

Interpretation of the Statutory Accounting Principles (E) Working Group

INT 23-04: Scottish Re Life Reinsurance Liquidation Questions

INT 23-04 Dates Discussed

October 23, 2023; October 24, 2023; December 1, 2023; January 10, 2024

INT 23-04 References

Current:

SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance

INT 23-04 Issue

Background

1. Liquidations of U.S. licensed reinsurers are uncommon. Due to a 2023 liquidation order of a U.S.-based life reinsurer, life industry cedents have requested an interpretation to address the accounting and reporting for reinsurance receivables from the reinsurer's estate. This interpretation is intended to be applied generically; however, the following circumstances are relevant to the accounting issues identified.

- a. The recent liquidation order was for Scottish Re, a U.S. life reinsurance entity, which was in regulatory supervision for several years.
- b. The life reinsurer was not assuming new business but was receiving ongoing premium on yearly renewable contracts.
- c. The 2023 liquidation order cancelled reinsurance contracts on a cut-off basis, effective September 30, 2023.
- d. Settlement from the reinsurer's estate is expected to exceed one year.
- e. Settlement from the reinsurer's estate to the ceding entities is expected to be less than 100%. That is, cedents are expected to receive a portion of what they are owed.
- f. Some ceding insurers established trusts to hold assets backing the reserves under the reinsurance agreements.

Interpretation Discussion

2. This interpretation is applicable only to the accounting and reporting of reinsurance recoverables from Scottish Re, a U.S.-based life reinsurer in liquidation. The Statutory Accounting Principles (E) Working Group consensuses to the noted issues are included below.

Issue 1 – Commutation or Recapture of a Life Reinsurance Contract

3. If a liquidation order cancels a life reinsurance contract on a cut-off basis, should the life reinsurance commutation guidance in *Statement of Statutory Accounting Principles (SSAP) No. 61R—Life, Deposit-Type and Accident and Health Reinsurance* be used as the primary accounting guidance for the commutation?

4. Yes. SSAP No. 61R, paragraph 58, provides the primary guidance for a life reinsurance commutation. The guidance provides that:

Recaptures and Commutations

58. A recapture or a commutation of a reinsurance agreement is a transaction which results in the complete and final settlement and discharge of all present and future obligations between the parties arising out of the agreement or a portion of the agreement. Commuted and recaptured balances shall be accounted for by writing them off through the accounts, exhibits and schedules in which they were originally recorded. The assumed reserves and reserve credits taken are eliminated by the reinsurer and ceding entity, respectively. The reinsurer and ceding entity must also make any required IMR liability adjustment changes. Any net gain or loss is reported in the summary of operations.

Issue 2 – Impairment of Reinsurance Recoverables

5. The reinsurer that was previously in regulatory supervision and is now in liquidation was known to have financial difficulties and many ceding entities have either established valuation allowances and/or written off reinsurance recoverables as impairment losses. Questions have been received in response to the diversity in practice on whether the ceding entities were reporting impairment losses or were reporting a valuation allowance on all categories of their expected reinsurance recoverables from the reinsurer which is now in liquidation.

6. Do reporting entities have the choice of setting up a valuation allowance or applying the impairment guidance in SSAP No. 61R to the reinsurance recoverables from the life reinsurer in liquidation?

7. No. Reporting entities do not have a choice of a valuation allowance or applying impairment analysis. SSAP No. 61R, paragraph 42, requires impairment analysis of uncollectible reinsurance amounts in accordance with *SSAP No. 5R—Liabilities, Contingencies and Impairments of Asset*. The guidance requires that impaired amounts shall be written off through a charge to the Statement of Operations utilizing the same accounts which established the reinsurance recoverables. SSAP No. 5R and SSAP No. 61R do not permit a valuation allowance.

8. The liquidation order of a reinsurer should prompt an impairment analysis of all amounts recoverable from the reinsurer with a write-off of amounts not expected to be recovered.

9. The impairment analysis shall be updated at every reporting date.

Issue 3 – Reporting of Reinsurance Recoverables

10. The liquidation order results in a commutation and recapture of business for the ceding entity. A liquidation will determine the reinsurer's estate assets, then determine payments based on liquidation priority. This will result in a delay in settlement from the estate of the reinsurer. As previously detailed, the amounts paid by the estate shall be impaired to the amount expected to be received by the ceding entities.

11. Where shall the ceding entity report the remaining receivables for the reinsurer's estate?

12. In accordance with the recapture and commutation guidance in SSAP No. 61R, paragraph 58 (quoted above), the ceding entity shall remove balances through the schedules and exhibits originally reported. No reserve credit or contra-liabilities shall be reported. The reinsurance reserve credits shall be removed. Gains or losses are reported in the summary of operations.

13. Based on preliminary information received, it is expected that there will be an amount receivable for paid claims incurred before the reinsurance contract cancellation. This amount shall be reported on the asset page line 16.1 - Amounts Recoverable from Reinsurers.
14. Amounts recoverable from the reinsurer's estate for claims incurred before the reinsurance contract cancellation and unpaid as of the reporting date shall be reported on the asset page line 16.3 - Other Amounts Receivable Under Reinsurance Contracts.
15. If the ceding entity owes amounts to the reinsurer's estate, the amounts shall be reported as a liability on line 9.3 - Other Amounts Payable on Reinsurance.
16. After impairing the recoverables, any other amount expected to be recovered from the reinsurer's estate shall be reported on line 25 Aggregate Write-ins for Other Than Invested Assets.

Issue 4 – Admissibility of Reinsurance Recoverables

17. As noted above, quarterly impairment analysis of collectability is required. After evaluating for impairment, if there are remaining receivables from the reinsurer's estate, do those assets qualify as admitted reinsurance recoverable assets?
18. Reinsurance recoverables from Scottish Re in liquidation are admitted as follows:
- a. The reinsurance recoverable amount from Scottish Re from paid claims incurred prior to the reinsurance contract cancellation which are reported on the asset page line 16.1 - Amounts Recoverable from Reinsurers which are not in dispute are admitted after impairment review.
 - b. To the extent reinsurance amounts recoverable are secured by assets in an Appendix A-785 - Credit for Reinsurance compliant trust, such recoverable amounts may be admitted to the extent that the amounts are not in dispute and that the collateral in an Appendix A-785 compliant trust is sufficient.
19. Other reinsurance recoverables, which are not identified as admitted assets in paragraph 18 are nonadmitted until received. This includes amounts either in dispute or not secured by collateral in a trust that is compliant with Appendix A-785.

Issue 5 – Disclosures

20. Do the relevant disclosures in SSAP No. 61R and other relevant SSAPs apply to a commuted life reinsurance contract which has not been fully settled due to a liquidation?
21. Yes. The relevant disclosures in SSAP No. 61R and other relevant SSAPs continue to apply to a life reinsurance contract which is commuted and recaptured due to a liquidation. These disclosures include but are not limited to the disclosures regarding commutation, uncollectible reinsurance and anything else that is required.
22. Disclosure in the reinsurance notes to the financial statements shall include additional information necessary to obtain an understanding of the impact of Scottish Re reinsurance counterparties in liquidation, including but not limited to, reinsurance payable liabilities, reinsurance recoverables by paid claims and other amounts, information regarding the status of any collateral and its fair value. Where applicable, reporting entities should disclose any individual components (e.g., unreimbursed claims or provisions for future losses) of recoverable amounts that are presented in the aggregate on the financial statements. The

disclosure shall include measurement, impairment and collectability of any reinsurance recoverables including timing of expected payments and nonadmitted amounts.

INT 23-04 Summary

23. Although readers should refer to the detailed guidance above, a summary of the key provisions is as follows:
- a. Issue 1 – Commutation or Recapture of a Life Reinsurance Contract: Follow SSAP No. 61R, paragraph 58, as it provides primary recapture and commutation guidance.
 - b. Issue 2 – Impairment of Reinsurance Recoverables: SSAP No. 61R paragraph 42, requires impairment of uncollectible reinsurance in accordance with SSAP No. 5R.
 - c. Issue 3 – Reporting of Reinsurance Recoverables: Follow the recapture and commutation guidance in SSAP No. 61R, then analyze for impairment. Report reinsurance payables separate from reinsurance recoverables. Amounts related to paid and unpaid claims incurred prior to reinsurance contract cancellation are reported on asset page line 16.1 - Amounts Recoverable from Reinsurers and asset page line 16.3 - Other Amounts Receivable Under Reinsurance Contracts, respectively. Any remaining reinsurance recoverables from the reinsurance counterparty after impairment assessment shall be reported on the asset page line 25 Aggregate Write-ins for Other than Invested Assets.
 - d. Issue 4 – Admissibility of Reinsurance Recoverables: Admit amounts related to claims incurred prior to contract cancellation which have been paid by the reporting entity as of the reporting date (reported on asset page line 16.1 - Amounts Recoverable from Reinsurers) which are not in dispute after impairment review. Admit reinsurance recoverables which are not in dispute, and which are secured by collateral in an A-785 compliant trust. Nonadmit all amounts recoverable from a life reinsurer in liquidation which are either in dispute or which are not secured by collateral in a trust compliant with Appendix A-785.
 - e. Issue 5 – Disclosures: Follow existing applicable disclosures and provide additional information sufficient to understand the nature and impact of a reinsurance counterparty in liquidation as described in paragraph 22.

INT 23-04 Status

24. The consensuses in this interpretation were adopted on January 10, 2024, with an effective date of reporting periods on or after December 31, 2023.

25. No further discussion is planned.