

### NAIC 2021 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 that will impact your 2021 statutory basis financial statements and other significant NAIC activities related to technology and artificial intelligence, reinsurance and climate change.

#### Statutory Accounting Updates

Ref #	SSAP No	Title	Revision Description	Effective
2017-28	Appendix A-791	Reinsurance Credit – Informal Life and Health Reinsurance Drafting Group Recommendations	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.	01.01.21
2019-04	32R, IP 164	SSAP No 32 – Investment Classification Project	<p>The substantive updates:</p> <ul style="list-style-type: none"> <li>• Revise the definitions of redeemable and perpetual preferred stock;</li> <li>• Delete the definitions of mandatory sinking fund preferred stock, payment-in-kind (PIK) preferred stock and step-up preferred stock;</li> <li>• Add a definition for mandatory convertible preferred stock;</li> <li>• Remove references to the “cost” measurement method;</li> <li>• Adds guidance on mandatorily convertible redeemable preferred stock;</li> <li>• Clarifies the reporting of PIK dividends and interest; and</li> <li>• Clarifies elements of the OTTI assessment for redeemable preferred stock.</li> </ul> <p>Clarifies the interaction between SSAP No 32 and SSAP No’s 48 and 97.</p>	01.01.21

Ref #	SSAP No	Title	Revision Description	Effective
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.	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
2019-34	25	Related Parties, Disclaimer of Affiliation and Variable Interest Entities	<p>Clarifies reporting of related party transactions:</p> <ul style="list-style-type: none"> <li>• More closely aligns identification of related party transactions with GAAP and SEC requirements</li> <li>• Noncontrolling ownership over 10% results in a related party classification regardless of disclaimer of control / affiliation</li> </ul> <p>Rejects U.S. GAAP standards addressing variable interest entities.</p>	03.15.21
2020-22	26R	Accounting for Perpetual Bonds	Clarifies that perpetual bonds with a future call date are reported at amortized cost and perpetual bonds without a future call date are reported at fair value.	03.15.21

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2020-32	26R	Disclosure Update	Expands existing disclosures for called bonds to include bonds terminated through a tender offer.	03.15.21
2020-33	32R, 86	Publicly Traded Preferred Stock Warrants	Removes publicly traded preferred stock warrants from the scope of SSAP No 86, <i>Derivatives</i> and places them in scope of SSAP No 32R, <i>Preferred Stock</i> , similar to publicly traded common stock warrants, which are in scope of SSAP No 30R, <i>Unaffiliated Common Stock</i> . These warrants are reported at fair value, not to exceed any currently effective call price.	03.15.21
2020-34	43R	Government-Sponsored Enterprises – Credit Risk Transfer Transactions	Nonsubstantive revisions to add Freddie Mac Structured Agency Credit Risk (STACR) and Fannie Mae Connecticut Avenue Securities (CAS) credit risk transfer securities issued through a Real Estate Mortgage Investment Conduit (REMIC) trust to the scope of SSAP No 43R.	03.15.21
2020-39	Appendix F	Interpretation Policy Statement Updates	The policy for issuing time-sensitive accounting interpretations (INTs) that amend, supersede or conflict with existing SSAPs is intended to provide temporary accounting relief and is limited to catastrophes or other emergencies. Interpretations are effective upon SAPWG adoption, unless stated otherwise.	03.15.21
2020-40	Preamble	Clarification of Prescribed Practices	A “prescribed practice” means practices prescribed by the domiciliary state and subject to independent audit requirements.	03.15.21
2020-37	56	Separate Account Product Mix	Accepts Blanks Working Group (BWG) proposal 2021-03BWG which updates the General Interrogatory instructions for separate accounts and requires disaggregated product identifiers to be used for each product represented. Adds product identifiers for pension risk transfer transactions and registered indexed linked annuity products. No change to statutory accounting.	05.20.21

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2020-38	56	Pension Risk Transfer Disclosure	Accepts BWG proposal 2021-03BWG which enhances reporting for pension risk transfer products and transactions within the General Interrogatories. No change to statutory accounting.	05.20.21
2021-01	86	ASU 2021-01, Reference Rate Reform	Expands the scope of INT 20-01: <i>Reference Rate Reform</i> to include derivative contracts affected by changes to interest rates used for discounting, margining or contract price alignment, consistent with ASU 2021-01, <i>Reference Rate Reform (Topic 848)</i> .	05.20.21
2021-03	103R	SSAP No 103R - Disclosures	Adds disclosures and a data capture template for certain disclosures in SSAP No 103R – <i>Transfers and Servicing of Financial Assets and Extinguishments of Liabilities</i> .	05.20.21
2021-05	2R	Accounting for Cryptocurrencies	Adopts INT 21-01: <i>Statutory Accounting Treatment for Cryptocurrencies</i> , which clarifies that directly held cryptocurrencies do not meet the definition of cash or admitted assets.	05.20.21
2021-06EP	Multiple	Editorial Updates	Editorial revisions to SSAP No 53, SSAP No 97 and the <i>SSAP Glossary of the Accounting Practices and Procedures Manual</i> .	05.20.21
2021-04	48, 97	Valuation of Foreign Insurance SCAs	Places a valuation floor of zero on foreign insurance SCAs when they are not engaged in providing services or holding assets on behalf of the reporting entity or its affiliates. Clarifies that the equity method valuation referenced in SSAP No 97 can result in a negative equity valuation for SSAP No 48 entities.	08.26.21
2021-10	32R	SSAP No 32R – Clarification of Effective Call Price	The effective call price valuation limitation on certain preferred stocks only applies if the call is currently exercisable by the issuer or if the issuer has announced the security will be redeemed or called.	08.26.21
2021-12EP	Multiple	Editorial Updates	Editorial revisions to the <i>Preamble, Appendix A-001, Appendix C, Appendix C-2</i> and SSAP No 21R – <i>Other Admitted Assets</i> .	11.10.21

Ref #	SSAP No	Title	Revision Description	Effective
2021-13	55	Salvage – Legal Recoveries	Clarifies that estimated salvage and subrogation is reported as a reduction to claims, loss and/or loss adjustment expense (LAE) reserves and recoveries are a reduction to paid claims, losses and/or LAE. The related disclosure of estimated salvage and subrogation includes amounts deducted from claims, losses or LAE.	11.10.21
INT 21-02T	6	Extension of Ninety-Day Rule for the Impact of Hurricane Ida	Provides an optional 60-day extension to the 90-day nonadmission rule for premium and agent receivables impacted by Hurricane Ida. The interpretation expires on 01.23.22.	11.10.21
2021-11	43R, INT 20-10	Credit Tenant Loans – Scope	Revision clarifies that SVO-Identified Credit Tenant Loans are in scope of SSAP No 43R, <i>Loan-Backed and Structured Securities</i> . INT 20-10: <i>Reporting Nonconforming CTLs</i> , which expired on 10.01.21, was also explicitly nullified.	12.11.21
2021-16	30R	SSAP No 30R – FHLB Disclosures – Blanks Referral	Referral to BWG in support of agenda item 2021-15BWG to capture information on FHLB funding agreements in Exhibit 7 – <i>Deposit-Type Contracts</i> , which is anticipated for year-end 2022. No change to statutory accounting.	12.11.21
2021-17	32R	SSAP No 32R – Permitted Valuation Methods	Revision removes cost as an allowable valuation method from SSAP No 32R, <i>Preferred Stocks</i> and other minor updates to ensure consistency with prior modifications.	12.11.21
2021-19EP	16R, 43R	Editorial Updates	Editorial revisions to SSAP No 16R, <i>Electronic Data Processing Equipment and Software</i> and SSAP No 43R, <i>Loan-Backed and Structured Securities</i> .	12.11.21
2019-24	71, IP 165	Levelized and Persistency Commission	Clarifies that policy acquisition costs, including commissions, are expensed when incurred regardless of the existence of a third party arrangement with different (levelized) payment terms.	12.31.21

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"> <li>• Original amount of goodwill</li> <li>• SCA book value</li> <li>• Admitted goodwill as of reporting date</li> <li>• Subcomponents and calculation of adjusted surplus</li> <li>• Admitted goodwill as a percentage of adjusted surplus</li> </ul>	12.31.21
Appendix G	Appendix G	Appendix G - Implementation Guide for the Annual Financial Reporting Model Regulation	Requires the lead audit partner to be named and the year in which he or she began serving in that capacity in the material weakness letter provided to regulators annually.	12.31.21
2021-14	Appendix F	Policy Statement Terminology Change- Substantive and Nonsubstantive	Terminology change to address types of statutory accounting changes on a prospective basis: <ul style="list-style-type: none"> <li>• Substantive replaced with “new SAP concept”</li> <li>• Nonsubstantive replaced with “SAP clarification”</li> </ul>	01.01.22
2021-15	43R	SSAP No 43R - Residual Tranches	Clarifies reporting of residual tranches at the lower of amortized cost or fair value on Schedule BA - <i>Other Long-Term Investments</i> . If these investments are on Schedule D - Part 1 as of 12.31.21, they are required to be NAIC 6 designation. Early adoption is permitted.	12.31.22

## Rejected GAAP ASUs

The following [FASB ASUs](#) were rejected by the SAPWG during 2021:

- ASU 2009-17, *Consolidation (Topic 810) – Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*
- ASU 2010-02, *Consolidation (Topic 810) – Accounting and Reporting for Decreases in Ownership of a Subsidiary – A Scope Clarification*
- ASU 2010-10, *Consolidation (Topic 810) – Amendments for Certain Investment Funds*
- ASU 2014-07, *Consolidation (Topic 810) – Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements*
- ASU 2015-02, *Consolidation (Topic 810) – Amendments to the Consolidation Analysis*
- ASU 2016-17, *Consolidation (Topic 810) – Interests Held through Related Parties that are under Common Control*
- ASU 2018-17, *Consolidation (Topic 810) – Targeted Improvements to Related Party Guidance for Variable Interest Entities*
- ASU 2020-06, *Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity*
- ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation of Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*
- ASU 2020-08, *Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs*
- ASU 2020-11, *Financial Services – Insurance (Topic 944): Effective Date and Early Application*
- ASU 2021-02, *Franchisors – Revenue from Contracts with Customers (Subtopic 952-606): Practical Expedient*

## Executive and Plenary Committee

The Executive and Plenary Committee approved the formation of the Innovation, Cybersecurity and Technology (H) Committee. The Innovation and Technology Task Force drafted proposed charges for the Committee. The formation of this new “Letter” committee on a permanent basis reflects the NAIC’s commitment to monitoring regulatory aspects and embracing technological innovation in the insurance space. The new Committee is intended to be a forum to focus on cybersecurity, innovation, data security and privacy protections and emerging technology issues. Also charged with monitoring developments in these areas that affect the state insurance regulatory framework, maintaining an understanding of evolving practices and use of innovation technologies by insurers and producers, coordinating NAIC efforts related to innovation, cybersecurity and privacy and technology across other Committees and making recommendations and developing regulatory, statutory or guidance updates. The prior Innovation and Technology (EX) Task Force will be disbanded and moved to the H Committee. The following Working Groups will be under the H Committee umbrella beginning in 2022: Big Data and Artificial Intelligence, Speed to Market, E-commerce and Cybersecurity.

## **Big Data and Artificial Intelligence (EX) Working Group**

The Big Data and Artificial Intelligence Working Group reported on the preliminary results from the Private Passenger Auto Artificial Intelligence (AI) and Machine Learning (ML) Survey conducted in nine states with more than 190 companies participating in the survey. The survey included questions regarding the use of AI and ML in the operational areas of claims, fraud detection, marketing, rating, underwriting and loss prevention. The Working Group plans to continue to analyze survey responses and leverage insights to inform future regulatory recommendations. Looking ahead, the Working Group will perform its next survey over the use of AI and ML in the homeowners and/or life lines of business.

## **Financial Condition (E) Committee**

The Financial Condition Committee adopted the *Reinsurance Financial Analysis Working Group (ReFAWG) Review Process for Passporting Certified and Reciprocal Jurisdiction Reinsurers*. The report was created to aid insurers in implementation of the 2019 Credit for Reinsurance Model Law and Regulation and assist states in their review of reinsurers who meet the standards.

The Committee also adopted the Mutual Recognition of Jurisdictions (E) Working Group's, *Process for Evaluating Jurisdictions that Recognize and Accept the Group Capital Calculation (GCC)*.

## **Reinsurance (E) Task Force**

As of December 9, 2021, 46 U.S. jurisdictions have adopted the 2019 revisions to the Credit for Reinsurance Model Law ([#785](#)) and 4 jurisdictions have actions under consideration. Twenty-five U.S. jurisdictions have adopted the 2019 revisions to the Credit for Reinsurance Model Regulation ([#786](#)) and 11 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 International Covered Agreements. These models are scheduled to become accreditation standards this year on September 1, 2022, and nationwide adoption is crucial to the United States' participation in the International Covered Agreements. The Model Law and Regulation are prospective in nature, meaning they may only be used to reduce collateral after a reporting entity's state of domicile adopts them. Additionally, reinsurance agreements must be new, amended, or renewed on or after the domiciliary state of the ceding company adopts the Model Law and Regulation.



## Climate and Resiliency (EX) Task Force

The Climate and Resiliency Task Force heard a recommendation from its Technology Workstream for the NAIC's Center for Insurance Policy and Research to create a Catastrophe Model Center of Excellence that will allow state regulators access to shared catastrophe modeling resources. The Task Force also proposed revisions to the *NAIC Climate Risk Disclosure Survey* to better align with the Financial Stability Board's Task Force on Climate-related Financial Disclosure (TCFD). The survey focuses on areas of governance, strategy, risk management and metrics and targets of climate related financial risk. The proposed revisions were open for an exposure period until Jan 10, 2022 and are expected to be adopted at the 2022 Spring National Meeting. The survey applies to any insurer writing more than \$100 million in direct premium with business in one of the 15 participating states.

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

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