Interpretation of the Emerging Accounting Issues Working Group

INT 02-06: Indemnification in Modeled Trigger Transactions

ISSUE NULLIFIED BY SSAP NO. 62R

INT 02-06 Dates Discussed

March 18, 2002; June 9, 2002

INT 02-06 References

SSAP No. 62R—Property and Casualty Reinsurance (SSAP No. 62R)

INT 02-06 Issue

1. A modeled trigger securitization will have the recovery under the securitization and the determination of whether the securitization is triggered based upon a model of the losses of the ceding company as opposed to the ceding company's actual losses. While such models are designed to correlate highly with the ceding company's actual losses, there is no absolute guarantee that they will respond perfectly to such losses, and there is a small but finite risk that the model will produce no recoveries even after the company has sustained losses on the portfolio of risks that the securitization was designed to cover.

2. Should reinsurance accounting be allowed for modeled trigger securitizations where there is high correlation between the model and the actual losses of a company? Note that this issue is different, although related, to a future question regarding the accounting for index based insurance linked derivatives.

INT 02-06 Discussion

3. The working group reached a consensus that the modeled trigger securitization transaction does not appear to result in the kind of indemnification (in form and in fact) required by SSAP No. 62R, and therefore does not appear to be eligible for reinsurance accounting. Modeled trigger transactions should be evaluated as securitization transactions rather than as reinsurance transactions and should therefore receive the accounting treatment recommended for securitization transactions as ultimately adopted by the Statutory Accounting Principles working group.

INT 02-06 Status

4. No further discussion planned.