Statutory Accounting Principles (E) Working Group
2026 Fall National Meeting
ICOLI Comment Letters Received

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October 2, 2026

Mr. Kevin Clark, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1000
Kansas City, MO 64106-2197

Re: SAPWG Ref. #2026-08 – Insurance Company-Owned Life Insurance (ICOLI)

Submitted Electronically

Dear Chair Clark:

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide additional information about insurance company-owned life insurance (ICOLI). The discussion below provides further detail regarding ICOLI's business purposes, product structures, risk characteristics, existing safeguards, and potential approaches to enhanced regulatory transparency.

Executive Summary

Growth in reported ICOLI balances has increased regulatory interest in the transparency, concentration, oversight, and capital treatment of these life insurance purchases. As a threshold matter, ICOLI is an insurance product, not an investment. Its statutory reporting should reflect the nature of the insurance product and should not be classified as an invested asset on Schedule BA.

ICOLI is life insurance that is purchased by insurers to meet legitimate, long-term business needs, including offsetting the costs of employee-benefit obligations, key-person risk, and business continuity. The policyholder owns an insurance policy, not the assets supporting it. ICOLI's statutory and capital treatment should reflect the reporting insurer's actual exposure under the particular contract, including consideration of the relevant counterparty, investment, concentration, liquidity, and guarantee risks, rather than treating the policyholder as if it directly owned the underlying assets.

ACLI supports reporting that gives regulators the transparency needed to assess ICOLI's use, materiality, structure, risk mitigants, counterparty exposures, and governance and stands ready to work with regulators to provide the information needed. Any additional measures should avoid duplication, distinguish among product structures, and remain focused on the particular contract and the reporting entity's actual exposure.

The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 275 member companies represent 94 percent of industry assets in the United States.

ICOLI's Business Purpose and Governance

ICOLI helps companies offset the cost of long-term retirement and employee-benefit obligations, manage key-person risk, and support succession and business continuity. Policyholders pay premiums, including mortality and expense, and administrative charges, for this coverage.

ICOLI is intended to meet long-term insurance needs, often through coverage maintained for decades until benefits are paid. Although purchasers evaluate policy values and investment-related features, they acquire insurance to address identified business needs—not the underlying investments or short-term returns.

An ICOLI program is subject to pre-purchase analysis, management or board approval, and ongoing oversight. That review typically considers the program's purpose and size, expected benefit costs, capital, liquidity, policy performance, counterparty exposure, and the issuer's financial strength.

The Policyholder Owns the Policy, Not the Underlying Assets

The policy defines the policyholder's legal and economic rights. The issuing insurer owns the assets supporting the contract through its general or separate account. A policyholder may allocate values among available separate account investment options, but it does not own the underlying assets as a direct investor would.

Accordingly, ICOLI's investment-related features should be evaluated within the policy framework, including the issuer's obligations, insurance benefits and guarantees, contractual rights, and limits on policyholder authority.

Investor-control requirements imposed by federal court and IRS rulings reinforce this distinction: the issuer selects the available investment options, and the policyholder may allocate values only among those options—not select or control their individual assets.

Product Structures and Risk Characteristics

The chart below provides a simplified comparison of common ICOLI product structures and selected risk characteristics. ICOLI products may use a general account structure or a separate account structure, and some policies may permit allocation between general account and separate account options within a single contract. The specific features, risks, guarantees, and policyholder exposures associated with any particular policy will depend on the terms of the contract. No structure should be viewed as inherently preferable. Each presents different contract features and risk characteristics that should be understood on their own terms.

Feature	General Account Product	Separate Account Product
Policy structure	A fixed life insurance policy supported by the issuer's general account. Policy value is credited based on a declared rate or an index-related rate.	A variable life insurance policy using a separate account. The policy permits allocation among investment options available under the policy.
Nature of exposure	Benefits and policy values depend on the terms of the policy and the issuer's contractual performance and claims-paying ability.	Policy values respond to selected investment options. Any guarantees and insurance benefits are subject to the terms of the policy and the issuer's ability to perform.
Risk exposure	Exposure reflects contractual obligations and claims-paying ability including applicable guarantees, crediting provisions, and other policy terms.	Exposure reflects investment-option performance together with diversification and investor-control requirements, policy features, issuer obligations and the existence (if any) of a stable value wrap or other risk mitigants.
Ownership and control	The policyholder owns the insurance policy, not the assets in the issuer's general account.	The policyholder owns the policy, not the separate account assets, and has the allocation rights provided by the policy.
Death benefits	The issuer pays the death benefit according to the policy terms, including any applicable guarantees.	The issuer pays the death benefit according to the policy terms, including any applicable guarantees.
Guarantees and wraps	The issuer may provide minimum crediting, policy-value, or death-benefit guarantees under the policy.	If included, a stable value wrap may provide minimum crediting and amortize market-value fluctuations, subject to the wrap provider's financial strength.

The structures differ in how policy values are determined and the mix of issuer, investment-performance, guarantee, and other contractual risks they present. Some policies may permit allocations to both general account and separate account options, in which case the policyholder's exposure reflects the contractual features, guarantees, risk mitigants, and other terms applicable to each allocation. These features should be evaluated together under the terms of the particular contract rather than viewed in isolation. Across all structures, the policyholder owns an insurance policy rather than the underlying assets, and its exposure is governed by the terms of that policy and the issuing insurer's contractual obligations.

Existing Safeguards Inform the Regulatory Analysis

ICOLI operates within established legal, regulatory, and governance safeguards that shape how it is designed, acquired, maintained, and overseen. Issuers are regulated insurers subject to licensing, examination, reserve, and risk-based capital requirements. Federal tax rules, including the notice-and-consent requirements, state insurable-interest requirements, investment diversification and investor-control limits, and internal governance processes impose additional conditions on coverage and oversight.

Together, these safeguards tie coverage to an eligible insured population, constrain the amount and design of coverage, limit concentration and policyholder control over separate account investments, and support disciplined approval and monitoring.

Building on these safeguards, ACLI supports additional disclosure or targeted governance measures where needed to address identified risks, provided that any response is informed by the existing framework and remains proportionate.

Understanding Growth and Materiality

Growth in ICOLI balances has increased interest in product use, policy-structure risks, and regulatory reporting. Balances may rise for a number of reasons including additional premiums, growth in existing policy values, or changes in the obligations the programs support.
ICOLI growth is subject to practical, legal, financial and governance constraints. Specifically, ICOLI programs are constrained by the underlying business need, the eligible insured population, state insurable-interest and federal notice-and-consent requirements, federal tax rules, issuer underwriting and product limits, and the purchaser's governance and risk-management processes. Program size is also considered in relation to the purchaser's capital, surplus, liquidity, expected obligations, risk appetite, and overall financial condition.

Capital Treatment Should Reflect the Risk Exposure

Any analysis of capital treatment should begin with the nature and location of risk under the particular ICOLI contract, including the extent to which existing reserves, capital, disclosure, governance, or other requirements already address the risk under consideration. Accounting presentation, disclosure, and capital treatment serve different purposes and should be considered separately, even when they are informed by the same facts. Separate account performance may affect policy values, but the policyholder's exposure is also shaped by the issuer's ability to pay death benefits according to the terms of the insurance contract, including limited allocation rights, issuer obligations and financial strength, guarantees, and the absence of direct ownership or control of the underlying assets.

A Proportionate Path Forward: Targeted Disclosure and Risk-Based Oversight

ACLI supports a proportionate, principle-based, and risk-focused approach that preserves ICOLI's treatment as a life insurance policy while giving regulators meaningful information about its use and risk characteristics.

Enhanced reporting could provide regulators with information about the amount and materiality of ICOLI held; the program's business purpose; the use of a general account or separate account structure, including policies that permit allocations between both; the general nature of the separate account investment options; relevant guarantees and risk mitigants; issuer and wrap-provider exposure; and the governance supporting approval and ongoing monitoring.

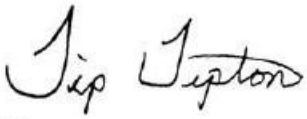
Any new reporting should be designed to improve regulatory risk assessment, avoid duplication, distinguish among product structures, and focus on the risks of the particular contract and the reporting entity's exposure.

Conclusion

ICOLI should be reported and evaluated as an insurance policy based on the terms of the particular contract, the reporting insurer's actual exposure, and the safeguards and oversight that apply. ACLI supports enhanced disclosure that results in a proportionate, risk-focused approach.
Thank you for considering our comments, ACLI looks forward to working collaboratively with regulators on this issue.



Carrie Haughwout
Senior Vice President, Life Insurance & Regulatory Policy
ACLI



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October 2, 2026

Mr. Kevin Clark, Chairman
Statutory Accounting Principles (E) Working Group
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1100 Walnut Street, Suite 1000
Kansas City, MO 64106-2197

RE: Interested Parties Comments on Items Exposed for Comment by the Statutory Accounting Principles Working Group with Comments due October 2.

Dear Mr. Clark:

Thank you and the NAIC Statutory Accounting Principles (E) Working Group (the Working Group) for the opportunity to comment on the above-referenced items, which were exposed for comment by the Working Group during the NAIC Summer National Meeting in Columbus.

Ref #2026-08: SSAP No. 21 – ICOLI

The Working Group exposed this as a concept agenda item with a request for comments on whether the amounts reported under SSAP No. 21, paragraph 9, should be captured on Schedule BA with a new reporting category for "Realizable Amounts Under ICOLI Policies," with reporting lines to capture the amount outside of an investment vehicle, and the amounts within an investment vehicle, divided by investment category. Consideration of comments will occur before formally moving this item to the SAPWG active agenda. The Working Group also directed a referral to the Capital Adequacy (E) Task Force to notify them of this exposure and request initial feedback on the potential inclusion of these items as an invested asset, with assessment of RBC factors.

Interested parties held several conference calls to discuss this item to ensure that we had input from all parties involved, including the life companies that issue ICOLI contracts, the organizations that market ICOLIs, and the insurers that purchase ICOLIs. From those discussions, we offer the following comments:

Overview

Insurance company-owned life insurance, or ICOLI, is an insurance product where an insurance company is the purchaser (and policyholder), beneficiary, and owner of life insurance policies placed on selected senior executives and other key officers or employees to offset the cost of long-term employee benefit and risk management objectives. Like other life insurance products, ICOLI contracts are acquired through the payment of premiums for insurance coverage, and the purchaser does not have direct ownership of investments. Instead, the policyholder's rights arise from the insurance contract itself, including cash surrender value, death benefits, guarantees, and other contractual features.

Qualifying ICOLI operates within a framework of federal tax requirements and state insurance laws and regulations, including IRC §7702 requirements, insurable-interest standards, employee notice and consent requirements, investor-control limitations, and diversification requirements. As part of the governance over the purchase of ICOLI, management provides an assertion that, at acquisition, the reported amount that could be realized from the life insurance policies did not exceed the present value of expected costs related to employee benefit obligations or the loss of key persons.

Included in the state insurance requirements is the accounting guidance contained in SSAP No. 21 – *Other Admitted Assets*, which measures qualifying ICOLI on the statutory balance sheet at the cash surrender value, i.e., the amount realizable under the insurance contract as of the reporting date.

Cash surrender value is an objective reporting measure but is not a representation of the contract's overall economic value that is paid at maturity, i.e., the amount of the death benefit. Because ICOLI is generally acquired to support long-term employee benefit and risk management objectives, the contracts are expected to be maintained through maturity rather than surrendered in the ordinary course of business.

ICOLI Contract Structures

ICOLI products span a range of structures that allocate investment risk differently between the issuing insurer and the policyholder. Some products place substantially all investment risk on the issuing insurer, while others provide the policyholder with exposure to the performance of particular asset classes based on the contractual features offered by the issuer and selected by the policyholder. Contractual guarantees, stable-value features, surrender provisions, and other policy terms can materially influence the economic relationship between the insurer and policyholder, and ultimately the amount paid at maturity.

As noted above, the cash surrender value of a policy does not necessarily reflect the policyholder's economic exposure over the expected duration of the contract.

The Purchasers' Financial Statement Disclosures

The life insurance companies that issue ICOLI already report the associated liability for the contracts on their balance sheet with the required disclosure in their notes to financial statements and have a prescribed risk charge in their risk-based capital (RBC) requirements. Accordingly, the risks to the issuing company are already reflected in their RBC calculation.

From the purchaser's perspective, enhanced disclosures in the notes to financial statements may provide regulators with greater transparency. Since the purchaser acquires an insurance contract and not the underlying reserve assets, we do not believe it would be appropriate for the cash surrender value of the insurance policy to be reported in the purchaser's Schedule BA.

We believe the following additional disclosures would be helpful in providing increased transparency into the risks associated with an insurer owning ICOLI, and would also support the consideration of appropriate risk-based capital charges:

- Risk characteristics of underlying investments, if applicable
- Affiliated investment manager relationships, if any
- Whether there are contract guarantees and/or stable-value features that materially reduce volatility

Risk-Based Capital Treatment

Although not explicitly requested in the exposure, interested parties understand that one of the regulators' key concerns relates to the risk-based capital treatment of ICOLI balances reported by insurers that own ICOLI. As noted above, the ICOLI assets are reported at cash surrender value by the purchaser with changes to the cash surrender value recognized in earnings (surplus). If the value of the underlying investments decreases, the cash surrender value, and therefore surplus will decrease. This is in contrast to many other assets on the statutory balance sheet which are carried at amortized cost.

As noted above, the risks to the issuing company are already reflected in their RBC calculation. From the purchaser's perspective, there is a wide range of contractual features that impact the economics and risks to the purchaser. As a result, interested parties considered a couple of approaches that could be used for incorporation of the risk into the purchaser's RBC.

The first approach would be to develop and implement a single RBC charge that would be applied to the owned ICOLI asset for contracts that expose the reporting entity to investment risk, regardless of the features included in the ICOLI insurance contract. Interested parties believe it would be difficult to identify a single charge that would encompass the range of features currently offered in ICOLI insurance contracts and believe this approach would not capture the diversity and complexity of risks present in the contracts.

The second approach would be to apply a range of RBC charges based on the risks associated with the range of features currently offered and that are calibrated to the associated risk. We believe this approach is more consistent with the risks resulting from the contracts but realize it would take additional work to identify the range of features and identify the appropriate RBC factors. Interested parties are willing to work with staff to develop a data-captured disclosure that would provide sufficient information about the risks in the contracts and, if desired, provide a basis for the development of appropriate RBC factors to be applied in the purchaser's RBC calculation. The data points described above would provide an appropriate starting point for this discussion.

Alternatively, if regulators prefer a different approach, we also offer to work with staff on the appropriate disclosure needed to capture the relevant information.

* * * *

Thank you for considering interested parties' comments. We look forward to working with you and the Working Group on these items. If you have any questions in the interim, please do not hesitate to contact either one of us.

Sincerely,

D. Keith Bell Rose Albrizio

cc: Julie Gann, NAIC staff
Robin Marcotte, NAIC staff
Wil Oden, NAIC staff
Jake Stultz, NAIC staff
Interested parties

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Nationwide®
is on your side

October 2, 2026

Mr. Kevin Clark, Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1000
Kansas City, MO 64106-2197

RE: SAPWG Ref #2026-08: Insurance Company Owned Life Insurance

Dear Mr. Clark:

Nationwide and its subsidiaries ("Nationwide") appreciate the opportunity to comment on the Statutory Accounting Principles (E) Working Group ("SAPWG") exposed item Ref #2026-08 – *Insurance Company Owned Life Insurance* ("ICOLI").

Nationwide is one of the largest insurance and financial services companies in the United States, operating both property and casualty and life insurance businesses. As both a policyholder and leading issuer of ICOLI, Nationwide values the opportunity to provide its perspective on the structure, purpose, and risk characteristics of these products.

Nationwide supports the American Council of Life Insurers' ("ACLI") proposal to preserve the accounting treatment of ICOLI as a life insurance contract rather than an investment. Nationwide also supports enhanced disclosures and targeted safeguards that provide regulators with greater transparency into ICOLI products and address the concerns identified by SAPWG. To the extent regulators ultimately determine that risk-based capital ("RBC") requirements are appropriate for certain ICOLI products, Nationwide believes any such RBC framework should be appropriately tailored to the risk profiles of different products.

Overview of ICOLI

ICOLI is a life insurance contract with rights and obligations governed by the terms of the insurance policy. Pursuant to SSAP No. 21 – *Other Admitted Assets*, ICOLI must satisfy the definition of life insurance under Internal Revenue Code ("IRC") §7702 and be acquired primarily in connection with employee benefit obligations or key person risks. As such, qualifying ICOLI operates within a framework of federal tax requirements and state insurance laws, including insurable-interest standards, employee notice and consent requirements, investor-control limitations, and diversification requirements. Collectively, these safeguards help ensure that ICOLI retains its character as a life insurance product and is used in a manner consistent with its intended insurance and business purposes.

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A fundamental characteristic of ICOLI is that the policyholder owns a life insurance contract rather than interests in the underlying assets supporting the insurer's obligations under the contract. The policyholder's payment of premium secures its rights as defined by the insurance policy and its contractual provisions, including rights to cash surrender value, death benefits, guarantees, rights to allocate cash value among the separate account if applicable, and other policy benefits. Although the assets supporting the policy are invested by the issuing insurer and may influence policy performance, the policyholder does not possess the rights, control, or economic interests associated with direct ownership of those assets. Instead, the policyholder's relationship is with the insurer through the life insurance contract, and the insurer remains responsible for fulfilling its contractual obligations under that policy. The economic value associated with an ICOLI policy is not determined solely by the assets supporting the contract. Contractual features such as stable-value structures, contract guarantees, cash surrender and loan provisions, and other policy terms provide meaningful value by providing stability, liquidity, flexibility and other benefits to policyholders.

Consistent with this framework, SSAP No. 21 requires policyholders of qualifying ICOLI products to measure the asset based on the amount realizable under the insurance contract rather than the underlying assets themselves. The use of cash surrender value as the reported amount reflects a practical and objective measurement convention for financial reporting purposes, not a conclusion that cash surrender value represents the full economic value or risk profile of the contract. In practice, ICOLI is generally acquired to support long-term employee benefit and risk management objectives and is expected to be maintained through maturity rather than surrendered in the ordinary course of business. As a result, policyholders typically expect to realize value through the long-term operation of the contract and the associated death benefits, rather than through surrender of the policy for cash value.

Cash surrender value incorporates contractual provisions such as surrender charges and other adjustments that are relevant to determining a realizable amount for reporting purposes but do not fully reflect the broader economics of the insurance contract. Likewise, changes in the value of the underlying investments can affect reported cash surrender value while having a materially different effect on the overall economics of the policy due to contractual guarantees, stable-value features, and other contractual provisions. Accordingly, the reported amount under SSAP No. 21 should be understood as an objective measure of the policy's realizable value rather than a proxy for direct ownership of the underlying investments.

ICOLI Contract Structures

ICOLI products span a range of structures, each of which allocates investment risk differently between the issuing insurer and the policyholder. At one end of the spectrum are general account products, in which the insurer bears substantially all investment risk and remains responsible for delivering the contractual benefits promised under the policy. At the other end are policyholder-directed or separate account arrangements, where the policyholder assumes the risk of exposure to investment performance. Many ICOLI products incorporate contractual guarantees, stable-value features, surrender provisions, and other terms that influence the economic relationship between the policyholder and insurer.

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As a result, two ICOLI policies with identical reported cash surrender values may present materially different economic exposures depending on their contractual design and the degree of investment risk retained by the insurer. Any evaluation of an ICOLI arrangement requires consideration of the insurance contract as a whole, including the allocation of risk between the parties and the effect of contractual features that modify the economic outcomes of the policy.

Recommended Path Forward

Nationwide supports targeted enhancements to the existing disclosure framework to provide regulators with greater transparency regarding the nature of ICOLI products and the economic exposures associated with those products. Such disclosures could include information regarding the risk characteristics of underlying investments, material concentrations by underlying asset category, allocations to affiliated investments/investment managers, the extent to which contractual guarantees or stable-value features modify investment risk, and the relative significance of ICOLI holdings to the reporting entity's capital position. Enhanced disclosures would improve regulatory visibility while preserving the distinction between ownership of a life insurance contract and ownership of the assets supporting that contract. Nationwide also acknowledges that additional disclosure alone may not fully address the concerns identified by regulators. Accordingly, Nationwide supports targeted safeguards that directly address the specific concerns identified by regulators.

To the extent regulators are considering refining the RBC requirements applicable to certain ICOLI products, Nationwide believes any resulting RBC framework should be based on the economic exposure of the policyholder and the extent to which investment risk has been retained by the issuing insurer or assumed by the policyholder. This could be accomplished through a framework that distinguishes among product structures, such as general account products, in which the insurer retains substantially all investment risk and separate account structures where the policyholder bears the investment risk, while taking into consideration products that incorporate stable-value features, minimum death benefit protections, or other contractual provisions that serve to stabilize that risk. Furthermore, an aligned regulatory approach should contemplate the potential overlap of risk coverage between the issuing carrier's liability-side C-3 capital charges and the investing carrier's asset-side RBC treatment. Ultimately, Nationwide would support a RBC framework that results in a materially equivalent capital outcome for economically analogous risk exposures while recognizing the distinct contractual features and risk profiles of different ICOLI products.

Taken together, enhanced disclosures, targeted safeguards, and any appropriately tailored RBC requirements would directly address concerns regarding transparency, concentration risk, and the use of ICOLI structures without requiring the fundamental recharacterization of qualifying ICOLI as a direct investment. Accordingly, Nationwide does not believe reporting qualifying ICOLI on Schedule BA would be appropriate. Schedule BA is intended to capture invested assets, whereas ICOLI remains a life insurance contract governed by its contractual rights and obligations. This approach would acknowledge the differences among ICOLI product structures and allow regulators to focus on the economic characteristics of a particular arrangement rather than applying a single framework to all ICOLI products.

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Conclusion

For these reasons, Nationwide recommends that the existing statutory accounting framework for qualifying ICOLI policies be maintained. Nationwide believes regulator concerns can be addressed through enhanced disclosures, targeted safeguards, and, if necessary, appropriately tailored RBC requirements without recharacterizing ICOLI as an invested asset.

Sincerely,

Andrea Iacoboni

Andrea Iacoboni
Vice President, Controller – Financial Reporting and Accounting Policy
Nationwide

Submitted Electronically to:
Dale Bruggeman
Julie Gann
Robin Marcotte
Jake Stultz
Jason Farr
Wil Oden

INSTITUTIONAL INSURANCE GROUP

October 2, 2026

Via Electronic Submission

Mr. Kevin Clark, Chair
Mr. Dale Bruggeman, Vice Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners

Re: Agenda Item Ref #2026-08, SSAP No. 21, Insurer Company Owned Life Insurance - ICOLI

Dear Chair Clark and Vice Chair Bruggeman:

Institutional Insurance Group, LLC (IIG) appreciates the opportunity to comment on Agenda Item Ref #2026-08. IIG specializes in the design, implementation, and ongoing administration of corporate owned life insurance (COLI) programs for institutional purchasers, including insurance companies (ICOLI)[1]. IIG is a market leader in the ICOLI market, advising clients with more than $22 billion of existing ICOLI assets. That experience provides IIG with a practical perspective spanning these programs' purpose, product design, carrier and investment structure, implementation, governance, accounting, and long-term administration.

IIG supports the rational recommendations advanced by Interested Parties (IPs) led by Keith Bell and Rose Albrizio as well as the American Council of Life Insurers (ACLI): qualifying insurance company owned life insurance (ICOLI) should continue to be accounted for and reported separately as a life insurance policy under SSAP No. 21, rather than reported as an invested asset on Schedule BA.

[1] Corporate or company owned life insurance (COLI) that is owned by insurance companies is sometimes referred to as ICOLI (insurance company owned life insurance). ICOLI is primarily a marketing term used to distinguish insurance company owned programs from other forms of COLI. In addition to being subject to the legal, tax, and regulatory requirements applicable to all COLI arrangements, ICOLI programs must also address statutory accounting, regulatory, rating agency, and other considerations unique to insurance company operations. As a result, ICOLI programs typically require significant specialization and customization to meet the needs and requirements of insurance company owners. For clarity, the term ICOLI is used throughout this document to distinguish these arrangements from COLI generally and to align with the agenda item usage. **We believe that any accounting text should continue to refer to it as corporate or company owned life insurance, COLI, or as a life insurance asset**.

Executive Summary

IIG recommends that qualifying policies under the current SSAP No. 21 remain classified and reported as a life insurance policy under SSAP No. 21 rather than as an invested asset on Schedule BA.

Accounting Classification and Reporting

- This treatment reflects the asset legally owned by the reporting entity (policyholder): an insurance policy providing death benefits, contractual guarantees, cash surrender value, mortality protection, and a claim against the issuing life insurer and not direct ownership or control of the assets supporting the policy.
- IIG proposes expanded Note 21 reporting that categorizes ICOLI by the degree of investment-performance exposure and contractual protection, with progressively higher capital factors for General Account, Declared Rate Separate Account, and Variable Separate Account policies. Non-qualifying policies would remain non-admitted.

Amendments to SSAP No. 21 to Add Additional Targeted Guardrails

- Require documentation supporting employee benefit or key-person purposes.
- Demonstrable ability and intent to hold policies to maturity.
- Restrictions addressing affiliated investment management.
- Periodic board or senior management review.
- Regulatory examination of program purpose, size, governance, and compliance.

Together, these measures would improve transparency and oversight while preserving the established distinction between a qualifying life insurance policy and a direct investment.

Accounting Classification and Reporting

By incorporating IRC §7702 within SSAP No. 21 in 2018, regulators created a clear, established bright line between a qualifying life insurance policy and an investment contract. IIG appreciates the Working Group's thoughtful resolution of this issue at that time and the durable framework it established.

COLI is a qualifying life insurance policy, not a direct investment in assets held and legally owned and controlled by the issuing carrier. The reporting entity owns contractual rights to death benefits, cash surrender value, and guarantees; it does not obtain the governance, voting, disposition, or portfolio management rights of a direct investor. Reporting ICOLI on Schedule BA would therefore focus on assets supporting the policy rather than the

insurance asset actually owned. Reporting as a direct exposure would be inconsistent with the policy's mortality and insurance protections, and blur distinctions recognized in insurance, tax, and GAAP and statutory accounting frameworks. It would also conflict with the industry's longstanding prohibition against describing life insurance as an "investment" (e.g., NAIC Model Law 570).

ICOLI's treatment as an "other-than-invested" asset is substantive, not merely a reporting convention. IRC §7702 requires a meaningful quantitative relationship between cash value and death benefit, with death benefit exceeding current cash value. A policy that fails the two-prong test under IRC §7702 is not life insurance for federal tax purposes, and its cash value is taxed as an investment contract under §7702(g). Section 7702 thus provides an objective dividing line between qualifying life insurance and an investment account.

In addition, Schedule BA implies that the reporting entity (policyholder) directly bears the risks of the underlying investments. That framework would not fully recognize the substantial risk mitigation provided by:

- The death benefit, which always exceeds the cash value of the policy.
- General account obligations of the issuing insurance company.
- Contractual policy features that determine the cash surrender value.
- Other contractual protections embedded in the policy.
- Regulatory oversight of the issuing life insurer.
- The policyholder's creditor claims against a regulated life insurance company rather than direct ownership of investment assets.

We recognize the concerns prompting this agenda item: ICOLI balances have become more visible, product structures transfer differing degrees of performance exposure, and misconceptions about SSAP No. 21 that persist. Although qualifying ICOLI remains a limited exposure for most reporting entities, these concerns warrant enhanced transparency and disciplined oversight, not reclassification as an invested asset. Accounting classification, regulatory reporting, market conduct, and risk-based capital are related but distinct questions that should be addressed according to their specific objectives and risks. Enhanced reporting and principles-based guidance can provide visibility into program purpose, size, structure, contractual protections, and risk without treating the policyholder as the owner of assets legally owned and controlled by the issuer.

We recognize that the framework we recommend may impose additional reporting, governance, or compliance requirements. Nevertheless, these measures are appropriate to address legitimate regulatory concerns, preserve confidence in the ICOLI market, and

ensure that qualifying ICOLI programs continue to serve their intended insurance and employee benefit purposes.

ICOLI Background

Employee Benefit Financing

Corporate-owned life insurance has existed for more than a century. For roughly the past six decades, corporations, banks, and insurance companies have used COLI as a long-term tool to finance or recover the cost of employee benefits and to address key-person risks. Its development reflects a U.S. system in which employers play a substantial role in providing employees with retirement, health, welfare, and other benefits in addition to their compensation.

COLI may support benefits directly, including non-qualified deferred compensation or split-dollar arrangements, or may be used on an aggregate basis to offset or recover employee benefit costs. In a cost recovery structure, expected death benefits are evaluated against long-duration benefit costs. In a cost offset structure, policy performance helps offset current or projected benefit expense. In either case, the economic logic is long-term alignment: long duration employee benefit-related obligations are paired with long duration life insurance cash flows.

Tax law has defined the guardrails that make COLI life insurance and not an investment. A life insurance policy must operate within a substantial legal and regulatory framework:

- IRC §7702 defines the federal tax requirements for a life insurance policy.
- IRC §7702A restricts early distributions from policies to ensure life insurance is used for long-term needs.
- IRC §817(h) imposes diversification requirements on variable policies.
- Treas. Reg. §1.817-5 establishes rules regarding “insurance dedicated funds”.
- IRC §101(j) establishes employer-owned life insurance notice, consent, insured status, and reporting requirements where applicable.
- IRC §264 restricts the deductibility of interest on funds that may be used to buy COLI.
- The Investor Control Doctrine restricts policyholder control of the strategies and investments underlying the policies to only the ability to make allocations among carrier provided options.

State law adds insurable interest, policy form, licensing, and employee protection requirements.

Given the tax and legal characteristics of COLI, the best economic outcome is derived from long-term ownership and receipt of death benefits, since non-death distributions may produce less favorable tax and economic results.

The Investor Control Doctrine reinforces this ownership distinction. A policyholder may allocate among carrier-provided options but may not contribute assets in kind, own supporting assets, direct strategy or security selection, require a particular manager or asset, or exercise direct or indirect control over portfolio management, including through affiliates. This substance-over-form doctrine cannot be avoided through creative structuring. The issuing insurer owns and controls the supporting assets and remains responsible for the policy's cash value, death benefits, guarantees, and other obligations; a violation of this tax doctrine can cause the policyholder to be treated as owning the underlying assets for federal tax purposes, undermining the intended tax treatment of the policy.

Policy Ownership

The accounting for COLI focuses on realizable policy surrender value. GAAP and statutory accounting both use the amount realizable under the insurance policy, while statutory guidance adds purpose and qualification conditions. This balance sheet accounting value for the policy relies on the consistent and conservative measure of the contractual net realizable cash surrender value. Although accounting measures the policy at its realizable cash surrender value, the policy's broader and more important economics include its expected death benefits.

Agenda Item 2018-08 confirmed qualifying ICOLI as an admitted asset subject to two guardrails: qualification as life insurance under federal tax law and acquisition primarily to finance employee benefit obligations or address key-person loss. It also contemplated documentation available to examiners and disclosure by broad investment category. This framework remains conceptually sound because it ties admission to insurance qualification, legitimate business purpose, and regulatory transparency.

At the same time, classification as an other-than-invested asset should not be used to avoid transparency. Regulators should be able to identify material ICOLI exposures, understand the program's purpose and structure, and distinguish among policies with different allocations of risk. IIG therefore recommends preserving SSAP No. 21 while materially improving the reporting framework around it.

ICOLI Products

Product Structures

COLI policies allocate performance risk differently. General Account policies generally place the risk with the issuer. Declared Rate Separate Account policies, including stable value and hybrid designs, combine separate account assets with contractual general account support and determine cash value through a crediting rate set by the issuing carrier. Variable Separate Account policies expose cash value more directly to market performance, subject to mortality benefits, guarantees, charges, and other terms. Across all structures, mortality remains an insurance function and portfolio management remains with the issuing carrier or its designated managers.

Fundamentally, a COLI policy provides a death benefit established at issuance that remains in force for the life of the policy. While the death benefit may increase over time, including as necessary to satisfy IRC §7702 corridor requirements, it is not generally reduced below the contractual minimum established at inception. Consequently, the insurer maintains a net amount at risk and remains obligated to pay a death benefit that, by definition, exceeds policy cash values. This ongoing mortality risk and death benefit obligation are fundamental elements of the policy's economic substance. The issuing carrier must have ownership and control of the underlying invested assets to assure its ability to pay death benefits. The value provided to the policyholder is derived from an integrated insurance policy that combines both insurance protection and cash value accumulation.

The ICOLI market encompasses a remarkably diverse range of product structures. No two policies are necessarily alike even from the same issuer, especially considering an institutional context where some elements of the policy may be negotiated between issuing carrier and policyholder. Products carrying the same label may differ materially in their crediting mechanics, guarantees, death benefit design, surrender provisions, and charges.

Broad categories should therefore be practical risk groupings, not claims that every policy is identical, and should distinguish economically relevant features rather than rely on labels. Intended use may also come into play: an ICOLI policy matched to a non-qualified deferred-compensation liability may produce negligible net economic exposure because changes in policy performance are offset by changes in participant benefit liability obligations.

Stable Value Features

Stable value structures combine separate account assets with contractual guarantees or other general account support that limit the effects of the underlying assets on realizable policy value. Cash surrender value is determined by a crediting rate with a guaranteed minimum provided by the issuing carrier's general account. These protections reduce downside risk and provide a more predictable cash surrender value than an otherwise comparable variable life insurance policy without these features.

Stable value compresses the distribution of realizable returns around its mean, reducing volatility, downside dispersion, and the probability and severity of adverse tail events. This effect is particularly relevant to risk-based capital frameworks calibrated to market stress. Based on IIG's analysis, stable value structures typically reduce volatility by 50-80% or more and reduce the absolute magnitude of tail events by at least 15-20% (e.g., tail losses reduced from 20% to 0%), depending on product structure and the scenarios and periods tested.

The economic significance of this risk reduction depends on the source and substance of the stable value protection. Where an insurer contractually guarantees book value and is obligated to absorb book-to-market differences, the risk is not eliminated but transferred to the issuing insurance company. In such cases, the insurer providing the guarantee remains subject to statutory reserving requirements, risk-based capital requirements, and ongoing regulatory oversight.

The economic value of that protection therefore depends on the guarantor's ability to perform during periods of market stress. Accordingly, consideration of the guarantor's capital position and creditworthiness may be more relevant than a sole focus on the underlying assets. Where similar protections are provided by entities outside the NAIC regulatory framework, regulators may reasonably consider whether additional capital requirements are warranted to reflect the differing oversight, capital, and solvency regimes applicable to the guarantor. The extent of any capital recognition should depend on whether the protection is legally enforceable and transfers risk to a financially responsible guarantor.

Proposed Reporting and Potential Capital Framework

Note 21 Reporting

SAPWG should retain COLI as a Line 25 write-in and expand Note 21 data fields rather than move qualifying policies to Schedule BA. The note should reconcile to total COLI on Line 25

and classify amounts by product type, investment performance exposure, contractual protection, and risks retained by the reporting entity. This would provide the requested visibility, address current reporting inconsistencies, and reflect that assets within a policy vehicle do not by themselves give the policyholder the risk or ownership of a direct investor.

Risk Categorization

The categories should function as a practical risk-clustering framework: use the fewest groups that capture meaningful differences in how investment performance affects realizable policy value and in the contractual protection provided by the insurer. Each category is intended to contain products that are more similar to one another than they are to products in the other categories. Some variation within each group is inevitable, but a small number of reasonably homogeneous categories supports simple, consistent, and administrable capital treatment without false precision.

Product Categories and RBC Treatment

All categories retain issuing carrier credit risk, which should be reflected in the applicable factors.

For IRC §7702 compliant COLI policies:

Category 1 — General Account COLI

- With a cash surrender value that is held entirely in the issuing insurer's general account and for which there cannot be policyholder-directed investment exposure.

  The capital charges that could apply to Category 1 are very low. The nominal level of these factors may be different by filer type and should be calibrated to produce the desired results by filer type. The essential risk exposure to the reporting entity can be captured by basing the factor on the claims-paying ability of the issuing life insurance company and the priority that policyholder claims have over the issuing life insurance company's debt obligations.

Category 2 — Declared Rate Separate Account COLI

With a cash surrender value that is held in a separate account of the issuing carrier for which the reporting entity has reasonably determined that the volatility of the cash surrender value is not expected to be material for the following reasons:

1. the cash surrender value is contractually determined by a crediting rate with a guaranteed minimum provided by the issuing carrier's general account

such that the policies do not directly bear the mark-to-market performance of the underlying separate account (including, for the avoidance of doubt, both stable value and hybrid products); or

2. used as a bona fide direct hedge for deferred compensation or similar plans if there is a matched liability that results in negligible net economic exposure to the reporting entity.

The capital charges that could apply to Category 2 are commensurate with the claims-paying ability of the issuing life insurance company. With these structures the volatility of the realizable value is expected to be immaterial and therefore the primary risk is credit risk to the issuer for the stream of future death benefits. There should be a very modest increase from the prior product category to reflect a small increase in uncertainty that (1) the economic value of that protection depends on the guarantor's ability to perform during periods of market stress, or (2) the direct hedge may not perfectly offset the matched benefit liability. The nominal level of these factors may be different by filer type and should be calibrated to produce the desired results by filer type.

Category 3 — Variable Separate Account COLI

- With a cash surrender value that is directly exposed to the mark-to-market performance of the underlying separate accounts.

  The capital charges that could apply to Category 3 are higher than the prior categories. The nominal level of these factors may be different by filer type and should be calibrated to produce the desired results by filer type. Alternatively, the policyholder could elect to look through to the underlying separate accounts for the purposes of RBC, at their discretion.

  This fixed charge captures that there may be significant risk mitigants in most programs (such as minimum death benefits or specific, direct employee benefit funding obligations).

Non-Qualifying Policies

- COLI policies that do not comply with IRC §7702 will continue to be non-admitted under SSAP No. 21.

RBC Factors and Counterparty Risk

The capital framework should normalize comparable risks across life, P&C, and health insurers while reflecting each category's contractual protections. The product categories should reflect increasing policyholder exposure to investment performance, while every category continues to reflect carrier counterparty risk because death benefits, guarantees, and cash surrender value remain obligations of the issuing life insurer. Existing calibrated factors may be preferable to fixed charges that may affect filer types differently after covariance.

IIG is not wedded to these specific categories or factor levels. We offer them as a practical starting point and look forward to constructive dialogue regarding the framework's design and calibration.

Benefits of the Proposed Framework

This approach would:

- Preserve the distinction between a life insurance policy and a direct investment without implying ownership of underlying invested assets.
- Provide regulators with enhanced transparency regarding policy characteristics and the types of risks retained by the reporting entity.
- Allow the NAIC to consider appropriate RBC factors based on the risks retained by the policyholder, based on COLI product type.

A mockup of potential changes to Note 21 is attached as an exhibit for consideration.

Additional SSAP No. 21 Guardrails

IIG also recommends targeted enhancements to SSAP No. 21 to align ICOLI use with the spirit of the framework adopted in 2018.

Program Qualification and Governance

These guidelines should apply to all programs:

- The existing SSAP No. 21 employee benefit funding purpose must be demonstrated in an internal pre-purchase due diligence file at the time of purchase using the cost recovery method, the cost offset method, as a bona fide direct hedge for an employee benefit liability, or another commonly accepted practice. The provision of a supplemental death benefit to the COLI insureds does not, on its own, satisfy the funding of employee benefit obligations purpose.

- The reporting entity has the documented willingness and ability to hold the COLI policies for the full lifetime of all the insureds (hold-to-maturity). This will ensure that the company is holding the policies in order to receive a stream of future death benefits.
- Investment managers who are under common control (as broadly defined) with the reporting entity (policyholder) may not manage the investments (directly or indirectly) inside the separate account of a policyholder's COLI program. Noncompliance with this increases the risk of adverse tax outcomes which would increase the risk of surrender and lessen the likelihood of holding the COLI policies for its intended purpose.
- Periodic board or senior management review of existing or new COLI policies is required.

Program Size and Concentration

The employee benefit purpose requirement adopted in 2018 was intended, in part, to make program size self-limiting, but it may not constrain every case. The proposed guardrails regarding documentation, hold-to-maturity, affiliated managers, governance, examination, and appropriately calibrated capital requirements should better align program size with intended uses and reduce the potential for misuse.

Although some individual insurance entities report substantial ICOLI balances as a percentage of surplus or total adjusted capital, those concentrations may appear more proportionate when evaluated across the statutory balance sheets of the affiliated insurance group. ICOLI may be purchased by a particular legal entity for legitimate entity-specific purposes, including the location of employee benefit obligations, available capital, tax attributes, or administrative considerations. Where appropriate intercompany agreements exist, regulators should review both the exposure of the individual reporting entity and the aggregate exposure across affiliated statutory entities.

Examination and Compliance

Examiners should have clear authority to test the primary consideration analysis, sizing, governance, and compliance. A policy that fails IRC §7702 or was not acquired with the required employee benefit or key-person consideration should not receive qualifying ICOLI treatment. This targeted approach protects SSAP No. 21 without redefining compliant policies.

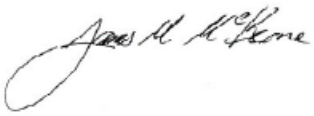
A mockup of potential changes to SSAP No. 21, paragraph 9, is attached as an exhibit for consideration.

Conclusion

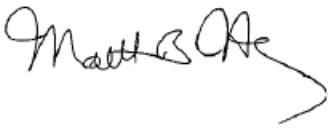
ICOLI is a diverse product category with legitimate business purposes and varying degrees of policyholder performance exposure. Qualifying policies should remain within SSAP No. 21 and outside Schedule BA, paired with transparent Note 21 reporting, documented purpose, disciplined governance, stronger examination tools, appropriately calibrated capital treatment, and continued recognition of the policyholder's contractual insurance asset.

Thank you for considering our comments. IIG would welcome the opportunity to assist the Working Group in developing a practical reporting framework and principles-based guidance that provide regulators with meaningful visibility while preserving the established treatment of qualifying ICOLI as a life insurance policy.

Respectfully,



James M. McKeone
Founder & Senior Managing Principal



Matthew B. Henebry
Senior Managing Principal



Lawrence R. Stoehr
Principal & General Counsel



Nathan M. Butler, CFA, CAIA, FRM
Managing Director

Exhibit

Potential Changes to SSAP No. 21, Paragraph 9 for Consideration

Potential additions are indicated in blue; deletions are indicated in green

The Amount That Could Be Realized on Life Insurance Where the Reporting Entity is Owner and Beneficiary or Has Otherwise Obtained Rights to Control the Policy

9. The provisions in this paragraph are for life insurance policies, which are in compliance with Internal Revenue Code (IRC) §7702[5], in which the reporting entity is the owner and beneficiary[6]. For these owned products, the amount that could be realized on life insurance policies where the reporting entity is the owner and beneficiary or has otherwise obtained the rights to control the policy, is similar to a cash deposit that is realizable on demand. As such, the amount that could be realized on a life insurance policy as of the date to which premiums have been paid shall be reported as an admitted asset. In determining the amount that could be realized, reporting entities shall consider the cash surrender value as well as other contractual terms which limit or provide for additional realizable amounts. If any of these contractual terms which limit or provide for

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[5] In order to be in compliance with IRC §7702:

1. The contract must be considered "life insurance" under applicable state insurance law. This is a contractual definition that includes:
    - The contract must be filed and approved as life insurance.
    - It must be regulated as life insurance under applicable laws and regulations (such as variable life insurance regulation and non-forfeiture laws).
    - There must be an insurable interest in the continued life of the insured (federal and state law also require the consent of the insured to the coverage).
    - There must be a significant transfer of mortality risk between the policyholder and the insurance company.
2. The contract must meet one of two actuarial tests of the policy's cash value relation to its death benefit to assure that, prior to death/maturity, the policy cash value does not exceed the net single premium required to fund the death benefit.

[6] These life insurance products shall be acquired with the primary consideration of the costs related to employee benefit obligations or the loss of a key person. Such benefit funding purpose shall be documented in an internal pre-purchase due diligence file and demonstrated using the cost recovery method, the cost offset method, as a bona fide direct hedge for an employee benefit liability, or another commonly accepted practice. The reporting entity must maintain that it has the willingness and ability to hold the policies for the full lifetime of all the insureds. The board of directors or senior management shall periodically review the purpose, size, performance, and compliance of material holdings subject to this paragraph.

additional realizable amounts allow the owner to pay variable premium (reducing or increasing the premium based on the increase or decrease of a variable investment vehicle of the policy), the life insurance policies must always remain compliant with IRC §7702 to be an admitted asset under this paragraph. Amounts recoverable by the reporting entity at the discretion of the issuing company shall not be included. Amounts realizable beyond one year from the surrender date shall be discounted. For group policies or a group of individual life policies, reporting entities shall assume surrender on a policy-by-policy or certificate-by-certificate basis, unless contractual terms only allow for surrender of all policies or certificates as a group, in which case the amount that could be realized shall be determined on a group basis.

Disclosure is required of the amount of the cash surrender value

(1) by insurance product type
For §7702 compliant policies:
   a. General Account
      i. With a cash surrender value that is held entirely in the issuing insurer's general account and for which there cannot be policyholder-directed investment exposure.
   b. Declared Rate Separate Account
      i. With a cash surrender value that is held in a separate account of the issuing carrier for which the reporting entity has reasonably determined that the volatility of the cash surrender value is not expected to be material for the following reasons:
         1. the cash surrender value is contractually determined by a crediting rate with a guaranteed minimum provided by the issuing carrier's general account such that the policies do not directly bear the mark to market performance of the underlying separate account investments (including, for the avoidance of doubt, both stable value and hybrid products); or
         2. used as a bona fide direct hedge for deferred compensation or similar plans if there is a matched liability that results in negligible net economic exposure to the reporting entity.
   c. Variable Separate Account
      i. With a cash surrender value that is directly exposed to the mark to market performance of the underlying separate accounts.

For the avoidance of doubt, policies that do not comply with §7702 will to be non-admitted under SSAP No. 21, and;

(2) by investment category (e.g., bonds, common stock, joint ventures, derivatives, etc.).

For any policy supported by a separate account, investment managers who are under common control (as broadly defined) with the reporting entity shall not directly or indirectly manage the investments inside the separate account of a reporting entity's life insurance assets.

Potential Changes to the Annual Statement Instructions for Consideration

Potential additions are indicated in blue; deletions are indicated in green

Assets

Line 25 – Aggregate Write-ins for Other-Than-Invested-Assets

Enter the total of the write-ins listed in schedule Details of Write-ins Aggregated at Line 25 for Other-Than-Invested-Assets.

...

Details of Write-ins Aggregated at Line 25 for Other-Than-Invested-Assets

List separately each category of assets (other-than-invested-assets) for which there is no pre-printed line on Page 2.

Include: Equities and deposits in pools and associations.

~~COLI – Report the cash value of corporate owned life insurance including amounts under split dollar plans.~~

Life Insurance Assets – Report the aggregate amount of cash surrender value that could be realized on life insurance policies. Aggregate amounts reported on Line 25 should equal the aggregate amount reported in Note 21 I or H.

...

Note 21 I or H

I. The Amount That Could Be Realized on Life Insurance Where the Reporting Entity is Owner and Beneficiary or Has Otherwise Obtained Rights to Control the Policy

Disclose the amount of the aggregate cash surrender value ~~that is within investment vehicles and percentage by the following investment category:~~

- ~~Bonds~~
- ~~Stocks~~
- ~~Mortgage Loans~~
- ~~Real Estate~~
- ~~Cash and Short-Term Investments~~
- ~~Derivatives~~
- ~~Other Invested Assets *~~

~~* Investments in private funds/hedge funds shall be reported as other invested assets~~

by insurance product type and by investment category. Given that reporting entity does not own the underlying assets directly, a reasonable basis may be used to determine the appropriate categories.

Realizable Value of Life Insurance Assets		Cash Surrender Value
(1)	Total General Account Policies	$
Declared Rate Separate Account Policies with the underlying characteristics of:		
(2)	Bonds	$
(3)	Common stock	$
(4)	Mortgages	$
(5)	Real Estate	$
(6)	Cash and Short-Term Investments	$
(7)	Derivatives	$
(8)	Other Long-Term Assets	$
(9)	General Account Obligations	$
(10)	Excess market value (if applicable)	$
(11)	Total Declared Rate Separate Account Policies (Sum of Lines 2-9 less Line 10)	$

	Variable Separate Account Policies with the underlying characteristics of:	
(12)	Bonds	$
(13)	Common stock	$
(14)	Mortgages	$
(15)	Real Estate	$
(16)	Cash and Short-Term Investments	$
(17)	Derivatives	$
(18)	Other Long-Term Assets	$
(19)	General Account Obligations	$
(20)	Total Variable Separate Account Policies (Sum of Lines 12-19)	$
(21)	Total Realizable Value of Life Insurance Assets (Lines 1+11+20)	$

Finseca™

October 2, 2026

VIA ELECTRONIC MAIL

Mr. Kevin Clark, Chair
Mr. Dale Bruggeman, Vice Chair
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners

cc: Julie Gann (jgann@naic.org)

Re: Comments on Agenda Item Ref #2026-08 – SSAP No. 21, Reporting of Insurance Company-Owned Life Insurance (ICOLI)

Dear Chair Clark & Vice Chair Bruggeman:

On behalf of Finseca, we appreciate the opportunity to comment on Agenda Item Ref #2026-08, exposed by the Statutory Accounting Principles (E) Working Group ("the Working Group") for comment at its August 12, 2026 meeting. Finseca submits these comments in support of, and as a complement to, the comments submitted by the American Council of Life Insurers ("ACLI"), while offering the perspective of the brokerage and distribution community. The exposure asks whether amounts realizable under Insurance Company-Owned Life Insurance ("ICOLI") policies should be reclassified from an admitted other-than-invested asset under SSAP No. 21 to an invested asset reported on Schedule BA. Finseca represents the brokerage and distribution side of this market — the licensed insurance professionals who work directly with corporate clients to assess benefit-financing needs, design compliant insurance-based solutions with carriers, and place and administer those arrangements over time. That practical client-facing perspective informs our comments below.

Finseca, Financial Security for All, is a national trade association with nearly 15,000 members who serve hundreds of thousands of clients every day in communities across the country. Our membership includes licensed insurance agents and producers, agency leaders, and brokerage professionals, many of whom are also registered representatives of broker-dealers or representatives of registered investment advisers. A meaningful share of our institutional-markets membership consists of licensed insurance professionals who specialize in designing, placing, and administering insurance-based financing arrangements—including ICOLI—that help corporations manage the cost of employee-benefit, deferred-compensation, and key-person obligations. These members work with clients, life insurance carriers, and appropriate tax and legal advisers to ensure that an arrangement is appropriately designed, documented, marketed, and placed within the applicable insurance, tax, and state-law framework.

Executive Summary

Corporate clients engage our members because they need a way to cover the costs of financing current and future employee benefit obligations— and to protect against the financial disruption of losing a key executive. The client purchases life insurance with a regulated carrier, not an interest in the assets that carrier sets aside to back its life insurance obligations.

The insurance policy transaction structure is what should drive the Working Group's accounting analysis. Some policies our members place credit a declared or indexed rate out of the carrier's general account; others allocate premium among separate-account options with more variability in cash value. Either way, the client's legal position is the same: contractual rights against the carrier, not a claim on the underlying assets.

Placing an ICOLI policy means operating within a multi-layered compliance framework on every case. The policyholder's analysis and documentation must support the appropriate treatment under SSAP No. 21; the contract must qualify as life insurance for federal tax purposes under IRC §7702; if a separate account structure is used, it must comply with applicable diversification and investor-control principles; the policyowner must satisfy IRC §101(j)'s pre-issuance notice-and-consent requirements where applicable; the arrangement must satisfy state-law insurable-interest requirements; and the issuing carrier remains subject to the prudential, contractual, and regulatory requirements applicable to its obligations under the policy.

While existing SSAP No. 21 guidance contemplates contemporaneous documentation of the analysis supporting an ICOLI purchase, including its relationship to key-person risk and employee-benefit obligations, it is not explicitly stated. To the extent regulators seek greater visibility into those judgments, Finseca supports appropriately tailored reporting or documentation that allows regulators to understand the program's business purpose, scale, and structure. Our membership strongly agrees that it is not appropriate to redefine, implicitly or explicitly, the policyholder's insurance contract as direct ownership of the assets supporting it.

Why Clients Buy ICOLI, and Where Our Members Fit In

Our members are engaged when a company has employee-benefit, deferred-compensation, or key-person-related obligations that create a continuing cost. They work directly with the client to understand those obligations, evaluate whether insurance-based financing is appropriate, and help design and place a compliant ICOLI arrangement with an issuing carrier. These are long-term policies by design and a core component of employee-benefit financing. Clients expect to hold them until all death benefits are paid—because the benefit liabilities they help offset are similarly long-lived. That is fundamentally different from acquiring an asset for short-term trading or liquidation. Our members design, place and administer these programs for as long as the policy remains in force.

Different Product Structures, One Underlying Placement

The policies our members place are not uniform. Some policies are backed by a carrier's general account and credit a declared or index-linked rate. Others use a separate account with negotiated

guarantees or permit the client to allocate premiums across a menu of investment funds, and a single transaction will often blend more than one of these approaches. Our members' job is helping a client and carrier develop an appropriate structure for the client's objectives.

Policy size is not unlimited. The amount of coverage and premium must be grounded in the client's underlying benefit, compensation, retention, or other legitimate business obligations; the policy's insurance design; carrier underwriting and retention standards; and applicable tax and state-law requirements. Our members work with clients and carriers to calibrate the amount and design of each placement to those facts. The result is not an open-ended allocation to underlying investments, but an insurance arrangement sized and structured around identified obligations, the eligible insured population, carrier underwriting, and the client's broader governance and risk-management process.

Every transaction our members place still rests on the same foundation — a contract with the issuing carrier, not a claim on its underlying assets. The features that add market sensitivity typically come paired with an offsetting client benefit, or provide a stabilized crediting rate or a lower net cost of insurance, that a risk-only reading of the underlying assets would miss.

Compliance Work at Placement

For brokers and their institutional clients, ICOLI placement begins with a substantial compliance, diligence, and documentation process. Our members are licensed insurance professionals with experience designing and placing insurance-based financing arrangements. Working with the client, issuing carrier, and appropriate tax and legal advisers, they help determine whether the proposed arrangement serves a legitimate business purpose and can be structured within the applicable legal and regulatory framework.

Depending on the facts of the case, that process includes confirming that the proposed policy is structured to qualify as life insurance under IRC §7702; evaluating applicable investor-control and diversification limitations; satisfying relevant state insurance-law requirements; confirming that the employer has the necessary insurable interest; establishing an appropriate policy size in relation to the underlying obligations; and ensuring that covered employees receive required notice and provide appropriate consent before issuance.

Our members are essential to how our clients address these requirements, coordinate appropriate documentation, and explain the policy's intended role, material features, limitations, and risks. That includes helping clients assess whether the product design and available contract options are consistent with the stated benefit-financing purpose, risk tolerance, liquidity needs, and governance processes applicable to the program.

Finseca recognizes the Working Group's interest in ensuring that ICOLI is marketed, sold, and explained to institutional clients accurately and with appropriate attention to the product's long-term purpose, liquidity profile, guarantees, limitations, and risks. ICOLI transactions are specialized institutional arrangements that require product-specific expertise, careful due diligence, and clear communications regarding the nature of the insurance contract and the respective roles of the insurer, producer, policyholder, and other service providers.

To the extent the Working Group identifies concerns regarding sales practices, marketing materials, or communications by participants in the ICOLI marketplace, those concerns should be addressed directly through clear, appropriately tailored market-conduct, producer-licensing, and advertising expectations—not through an accounting change that neither regulates sales practices nor measures the risk of a particular contract. Finseca supports marketing that is accurate, complete, transparent, and appropriate to the client's circumstances; explains the policy's long-term purpose, relevant liquidity considerations, applicable guarantees, and material limitations; and makes clear that the client owns an insurance contract, not the underlying investment assets.

Brokers do not manage separate-account assets or direct the holdings of underlying investment funds, and neither does the policyholder. The carrier establishes the available contract options and engages the professionals responsible for managing those options. Accordingly, any regulatory response to identified conduct concerns should distinguish among the respective roles and responsibilities of the insurer, licensed producer, policyholder, investment manager, administrator, consultant, and other service providers.

Compliance and appropriate sales practices continue after placement. Changes in client circumstances, policy ownership, the insured population, applicable law, or the underlying obligations requires ongoing review and administration over the life of the arrangement. Finseca welcomes the opportunity to work with the Working Group, carriers, and other regulators on practical, market-informed guidance that advances these objectives without disturbing established accounting treatment.

Taken together, these compliance obligations, the client's limited rights with respect to underlying investments, and the broker's advisory role support treating ICOLI as an insurance contract for accounting purposes—not as direct ownership of investment assets.

What's Actually Behind the Growth in ICOLI Balances

We understand why the size of ICOLI balances has drawn regulators' attention. A significant share of that growth is arithmetic rather than appetite: broad equity markets have more than doubled over the period regulators cite, and other assets held in ICOLI structures have appreciated substantially as well, increasing the resources available to support employee benefits broadly, including rising healthcare costs.[1] New sales and additional premium on existing policies account for some of the increase, but market appreciation on assets already inside existing policies is doing a lot of the work — meaning a larger balance does not mean the number of policies has grown by

[1] Employer-paid family coverage increased from **$14,162 in 2018** to **$20,143 in 2025**, a **42% increase**. (Source: https://www.kff.org/health-costs/2025-employer-health-benefits-survey/)

- Growth was relatively moderate through 2022: **$14,162 → $16,334** (+15%). (Source: https://www.kff.org/series/employer-health-benefits-survey/)
- The acceleration occurred after COVID: **$16,334 → $20,143** (+23%) from 2022–2025. (Source: https://www.kff.org/health-costs/2025-employer-health-benefits-survey/)
- **64% of the total increase since 2018 occurred after 2022.** Of the $5,981 increase since 2018, $3,809 occurred during 2022–2025. (Source: https://www.kff.org/series/employer-health-benefits-survey/)
- Post-COVID healthcare inflation has created a growing gap between medical cost growth and traditional asset crediting rates. (Source: https://www.bls.gov/ecec/)

anywhere near the same amount. We think that distinction deserves to be in front of the Working Group as it weighs the materiality of the growth that prompted this exposure.

None of this means larger balances are beside the point — it is reasonable for the Working Group to want better information. Disclosure can deliver that without collapsing the distinction between owning a life insurance contract and owning the assets behind it.

A Targeted Way Forward

Finseca would support a better disclosure-based approach that hands regulators real visibility into the actual risk to the policyholder without touching the underlying accounting treatment. That kind of transparency serves everyone's interest in a well-functioning market; treating the contract as though it belonged on Schedule BA does not. We would submit that an expansion and refinement of the disclosure currently required by SSAP No. 21 would provide more consistent reporting and better information regarding the risks to the policyholder.

If there is concern about how ICOLI gets marketed and sold, we would ask the Working Group to take that on directly rather than through an accounting change that does not actually reach sales practices. That is squarely our members' territory — they are the ones in the room with corporate clients placing these policies — and we would welcome the chance to help the Working Group and other regulators build practice-level guidance on producer conduct and marketing that addresses the underlying concern without disturbing how ICOLI is accounted for.

Where regulators identify a specific concern regarding ICOLI programs, Finseca supports addressing that concern through a targeted response tied to the relevant contract feature, program structure, or conduct at issue, rather than through a blanket reclassification that treats the policyholder as the owner of underlying assets. Schedule BA treatment is not a substitute for that analysis. Accounting presentation, disclosure, and capital treatment serve different purposes and should not be conflated, even where they are informed by common facts.

Conclusion

How an item is presented in the accounts, what gets disclosed about it, and how much capital it carries are three separate questions, and each deserves its own answer even when the same underlying facts inform all three.

ICOLI is a life insurance contract: the client owns the policy, not the assets that support the carrier's contractual obligations. Licensed insurance professionals and carriers design, market, and place these arrangements within an established framework of tax law, state insurance regulation, employee-protection requirements, carrier underwriting, and ongoing compliance obligations. We welcome continued discussion with the Working Group, carriers, and other regulators about disclosures—and, where genuinely helpful, producer-conduct and marketing guidance—that gives regulators confidence in this market without changing what the product is.

Thank you for considering our comments. We look forward to supporting the industry efforts with the Working Group and Regulators on this issue.

Finseca™

Sincerely,

Melissa Bova

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Finseca
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Date: September 28, 2026

To: Kevin Clark, Chair of the Statutory Accounting Principles (E) Working Group
CC: Julie Gann, Robin Marcotte, Jake Stultz, Jason Farr, Wil Oden
From: John Blocher, FSA, MAAA

Re: Exposure **2026-08** SSAP No. 21 – ICOLI

Thank you for the opportunity to comment upon ICOLI treatment in SSAP No. 21 and in NAIC RBC. ICOLI is currently an "other than invested asset" and shown on line 25 on the Asset page as an "aggregate write-in". I will leave precise balance sheet geography and description to others.

My focus is on the appropriate ICOLI RBC charge. The current ICOLI RBC charge is 0% for Life entities and that is not appropriate, neither is the 5% RBC charge used for Property & Casualty and Health entities. Both percentages appear to be arbitrary. It does not make sense to look through the ICOLI arrangement to underlying assets as there is a significant intermediary, the insurer offering and maintaining the ICOLI arrangement.

ICOLI balances are quite similar to many other types of noncontrolled or restricted assets in NAIC RBC. Some of the exposure draft language reads as if an ICOLI arrangement is simple to collapse (if it is that simple, no RBC charge is necessary). It is not simple to collapse for various reasons, not the least of which is that the arrangement itself is frequently a Modified Endowment Contract (MEC). Stil even though ICOLI is expected to be a long-term vehicle, it can be fully surrendered with a modest effort, if ever necessary.

As an asset ICOLI is similar to a restricted asset which also can be recovered back to the balance sheet with a little time and effort. Noncontrolled assets bearing some similarity to ICOLI:

1. Subject to repurchase, reverse repurchase, dollar repurchase, or reverse dollar repurchase agreements
2. Placed under option agreements
3. Pledged as collateral/encumbered FHLB assets for funding agreements
4. On deposit with states or other regulatory bodies

For noncontrolled or restricted assets, a company cannot immediately sell that direct asset because the assets are included another agreement, just like ICOLI balances are.

Suggested RBC Treatment:

1. ICOLI balances should receive the same RBC charge as the other restricted assets on NAIC RBC (LR017). This would be a 1.26% RBC charge currently and make this similarly a restricted asset consistently across Life, Property & Casualty, and Health.
2. For ICOLI policy loans, any assets purchased with policy loan proceeds from an ICOLI arrangement would receive the applicable RBC charge for those assets as they are outside of the ICOLI arrangement.