claims/losses and loss adjusting expenses. The corresponding estimates should be reported as a reduction of losses and/or loss adjusting expense (LAE) reserves. Once the amounts for salvage and subrogation and coordination of benefits (COB) are received (net of associated expenses), they are reported as a reduction of paid losses and/or LAE, again depending on the nature of the costs being recovered. In addition, there are minor disclosure updates .

The proposed clarifications provide additional detail regarding loss adjusting expenses for salvage, subrogation and coordination of benefits that is believed to be consistent with current practice. For example, if legal fees are recovered in a subrogation lawsuit, it is believed that such amounts are currently being reported as reduction in paid adjusting expenses for legal fees. SSAP No. 55 does not explicitly discuss the recovery of loss adjusting expenses in the discussion of salvage, subrogation and COB. However, the property and casualty annual statement instructions, which are level two on the statutory hierarchy of authoritative literature, includes an explicit reference to reduce loss adjusting expenses for such amounts in the instructions for Schedule P – Analysis of Losses and Loss Expenses.

Although the Working Group believes this is an accordance with current industry practices, this is a notification to the actuarial Task Forces of the exposure in case you identify any concerns. Please direct any questions or responses to the Chair of the Working Group, in care of NAIC SAPWG support staff. The Comment deadline on the exposure is October 1, please notify NAIC staff, Robin Marcotte if you would like to make a comment or require additional time. We appreciate your cooperation on this item.

CC: Reggie Mazcyk, Eric King, Kris DeFrain, Julie Gann, Robin Marcotte, James Pinegar, Fatima Sediqzad, Jake Stultz

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/Stat Acctg\_Statutory\_Referrals/2021/SAPWG notice to TFs of Salvage ED.docx