

AN ALERT FROM THE BDO INSURANCE INDUSTRY PRACTICE

BDO KNOWS: INSURANCE



RECENTLY ADOPTED STATUTORY ACCOUNTING PRINCIPLES (NAIC 2016 Spring Meeting)

SUMMARY

The National Association of Insurance Commissioners (“NAIC”) recently held its Spring National Meeting in New Orleans. During the meeting, the Statutory Accounting Principles (“SSAP”) Working Group adopted revisions to four statutory accounting principles. This alert highlights the details of these changes, which were implemented with the intention of increasing the reporting transparency of insurers and making their financial statements more useful to readers.

SURPLUS NOTES

The SSAP Working Group adopted SSAP No. 41, which applies to holders of capital or surplus notes, and changes the admitted asset criteria and revises the accounting depending on the NAIC credit rating provider (CRP) rating and NAIC valuation.

These revisions provide that if the capital or surplus note has been rated by an NAIC credit rating provider (CRP) with a designation equivalent of NAIC 1 or NAIC 2, it must be reported at amortized cost. If the capital or surplus note is not CRP rated or has an NAIC designation equivalent of NAIC 3 through NAIC 6, the balance sheet

amount must be reported at the lesser of amortized cost or fair value, with fluctuations in fair value reflected as unrealized valuation changes.

The adopted revisions add the following two provisions limiting the amount of surplus notes deemed to be admitted assets:

1. The admitted asset value of a capital or surplus note will not exceed the amount that would be admitted if the instrument was considered an equity instrument and added to any other equity instruments in the issuer held directly or indirectly by the holder of the capital or surplus note.
2. The surplus note will be non-admitted if issued by an entity that is subject to any order of liquidation, conservation, rehabilitation or any company action level event based on its risk-based capital.

The revisions also incorporated guidance to clarify when surplus notes have an unrealized loss and undergo an other-than-temporary impairment assessment. The revisions are effective January 1, 2017, and will be accounted for as a change in accounting principle in accordance with SSAP No. 3—Accounting Changes and Corrections of Errors.

HOW DO I GET MORE INFORMATION?

For more information,
please contact:

RICHARD BERTUGLIA
Partner
212-885-8342
rbertuglia@bdo.com.

Material discussed is meant to provide general information and should not be acted on without professional advice tailored to your firm's individual needs.

QUARTERLY REPORTING OF RESTRICTED ASSETS

The adopted revisions to SSAP No. 1 clarify that disclosure of restricted assets need to be included in the annual financial statements and interim financial statements if significant changes have occurred since the annual statement. The revisions also clarify the reporting requirements for permitted and prescribed practices. The revised disclosure should identify whether the practice is a departure from NAIC SSAP or from a state-prescribed practice and include the financial statement reporting line(s) predominantly impacted by the permitted or prescribed practice. The revised reporting requirements for SSAP No. 1 are effective immediately.

AFFORDABLE CARE ACT: SECTION 9010 ASSESSMENT 2017 MORATORIUM

Section 9010 of the Patient Protection and Affordable Care Act (ACA), Imposition of Annual Fee on Health Insurance Providers ("HIPF"), imposes a fee on each covered entity engaged in the business of providing health insurance for United States health

risks. The HIPF is also known as the Affordable Care Act Section 9010 assessment which is addressed within SSAP No. 106. As originally enacted, HIPF applied to all calendar years beginning after December 31, 2013. The Consolidated Appropriations Act, 2016 (Public Law No: 114-113), which was signed into law on December 18, 2015, imposes a moratorium on the HIPF for calendar year 2017.

The interpretation of SSAP No. 106 (INT 16-01) clarifies that a reporting entity will need to accrue a liability on January 1, 2016 for the fee to be paid in September 2016, but that monthly segregation of surplus will not be required in 2016. No liability shall be recorded on January 1, 2017 since no fee is required to be paid in 2017.

ACA RISK CORRIDOR DISCLOSURES

The SSAP Working Group also revised SSAP No. 107, expanding ACA risk corridors roll-forward disclosure to require disclosure of the risk corridors asset (gross and net of non-admission) and liability balances and subsequent adjustments by program benefit

year. The receivable or payable for the roll-forward will reflect the prior end balance for the specified benefit year. The enhanced disclosures are effective the first quarter of 2016.

LOOKING AHEAD

The SSAP Working Group also put forth a number of items with comments due May 20, 2016. The more substantive items relate to accounting for operating and finance leases, principle-based reserving for life contracts, accounting for short sales and hedge accounting treatment for variable annuity products that do not meet hedge effectiveness requirements. BDO will monitor these and other NAIC developments and provide an update after the 2016 Summer National Meeting scheduled for August 26-29 in San Diego.

Additional information on this meeting of the Statutory Accounting Principles (E) Working Group April 3 meeting can be found here: http://www.naic.org/meetings1604/committees_e_app_sapwg_2016_spring_nm_summary.pdf

People who know Insurance, know BDO.

ABOUT BDO USA

BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, advisory and consulting services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through 63 offices and more than 450 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multi-national clients through a global network of 1,408 offices in 154 countries.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. For more information please visit: www.bdo.com.