

Southeastern Actuaries Conference

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Statutory Codification

- **Adopted effective January 1, 2001 for all 50 states***
 - States did not have to “opt out.” All states have opted to adopt, but a number have made the provision that the Commissioner has the authority to supercede the Codification rules. The NAIC has noted that Codification is not intended to conflict or override the states’ authority to write its own laws and regulations.

*Source: NAIC Website (12/2000)

What is Codification?

“Codification is the replacement of the old Accounting Practices and Procedures Manuals with a new, more comprehensive one, which will enable insurers to present their information in a manner that is more useful and meaningful to regulators and CPAs.”

Source: NAIC Website

Significant Changes

- **Increased disclosure.**
- **Disclosures of differences between state prescribed or permitted accounting practices and NAIC statutory accounting practices and procedures.**
- **Treatment of assets.**

Significant Changes

- **Impairment Concept.**
- **Recognition of deferred tax liabilities and deferred tax assets.**
- **Requires premiums to be recorded based on the effective date of the policy or endorsement.**

Accounting Practices and Procedures Manual (APPM)

- **Preamble.**
- **73 Statements of Statutory Accounting Principle (SSAPs).**
- **Appendices:**
 - A: Definitions / Disclosure Examples.**
 - B: Interpretations of the Emerging Accounting Issues Working Group (EAIWG).**

Accounting Practices and Procedures Manual (APPM)

- **Appendices continued:**
 - C: Actuarial Guidelines.**
 - D: GAAP Cross Reference to SSAPs.**
 - E: Issue Papers.**
 - F: Policy Statements.**
- **The APPM is expected to be a dynamic document. Changes will be made and updates issued each year.**

Fundamental Principles (Per the Preamble)

- **Conservatism**
- **Consistency**
- **Recognition**

Recognition

- **Assets – Recognized when the asset exists and is available to meet current and future obligations as they become due.**
- **Liabilities / Expenses – Recognized as incurred.**
- **Revenue – Recognized as the earnings process of the underlying activity is complete.**

Implementation of Codification

- **Effective January 1, 2001 (first quarter).**
- **Accounted for as a change in accounting principle.**
- **Charged to unassigned surplus.**

Fundamental Statements

- **SSAP 1**
- **SSAP 3**
- **SSAP 4**
- **SSAP 5**
- **Appendix A-205**

SSAP 1: Disclosure

- **More consistent with U.S. GAAP.**
- **Differences between Permitted Practices and NAIC Rules.**
- **Transactions not specifically addressed by Codification.**

SSAP 3: Accounting Changes and Correction of Errors

- **No change from current guidance.**
- **Statement addresses:**
 - Change in accounting principle.
 - Change in accounting estimate.
 - Correction of errors.
 - Disclosure requirements for changes / corrections.

SSAP 4: Assets and Non-Admitted Assets

- **Asset definition:**
 - Probable future benefit.
 - Entity can obtain benefit and/or control others access to it.
 - Transaction has occurred.

SSAP 4: Assets and Non-Admitted Assets

- **Non-Admitted asset definition:**
 - Specifically defined in Codification as non-admitted.
 - Non-specifically defined in Codification as admitted.
 - Currently, if an asset is not defined as admitted, it is non-admitted.

SSAP 5: Liabilities, Contingencies and Impairment of Assets

- **When to accrue:**
 - Probable.
 - Estimatable.
- **How much?**
 - Management's best estimate.
 - If no "best estimate" in range, use the mid-point.

A Significant Number of SSAPs Address Assets

- **Cash and Investments: SSAPs 2, 26, 30, 32, 37, 40.**
- **Impairment: SSAPs 26, 30, 32, 37, 40, 43.**
- **Other Invested Assets: SSAPs 18, 22, 25, 34, 45, 46, 48.**
- **Unusual or Complex Financial Instruments: SSAPs 31, 33, 38, 39, 42, 43.**
- **Other Assets: SSAPs 6, 16, 19, 20, 21, 29, 44, 68.**

Unusual or Complex Financial Instruments

- **SSAP 31: Derivative Instruments.**
- **SSAP 33: Securitization.**
- **SSAP 38: Acquisition, Development and Construction Arrangements.**
- **SSAP 39: Reverse Mortgages.**
- **SSAP 42: Sale of Premium Receivables.**
- **SSAP 43: Loan Backed and Structured Securities.**

Other Assets

- **SSAP 6: Uncollected Premium Due from Agents.**
- **SSAP 16: EDP Equipment and Software.**
- **SSAP 68: Business Combinations and Goodwill.**

Other Major Topic Groupings

- **Disclosure Rules: SSAPs 9, 23, 27, 28, 36, 47, 64, 69.**
- **Surplus / Equity: SSAPs 12, 41, 72.**
- **Income Statement: SSAPs 13, 17, 24, 70, 71.**
- **Other Liabilities: SSAPs 8, 11, 14, 15, 35, 67.**

Other Liabilities

- **SSAP 8: Pensions, adopts FAS87 (with adjustments).**
- **SSAP 11: Post Retirement and Compensated Absences, adopts FAS112 (with adjustments).**
- **SSAP 14: Post Retirement Benefits Other Than Pensions, adopts FAS106 (with adjustments).**
- **SSAP 35: Guaranty Fund Assessments, rules for estimation.**

SSAPs Related to Life and A&H Insurance

- **SSAPs that address Reserves: 50, 51, 52, 54, 55, 61.**
- **SSAPs that address Other Life Items: 7, 49, 56.**

SSAP 50: Classifications & Definitions of Insurance or Managed Care Contracts

- **Life**
- **Accident & Health**
- **Property & Casualty**
- **Deposit Type Contracts**

SSAP 51: Life Contracts

- **Gross premiums recognized when due.**
- **Service fees recognized as service is provided.**
- **Accelerated benefit payments expensed when paid.**
- **Eliminates cost of collection in excess of loading.**
- **Requires premium deficiency reserves.**

SSAP 54: A&H Contracts

- **Additional reserves required when future benefits exceed future net premium regardless of rate increases anticipated.**
- **Premium deficiency reserves required.**

SSAP 52: Deposit Type Contracts

- **Contracts which do not incorporate insurance (mortality or morbidity) risk.**
- **Comparable to financial instruments.**
- **Not accounted for as insurance contracts.**

SSAP 55: Unpaid Claims, Losses and Loss Adjustment Expenses

- Record best estimate.
- If no best estimate, record midpoint of the range.
- Disclosure requirements are expanded to include:
 - Components of liability.
 - Reasons for changes in incurred provisions.
 - Policies and methodologies.
 - Anticipated salvage and subrogation.

SSAP 61: Life, Deposit Type and A&H Reinsurance

- **More teeth on risk transfer provisions, i.e., statutory is closer to FAS113.**
- **Surplus relief is not allowed for treaties entered into or amended after January 1, 1996.**

Overview of P&C SSAPs

- **SSAPs: 53, 55, 62, 65, 66.**
- **Key areas are loss reserves, premiums and reinsurance.**
- **Other areas with P&C impact include income taxes and other receivables.**

SSAP 53: P&C Contracts - Premiums

- **Summary of Guidance:**
 - Premium deficiency reserves required.
 - Consistent method for recording premiums.
 - Workers compensation adjustment premiums.
 - Differences from current practice:
 - EBUB can be recorded through written premium or earned premium.
 - Consistent method for recording premiums at effective date.

SSAP 65: P&C Contracts

- Premium deficiency reserves required.
- Defines practices for the following:
 - Claims made policies.
 - Discounting.
 - Structured settlements.
 - Policies with coverage periods equal to or greater than 13 months.
 - Excess statutory reserves.
 - High deductible policies.

SSAP 66: Retrospectively Rated Contracts

- **Provides guidance with respect to:**
 - Treatment of accrued credits as other liabilities.
 - Impairment of accrued premiums.
 - Level of accrued premiums to be non-admitted.
- **Assumptions used in estimating retro premiums should be consistent with other underwriting results.**

SSAP 62: P&C Reinsurance

- **Change in current guidance to require uncollectible reinsurance recoverables to be written off to operations.**
- **Ceded reinsurance premiums can no longer be deducted from agents' balances and uncollected premiums.**

Overviews of SSAPs for Other Types of Insurance

- **SSAP 57: Title Insurance.**
- **SSAP 58: Mortgage Guaranty Insurance.**
- **SSAP 59: Credit Life and A&H Insurance Contracts.**
- **SSAP 60: Financial Guaranty Insurance.**
- **SSAP 63: Underwriting Pools and Associations.**

Significant Concepts

- **Concept of premium deficiency reserves.**
- **Record best estimate of reserves.**
- **“Schedule P” penalty eliminated (P&C).**
- **Aging of premium balances (P&C).**
- **Uncollectible reinsurance written off to operations.**
- **Changes in accounting for retrospective premiums.**
- **Uncollectible receivables written off.**

At the June NAIC Meeting

- COLIFR submitted a “Form A” request for changes and/or interpretations.
- The request consisted of 16 questions / issues addressing inconsistencies of Codification rules with actuarial practices and statutory laws and regulations regarding reserves.

At the June NAIC Meeting

- 14 of 16 items were referred to committee for review. Two items were not addressed.
- The Form A should be posted on the NAIC Website: <http://www.naic.org>
- One Form B issue raised regarding the inclusion of a margin for adverse deviation in claims reserves.

At the June NAIC Meeting

- **NAIC staff recommendation:**
 - “NAIC staff is of the opinion that the concept of conservatism is inherent to the estimation of reserves and as such should not be specifically prohibited in the consideration of management’s best estimate. On the other hand, we do not believe there should be a specific requirement to include a provision of adverse deviation in claims as the application of estimates varies greatly from company to company and requires the careful judgment of management. This approach allows flexibility to the regulator in analyzing management’s determinations.”

NAIC Update – Issues Under Discussion, Spring 2001

- 2001 CSO Table.
- Development of Other Life and Annuity Valuation Tables.
- Guideline XYZ.
- Variable Life Insurance Reserves for GMDBs.
- Variable Life and Variable Universal Life Products.
- Variable Annuities with Guaranteed Living Benefits.
- General Nonforfeiture project.
- AOMR.

2001 CSO Table

- **Proposed table now available for review.**
- **2001 CSO mortality considerably lower than 1980 CSO.**
- **25 year select period.**

Guideline *XYZ* – Minimum Nonforfeiture Values for Universal Life Insurance Products with Secondary Guarantees

- **Exposure draft now available for review.**
- **Purpose of regulation is to develop nonforfeiture values consistent with Statutory Law and the NAIC UL Model Regulation and based on a retrospective approach.**
- **i.e., want to develop nonforfeiture amounts such that the values are consistent with early year COI rates and minimum premium levels.**

Variable Life Insurance Reserves for GMDBs

- **Exposure draft being reviewed, comments being solicited.**

Variable Life and Variable Universal Life Reserving

- **Variable Life Reserve Guideline** group responding to questions on draft guideline. Group hopes to have a revised guideline done to be adopted at the summer meeting.

Variable Annuities with Guaranteed Living Benefits

- **VAGLB work group assembling information, making recommendations. The group hopes to have a revised exposure draft by the summer meeting.**

Purpose of Discussions

- **Appears to be an attempt to codify treatment of variable products.**
- **Many states have not passed the prior Variable Model Regulations, resulting in non-standard treatment of these products to date.**

General Nonforfeiture Project

- Project continues to seek a balance between company desires for flexibility in determining nonforfeiture benefits and regulators desire for a degree of control over guaranteed elements.
- New draft is available, *Determination of Nonforfeiture Benefits for Life Insurance and Annuity Contracts*. Comments are being solicited.

Actuarial Opinion & Memorandum Regulation Revision

- **Vote to adopt the latest exposure draft was tabled until the summer meeting.**
- **There is still concern that the elimination of Section 7 will impose an unnecessary expense on small companies.**