

Accounting for Life Reinsurance Credits

Seventeen states participated in and at least 25 interested parties audited the call. The purpose of the call was to discuss a response to questions raised by the Statutory Accounting Principles Working Group (SAPWG) on reinsurance reserve credits.

The reinsurance at issue is YRT with guaranteed premiums, which is required to hold XXX reserves. The reinsurance qualifies as reinsurance under the Life & Health Reinsurance Agreements Model Regulation, but is not specifically mentioned in SSAP No. 61.

SAPWG posed four questions to LHATF:

1. Is the reinsurance at issue outside of the definitions in SSAP No. 61?
2. Is it appropriate for reserve credit to be taken for types of reinsurance not described in SSAP No. 61?
3. What type of credit, if any, should be allowed?
4. Based on the answers to the first 3 questions, does SSAP No. 61 require changes?

Genworth argued that this type of reinsurance is a valid risk transfer, SSAP No. 61 was not meant to be an exhaustive list and therefore the ceding company should get reserve credit.

Sheldon Summers (CA) observed that, in the example provided, at some point the reinsurance premium exceeds the direct premium, and thus the ceding company's surplus is affected. Thus he would allow no reserve credit. NY and TX agreed with CA's position.

CT asked what the business purpose of the reinsurance is. Genworth cited changes in the reinsurance market, such as consolidations and new entrants, and threats of potential rate increases. Ceding companies are now starting to seek guaranteed reinsurance premiums.

LHATF directed staff to draft a response that reflects CA's position. It will be discussed at the March meeting.

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