

NAIC 2020 Highlights – Year in Review

Johnson Lambert LLP is dedicated to keeping you informed of changes adopted by the NAIC within the Statutory Accounting Principles (E) Working Group (SAPWG) that will impact your 2020 statutory basis financial statements and other significant NAIC activities related to group capital calculations, reinsurance, and an update on the activities of the Special Committee on Race and Insurance.

Statutory Accounting Updates

Ref #	SSAP No	Title	Revision Description	Effective
2016-03	108, IP No. 159	Special Accounting Treatment for Limited Derivatives	SSAP No. 108 – <i>Derivatives Hedging Variable Annuity Guarantees</i> and Issue Paper No. 159 – <i>Special Accounting for Limited Derivatives</i> , were finalized. These provide guidance on derivatives that hedge interest rate risk of variable annuity guarantees.	01.01.20
2016-02	22R	ASU 2016-02, Leases	The revision substantively changes SSAP No. 22 and adopts the corresponding Issue Paper No. 161, which incorporates parts of ASU 2016-02, but excludes the concept of capital leases and retains the concept of operating leases.	01.01.20
2018-39	55	Interest on Claims	The revision clarifies that interest paid to claimants for late claim payments should be recorded as other claim adjustment expenses, not regulatory fines and fees.	01.01.20
2018-26	5R, 97	SCA Loss Tracking – Accounting Guidance	Clarifies that reported equity losses of a subsidiary, controlled or affiliated (SCA) entity stop at zero, and if a financial guarantee or commitment is present, the guaranteed liabilities are reported under the provisions of SSAP No. 5R.	03.18.20
2018-38	55	Prepayment to Service and Claims Adjusting Providers	Clarifies that loss adjustment expense liabilities must be recorded regardless of prepayments to third parties, except for capitated health claim payments.	03.18.20

Ref #	SSAP No	Title	Revision Description	Effective
2019-08	51R, 52	Reporting Deposit Type Contracts	Adds a footnote to Exhibit 5 – Life Contracts to disclose circumstances when mortality risk is no longer present or a significant factor.	03.18.20
2019-32	97	Look-Through with Multiple Holding Companies	Individual audited SCAs may be admitted by “looking through” multiple downstream non-insurance holding companies provided each look-through entity complies with SSAP No 97.	03.18.20
2019-33	25	SSAP No. 25 Disclosures	Requires aggregation and disclosure of similar related-party transactions, that on a stand-alone basis are not material, but could be material when aggregated.	03.18.20
2019-35	51R, 56, 61R	Update Withdrawal Disclosures	Minor revisions to previously adopted liquidity disclosures for life, health and separate account guaranteed products for consistency with Blanks Working Group adoptions.	03.18.20
2019-40	53	Reporting of Installment Fees and Expenses	Installment fee revenue guidance should be narrowly applied and not analogized to other fees or service charges to exclude them from being reported as premium.	03.18.20
2019-43	5R, 72, 86	ASU 2017-11 – Financial Instruments with Down Round Features	Freestanding financial instruments with liability and equity characteristics should be classified as a liability to the extent it embodies an unconditional obligation of the issuer.	03.18.20
2019-48	62R	Disclosure Update for Reciprocal Jurisdiction Reinsurers	Revision to include reinsurers from reciprocal jurisdictions in the disclosure of unsecured recoverable balances greater than 3% of surplus. This change is in line with the “Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance” and the “Bilateral Agreement Between the United States of America and the United Kingdom Regarding Insurance and Reinsurance.”	03.18.20

Ref #	SSAP No	Title	Revision Description	Effective
2020-12, INT 20-01T	15, 22R, 86	Reference Rate Reform	<p>Reporting entities may have entered into contracts with interest rates referring to London Interbank Offered Rate (LIBOR) and other interbank offered rates (IBORs) such as surplus notes, lines of credit, premiums financing and derivative contracts. This INT adopts ASU 2020-04, with modification, to permit optional, transitional and expedient guidance resulting from financial institutions moving away from LIBOR and other IBORs. A change in rates generally requires remeasurement of the contract, or in the case of a hedging relationship, a de-designation of the transaction.</p> <p>The revisions permit reporting entities to account for a reference rate change as a continuation of a contract or hedging relationship through 12.31.22.</p>	04.15.20
INT 20-02T	6, 47, 51, 65	Extension of Ninety-Day Rule for the Impact of COVID-19	<p>Temporary extension of the 90-day admissibility rule for policies in effect <u>and current</u> prior to 03.13.20 and policies written or renewed on or after 03.13.20 due to the COVID-19 pandemic. Includes premiums receivable from policyholders or agents, uncollected uninsured plan receivables, life premium due and high deductible receivables. Relief is provided for the first through third quarter filings and allow these assets to be admitted even if they are greater than 90 days past due. Existing impairment analysis remains in effect for these affected policies. The interpretation expired on 12.30.20.</p>	04.15.20 (expired)

Ref #	SSAP No	Title	Revision Description	Effective
INT 20-03T	36	Troubled Debt Restructuring Due to COVID-19	<p>Temporary accounting relief to permit insignificant mortgage loan and bank loan modifications due to COVID-19 to not be accounted for as a troubled debt restructuring, including:</p> <ul style="list-style-type: none"> • Forbearance arrangements, • Interest rate modifications, • Repayment plans and other similar arrangement that defers or delays payment of principal or interest <p>For loans that were not more than thirty days past due at 12.31.19. This treatment is consistent with the provisions in the 04.07.20 Revised Interagency Statement on Loan Modifications by Financial Institutions Working with Customers Affected by the Coronavirus.</p> <p>The interpretation expires on the earlier of 01.01.22 or 60 days after the date on which the COVID-19 national emergency terminates.</p>	04.15.20
INT 20-04T	26R, 30, 37, 43R, 48	Mortgage Loan Impairment Assessment Due to COVID-19	<p>Temporary accounting relief permitting the deferral of impairment assessments for mortgage loans, bank loans and investments that predominantly hold underlying mortgage loans such as a mutual fund, for the first through third quarter filings in 2020. The interpretation expired on 12.30.20.</p>	04.15.20 (expired)
INT 20-05T	34	Investment Income Due and Accrued	<p>Entities invested in mortgage loans, bank loans or investment products with underlying mortgage loans impacted by COVID-19 related forbearance or modification provisions may waive the collectability evaluation for the first through third quarter filings for borrowers and investments that were current as of 12.31.19 that were not experiencing financial difficulties at the time of the insignificant modification. This temporary exception to the 90-day rule for admissibility of investment income receivables expired on 12.30.20.</p>	05.20.20 (expired)

Ref #	SSAP No	Title	Revision Description	Effective
INT 20-06T	64, 103R INT 01-31	Participation in the 2020 TALF Program	Prescribes accounting for participants in the Term Asset-Backed Securities Loan Facility (TALF) program established by the Federal Reserve on 03.23.20 and clarifies that participation in the program is not a repurchase agreement. The interpretation expires upon the expiration of the TALF program.	05.20.20
2020-06EP	21R, 51R	Editorial and Maintenance Update	SSAP No. 21R – Removes redundant definitions found in SSAP No. 4. SSAP No. 51R - Updates paragraph references related to change in valuation basis.	05.20.20
INT 20-07T	26R, 36, 43R, 103R	Troubled Debt Restructuring of Certain Debt Investments Due to COVID-19	Provides a practical expedient to assist reporting entities with determining whether a debt or loan modification in response to COVID-19 is insignificant. The following modifications are considered insignificant: <ul style="list-style-type: none"> • The contractual amount due changes 10% or less • The maturity of the debt is not extended for more than 3 years • Modifications solely impacting covenant requirements are not troubled debt restructurings • The contractual cash flows change 10% or less and do not need further evaluation to determine whether the modification is more than minor <p>The interpretation expires on the earlier of 01.01.22 or 60 days after the date on which the COVID-19 national emergency terminates.</p>	05.20.20
2019-20	26R, 43R	Rolling Short-Term Investments	Requires certain rolling short-term investments be reported as long-term investments when certain conditions exist.	05.20.20
2019-25 IP 163	105	Working Capital Finance Investments	Adopts substantive industry proposed revisions to accounting guidance for working capital finance investments. This narrow scope guidance was originally effective in 2014.	05.20.20

Ref #	SSAP No	Title	Revision Description	Effective
2019-37	41R	Surplus Notes – Enhanced Disclosures	Requires additional disclosures for surplus notes, specifically those structured to reduce or eliminate typical cash flows.	05.20.20
2019-47	3, 51R	Grade-in of Variable Annuity Reserves	Changes in reserve valuation basis on certain variable annuities may be phased in over time as permitted by either SSAP No. 51R or the Valuation Manual in section VM-21, and are subject to additional disclosures regarding the phase-in.	05.20.20
2020-07	1	Change to the Summary Investment Schedule	Adds “Total Valuation Allowance” on mortgage loans to the Summary Investment Schedule (SIS) to eliminate a cross-check error in the annual statement between the SIS Total Mortgage and Schedule B, Part 1.	05.20.20
2020-14	26R	Assessment of OTTI Based on Original Contract Terms	Clarifies that when a modification to a debt instrument occurs the assessment for other-than-temporary impairment (OTTI) should follow SSAP No. 36, <i>Troubled Debt Restructuring</i> and SSAP No 103R, <i>Transfers and Servicing of Financial Assets and Extinguishments of Liabilities</i> , as applicable. After modification the OTTI assessment should be based on the modified contractual terms.	05.20.20

Ref #	SSAP No	Title	Revision Description	Effective
INT 20-08T	5R, 24, 53, 54R, 65, 66	COVID-19 Premium Refunds, Limited-Time Exception, Rate Reductions and Policyholder Dividends	<p>Interpretation provides accounting guidance for COVID-19 related:</p> <ul style="list-style-type: none"> • Refunds not required under policy terms shall be accounted for as a return of premium, or for P&C insurers that filed policy endorsements or manual rate filings prior to 06.15.20 and disclosed the intent to report the reduction as an expense, a limited-time exception permits expense reporting • Refunds required under policy terms – no changes • Rate reductions on in-force business shall be recognized immediately as a premium adjustment and rate reductions on renewal business are recognized in the premium rate charged at renewal • Policyholder dividends – no changes <p>To allow aggregation of COVID-19 related disclosures for premium refunds, rate reductions and dividends, they should be reported as unusual or infrequent items in annual statement Note 21A. This temporary interpretation will sunset on 01.01.21.</p>	07.22.20
INT 20-09	86	Basis Swaps as a Result of the LIBOR Transition	Basis swaps issued by Central Clearing Parties in response to reference rate reform should be reported at fair value as “Hedging Other” unless the instrument meets the requirements of SSAP No. 86 of a highly effective hedge.	07.30.20
2020-01	26R, 30R	Update / Remove References to SVO Listings	Eliminates references to the “NAIC Bond Fund List”. Funds previously included on that list are eligible for consideration in the “NAIC Fixed Income-Like SEC Registered Funds List.”	07.30.20
2020-04	51R, 52, 54R	Commissioner Discretion in the <i>Valuation Manual</i>	A reporting entity must report a change in valuation basis if it voluntarily decides to select an allowable reserving methodology over another that requires commissioner approval.	07.30.20
2020-16EP	2R	Editorial and Maintenance Update	The update points to the Annual Statement Instructions for reporting cash pools.	07.30.20

Ref #	SSAP No	Title	Revision Description	Effective
2020-31	32R	Early Application of SSAP No. 32R – Preferred Stock	Permits early adoption of the revisions to SSAP No. 32R as adopted in NAIC REF#2019-04.	10.13.20
2020-19	37	Clarification Edits – Mortgage Loan Participations	Clarifies that mortgage loan participations are within the scope of SSAP 37, as the “rights and obligations” of a participant in a single mortgage loan typically include the right to take legal action against the borrower or participate with other lenders in determining whether legal action should be taken. The participant’s inability to individually take legal action against or directly communicate with a borrower does not negate this.	11.12.20
2020-20	2R	Disclosure of Rolled Cash Equivalent Investments	Clarifies the disclosure requirement for short-term investments that remain on the same reporting schedule for more than one consecutive reporting period applies to cash equivalents. The disclosure is satisfied via a designated code in the investment schedules.	11.12.20
2020-21	43R	SSAP No. 43R – Designation Categories for RMBS/CMBS Investments	Revisions incorporate the new NAIC designation categories for residential mortgaged-backed securities (RMBS) and commercial mortgage-backed securities (CMBS), that were recently updated in the <i>Purposes and Procedures Manual of the NAIC Investment Analysis Office</i> . The financial modeling process remains unchanged.	11.12.20
2020-23	19, 73	Update to Leasehold Improvements	The revisions conform the definition of “lease term” to that used in SSAP No. 22R, which includes options to extend or terminate a lease, allowing leasehold improvements to be amortized over the matching lease term.	11.12.20
2020-25EP	5R, 62R	Editorial and Maintenance Updates	SSAP No. 5R – Removed redundant paragraph references. SSAP No. 62R – Added a table listing questions addressed in Exhibit A - Implementation Questions and Answers.	11.12.20
INT 20-10	43R	Reporting Nonconforming Credit Tenant Loans	Nonconforming credit tenant loans (CTLs) that have previously been reported on Schedule D-1 may continue to be reported on that schedule if they have filed for an SVO-assigned NAIC designation by 02.15.21. Otherwise, they should be reported on Schedule BA. The interpretation expires 10.01.21.	12.18.20

Ref #	SSAP No	Title	Revision Description	Effective
INT 20-11	6	Extension of Ninety-Day Rule for Impact of 2020 Hurricanes, California Wildfires and Iowa Windstorms	<p>Insurers impacted by the following are given an extension to the 90-day nonadmission rule:</p> <ul style="list-style-type: none"> • Hurricanes Isaias, Laura, Sally, Delta, Zeta, and Eta, and the related tropical storms or flooding • California wildfires which were declared a disaster on or after 08.01.20 • Iowa straight-line windstorms impacted policies in the counties in which a state of disaster was declared in 08.20 <p>The interpretation expires on 02.28.21.</p>	12.18.20
2017-28	61R & Appendix A-791	Reinsurance Credit – Informal Life and Health Reinsurance Drafting Group Recommendations	<p>SSAP No. 61R – Adds several reinsurance contract disclosure requirements.</p> <p>Appendix A-791 – Clarified the phrase “certain non-proportional reinsurance” and added Q&A’s on contracts with medical loss ratios and group term life yearly renewable term reinsurance.</p>	12.31.20 01.01.21
2019-19	N/A	SIRI – Equity Interests	<p>The revision clarifies the following SVO-Identified investments and funds are excluded from presentation in Line 13 of the Supplemental Investment Risk Interrogatories:</p> <ul style="list-style-type: none"> • Investments or funds that have underlying fixed-income characteristics • Bond Exchange-Traded Funds and Mutual Funds • U.S. Direct Obligations / Full Faith and Credit Exempt List of Money Market Mutual Funds 	12.31.20

Ref #	SSAP No	Title	Revision Description	Effective
2019-04	32R, IP 164	SSAP No. 32 – Investment Classification Project	<p>The substantive updates:</p> <ul style="list-style-type: none"> • Revise the definitions of redeemable and perpetual preferred stock • Delete the definitions of mandatory sinking fund preferred stock, payment-in-kind (PIK) preferred stock and step-up preferred stock • Add a definition for mandatory convertible preferred stock • Removes references to the “cost” measurement method • Adds guidance on mandatorily convertible redeemable preferred stock • Clarifies the reporting of PIK dividends and interest • Clarifies elements of the OTTI assessment for redeemable preferred stock <p>Clarifies the interaction between SSAP No. 32 and SSAP No’s 48 and 97.</p>	01.01.21
2019-38	86	Financing Derivatives	Defines derivative premium and requires derivatives be reported gross and exclude the impact of financing premiums. Related premiums payable and receivable must be reported separately.	01.01.21
2019-42	2R	Inclusion of Cash/ Liquidity Pools – Cash Equivalents as Defined in SSAP No 2R	Permits certain cash / liquidity pool structures to be reported as cash equivalents if they meet certain requirements. Entities that have to reclassify qualifying cash / liquidity pools to cash equivalents from a different investment schedule may elect to complete the reclassifications effective 01.01.21. Early adoption is permitted.	01.01.21
2020-02	26R	Accounting for Bond Tender Offers	Clarifies the accounting for the early liquidation of a bond through a tender offer is the same as that of a called bond.	01.01.21
2020-05	106	Repeal of Affordable Care Act Section 9010 Assessment	Supersedes SSAP No. 106 – <i>Affordable Care Act Section 9010 Assessment</i> and nullifies INT 18-02: <i>ACA Section 9010 Assessment Moratoriums</i> .	01.01.21
2020-17	97	Updating the SCA Review Process	The NAIC will post finalized SCA review information to VISION for filers to retrieve.	01.01.21

Ref #	SSAP No	Title	Revision Description	Effective
2020-03	68	Enhanced Goodwill Disclosures	Expand goodwill disclosures to highlight assets not readily available to pay claims, including: <ul style="list-style-type: none"> • Original amount of goodwill • SCA book value • Admitted goodwill as of reporting date • Subcomponents and calculation of adjusted surplus • Admitted goodwill as a percentage of adjusted surplus 	12.31.21

Rejected GAAP ASUs

The following [FASB ASU](#)s were rejected by the SAPWG during 2020:

- ASU 2015-10, *Technical Corrections and Improvements*
- ASU-2019-09, *Financial Services – Insurance (Topic 944): Effective Date*
- ASU 2020-01, *Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815), Clarifying the Interactions between Topic 321, Topic 323, and Topic 815*
- ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842), Effective Dates for Certain Entities*
- ASU 2013-11, *Income Taxes: Presentation of Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*
- ASU 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-For-Profit Entities*
- ASU 2017-11, *Earnings Per Share; Distinguishing Liabilities from Equity; Derivatives and Hedging: (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception*
- ASU 2016-20 – *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*
- ASU 2017-14 – *Amendments to SEC Paragraphs in Topic 220, Topic 605, and Topic 606*
- ASU 2018-18 – *Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606*
- ASU 2020-02 – *Financial Instruments – Credit Losses (Topic 326) and Leases (Topic 842) – Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842)*

- ASU 2015-10, *Technical Corrections and Improvements*
- ASU-2019-09, *Financial Services – Insurance (Topic 944): Effective Date*
- ASU 2020-01, *Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815), Clarifying the Interactions between Topic 321, Topic 323, and Topic 815*
- ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842), Effective Dates for Certain Entities*

Group Capital Calculation

On December 8, 2020, the Financial Condition (E) Committee unanimously adopted the Group Capital Calculation (GCC) template and instructions that were developed by the Group Capital Calculation (E) Working Group and adopted on November 17, 2020. The GCC template and instructions do not prescribe new regulatory standards for capital adequacy, but provide a tool for state insurance regulators to consistently evaluate group-wide capital for various insurance holding company systems with the goal to provide an “apples to apples” comparison. The GCC is intended to provide additional insights to Lead State Regulators and considers the financial condition of insurance and non-insurance entities in the holding company system. Lead State Regulators are expected to implement the GCC template as another tool for the annual group financial analysis procedures, review of Own Risk Solvency Assessment (ORSA) report filings, and in risk-focused coordinated financial examinations.

For more information, visit the NAIC website:

- [Group Capital Calculation \(E\) Working Group](#)
- [Article: NAIC Adopts Group Capital Calculation](#)

Reinsurance

As of December 2, 2020, 16 U.S. jurisdictions have adopted the 2019 revisions to the Credit for Reinsurance Model Law (#[785](#)) and 13 have actions under consideration. Three U.S. jurisdictions have adopted the 2019 revisions to the Credit for Reinsurance Model Regulation (#[786](#)) and five have actions under consideration. The revised Model Law and Regulation reduce collateral requirements for certain reinsurers in reciprocal jurisdictions and are necessary to implement the collateral and other provisions of the Bilateral Agreement Between the U.S. and the European Union on Prudential Measures Regarding Insurance and Reinsurance and the corresponding agreement between the U.S. and the United Kingdom (collectively, the Covered Agreements). The Model Law and Regulation were adopted as state accreditation standards and states have until September 1, 2022 to implement these revisions or face preemption by the Federal Insurance Office.

The Model Law and Regulation are prospective in nature and may only be used to reduce collateral after a reporting entity's state of domicile adopts them. Additionally, the agreements must be new, amended, or renewed on or after the domiciliary state of the ceding company adopts the Model Law and Regulation.

Special Committee on Race and Insurance

The Special Committee on Race and Insurance established five workstreams to investigate diversity and inclusion in the insurance industry and provide direction to other Committees and Working Groups for future charges. The co-chairs of each workstream presented a brief update. Workstream One focuses on diversity and investigating racial barriers in the insurance industry. Workstream Two focuses on diversity and inclusion in State Insurance Departments and the NAIC. It is developing a survey to collect information and share best practices within the state insurance departments. The NAIC hired its first Diversity and Inclusion Officer. Workstreams Three, Four and Five focus on the unique aspects of diversity and inclusion in the P&C, Life, and Health insurance industries, respectively. The Special Committee and Workstreams will continue into 2021.

If you have any questions about this annual update you can [contact us here](#).

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