

# Statutory Issue Paper No. 153

## Counterparty Reporting Exception for Asbestos and Pollution Contracts

### STATUS

Finalized February 22, 2016

### Original SSAP and Current Authoritative Guidance: SSAP No. 62R

#### Type of Issue:

Common Area

### SUMMARY OF ISSUE

1. This issue paper provides historical documentation of adopted authoritative literature, which resulted in decreases to the provision for reinsurance liability for certain property and casualty asbestos and pollution reinsurance contracts with retroactive counterparties. This reporting exception does not apply to exposures other than asbestos and pollution exposures and should not be inferred for other items.

2. The adopted guidance reflected in *SSAP No. 62R—Property and Casualty Reinsurance – Revised* (SSAP No. 62R) is for rare and unique retroactive reinsurance contracts which cover asbestos and or pollution exposures in which the retroactive reinsurer has agreed to administer and pay claims on existing asbestos and pollution exposures. In these contracts, the original reinsurers on the business remain in effect. In addition, the ceding entity is required to forward recoveries from the original reinsurers to the retroactive counterparty. At a high level, the retroactive counterparty is providing substantially duplicative coverage up to the amount of the limit on the retroactive contract because it covers the same asbestos or pollution exposures as the original reinsurer(s) whose contracts have not been commuted.

3. The guidance adopted in SSAP No. 62R reduces two different aspects of the provision for reinsurance liability:

- a. Overdue amounts – Decreases the overdue liability as a result of substitution of the retroactive counterparty in place of the original reinsurers, which impacts the calculation of aging of amounts recoverable as reimbursement from the original reinsurers for claims which have been paid by the retroactive counterparty.
- b. Unauthorized and Uncollateralized Reinsurers – Decreases the provision for reinsurance, which results in an increased reserve credit for unpaid losses for unauthorized and uncollateralized original reinsurers if other acceptable security is approved by the use of commissioner's discretion under the *Credit for Reinsurance Model Law No. 785 (Credit for Reinsurance Law)*. In order to receive credit, the discretion must first exist in the laws adopted by the state of domicile of the ceding entity.

The use of commissioner discretion is disclosed in Annual Statement Note 1 as a prescribed or permitted practice that varies from the *Accounting Practices and Procedures Manual* requirement in Appendix A-785. Additionally, the total impact on the provision for reinsurance is required to be disclosed.

### SUMMARY CONCLUSION

4. The changes to SSAP No. 62R were adopted in two different agenda items which were discussed by the Statutory Accounting Principles (E) Working Group over a period of years. The first agenda item, 2011-45: Impact of Additional Reinsurance on Provision for Reinsurance was introduced in 2011 and completed in 2013. The second agenda item, 2014-28: Asbestos and Pollution Reinsurance Reporting Exception was introduced in 2014 and completed in 2015.

5. On August 24, 2013, the Statutory Accounting Principles (E) Working Group adopted nonsubstantive revisions to SSAP No. 62R in agenda item 2011-45: Impact of Additional Reinsurance on Provision for Reinsurance as reflected in Appendix A. The adopted revisions provided a reporting exception for paid losses under retroactive reinsurance contracts on asbestos and pollution risks that received department of insurance approval and met certain criteria. This exception resulted in a reduction of the provision for reinsurance liability for overdue payments related to losses which had been paid by the retroactive counterparty, but were pending recovery from the “original” reinsurers.

6. As the adopted guidance was limited to a reduction of the liability for overdue paid losses and loss adjusting expenses, the two industry advocates for the original agenda item repeated their requests for a broader reduction in the provision for reinsurance liability. In addition, some Working Group members subsequently indicated their willingness to consider a broader reduction in the provision for reinsurance liability. As a result, NAIC staff was directed to provide additional recommendations to the Working Group regarding possible reductions to the provision for reinsurance liability for unpaid losses. This direction resulted in agenda item 2014-28: Asbestos and Pollution Reinsurance Reporting Exception. The agenda item was adopted on September 24, 2015 and is reflected in Appendix B. Although these items were both adopted as nonsubstantive changes, the cumulative impact of the two separate changes was closer to the definition of substantive change, and this issue paper was directed to be drafted to provide historical documentation and context for these complex and unusual transactions.

7. As a result of both agenda items, the following revisions were made to SSAP No. 62R:

#### Asbestos and Pollution Contracts - Counterparty Reporting Exception

66. Upon approval by the domiciliary regulator(s) of the ceding entity (either the original direct insurer in the case of a reinsurance agreement or the original assuming reinsurer in the case of a retrocession agreement), an exception may be allowed with respect to a retroactive reinsurance agreement providing substantially duplicate coverage as prior reinsurance agreements on asbestos and/or pollution exposures, including reinsurance provided through an affiliated reinsurer that retrocedes to the retroactive reinsurance counterparty. Under this exception, a reporting entity may aggregate reinsurers into one line item in Schedule F reflecting the counterparty under the retroactive agreement for the purposes of determining the Provision for Reinsurance regarding overdue amounts paid by the retroactive counterparty (both authorized and unauthorized). This exception would allow the Provision for Reinsurance to be reduced by reflecting that amounts have been recovered by the reporting entity under the duplicate coverage provided by the retroactive contract, and that inuring balances from the original contract(s) are payable to the retroactive counterparty. In addition, such approval would also permit the substitution of the retroactive counterparty for authorized original reinsurers without overdue balances for purposes of reporting on the primary section of the annual statement Schedule F. An agreement must meet all of the requirements in paragraphs 66.a. through 66.e. in order to be considered for this exception.

- a. The underlying agreement clearly indicates the credit risk associated with the collection of the reporting entity's inuring reinsurance recoverables and losses related to the credit risk will be covered by the retroactive reinsurance counterparty.
- b. The retroactive reinsurance agreement must transfer significant risk of loss.
- c. The assuming retroactive reinsurance counterparty must have a financial strength rating from at least two nationally recognized statistical rating organizations (NRSRO), the lowest of which is higher than or equal to the NRSRO ratings of the underlying third-party reinsurers.
- d. The transaction is limited to reinsurance recoverables attributable to asbestos, and/or pollution.
- e. The recoverables from the inuring reinsurers remain subject to credit analysis and contingent liability analysis.

67. With the approval of the reporting entity's domestic state commissioner pursuant to the applicable state credit for reinsurance law regarding the use of other forms of collateral acceptable to the commissioner, the reporting entity shall present the amount of other approved security related to the retroactive reinsurance agreement as an "Other Allowed Offset Item" with respect to the uncollateralized amounts recoverable from unauthorized reinsurers for paid and unpaid losses and loss adjustment expenses under the original reinsurance contracts. Amounts approved as "Other Allowed Offset Items" shall be reflected as amounts recoverable from the retroactive counterparty and aggregated reporting described in paragraph 66 shall also be applied for unpaid losses and loss adjustment expenses under the original reinsurance contracts. The security applied as an "Other Allowed Offset Item" shall also be reflected in the designated sub-schedule and disclosed as a prescribed or permitted practice.

68. The reporting entity will continue to detail the reporting of original reinsurers that were aggregated for one line reporting per paragraph 66 as provided in the Annual Statement Instructions. The aggregation reporting in Schedule F applies is only to the extent that inuring balances currently receivable under ~~from~~ original reinsurance contracts are also payable to the retroactive reinsurance counterparty, and additionally to reinsurance recoverable on unpaid losses if the domestic state commissioner has approved amounts related to the retroactive reinsurance contract as any other form of security acceptable under the applicable provisions of the state's credit for reinsurance law. This guidance is not intended to otherwise change the application of retroactive accounting guidance for the retroactive portions of the contract that are not duplicative of the original reinsurance. Other than measurement of the provision for reinsurance and presentation in Schedule F, the retroactive contracts should continue to follow guidance applicable to retroactive accounting and reporting.

~~99~~100. The financial statements shall disclose the following with respect to reinsurance agreements, which qualify for reinsurer aggregation in accordance with paragraphs 66-~~67~~68:

- a. A description of the significant terms of the reinsurance agreement, including established limits and collateral, and
- b. The amount of unexhausted limit as of the reporting date.
- c. To the extent that the domestic state insurance department approves the use of the retroactive contract as an acceptable form of security related to the original reinsurers under the applicable provisions of the state's credit for reinsurance law, the use of such discretion shall be disclosed in the annual statement note 1 as a prescribed or permitted practice. In addition, note 1 shall disclose as part of the total impact on the provision for reinsurance the impact on the overdue aspects of the calculation if the reporting entity also receives commissioner approval pursuant to paragraph 66 related to overdue paid amounts (both authorized and unauthorized).

~~111-112~~. The guidance in paragraphs 66-67 and 100 which allowed retroactive reinsurance exceptions for asbestos and pollution contracts was effective for all accounting periods beginning on or after January 1, 2014 for paid losses. This guidance was revised in paragraphs 66-68 and 100 to also allow for unpaid losses effective for reporting periods ending on and after December 31, 2015.

8. The changes to SSAP No. 62R also resulted in a supplement to the property and casualty annual statement for entities which utilize the reporting exceptions. An illustration of this supplement is reflected in Appendix C of this issue paper and an appendix in SSAP No. 62R.

### Effective Date and Transition

9. This issue paper was directed to be developed as the changes from the second agenda item were nearing completion. The changes to SSAP No. 62R are reflected in the summary conclusion and appendices A, B and C. Users of the *Accounting Practices and Procedures Manual* should note that issue papers are not authoritative. As previously identified, the changes to SSAP No. 62R adopted in each agenda item had separate effective dates as detailed in Appendices A, B and C.

## DISCUSSION

### Provision for Reinsurance

10. The statutory accounting liability known as the provision for reinsurance is calculated on ceded reinsurance in the property and casualty annual statement Schedule F on reinsurance. The provision for reinsurance contains multiple calculations to determine the liability reported in total on the liabilities, surplus and other funds part of the balance sheet. As an overview, the provision is calculated using the following sections of Schedule F:

- a. Part 3 reflects ceded reinsurance;
- b. Part 4 reflects aging of ceded reinsurance. Part 4 calculates information based on aging of paid losses and paid loss adjusting expenses which are recoverable from reinsurers which were reflected on Schedule F part 3. It calculates an overdue total and a percentage of overdue and the percentage of losses which is more than 120 days overdue. The provision for overdue liability that results from this information is a statutory accounting convention that is similar to a valuation allowance.
- c. Part 5 reflects the provision for unauthorized reinsurance. This is the method used to reflect the unauthorized reinsurer requirements of the Credit for Reinsurance Law. The Credit for Reinsurance Law does not permit reinsurance reserve reduction for the amounts ceded to unauthorized reinsurers unless adequate collateral is provided.
- d. Parts 7 and 8 use amounts determined in parts 2, 4, and 5 to calculate a total provision for reinsurance. This includes liabilities for overdue amounts, for authorized reinsurers, for unauthorized for amounts in dispute. Collateral including other available offsets are reflected as reductions to the liability however these amounts do not reduce the provisions for overdue amounts.

### Initial Agenda Item Resulting in a Reduction of the Provision for Overdue

11. Agenda item 2011-45: Impact of Additional Reinsurance on Provision for Reinsurance was first discussed in November 2011. The industry sponsor advocated for changes to the provision for reinsurance liability for a special type of retroactive reinsurance which the industry advocated transfers both the liability to the inuring third party reinsurance and the related collection risk. In the circumstance under discussion, the retrocessionaire assumes responsibility to collect inuring third party reinsurance on behalf of the cedent. Any amounts not collected are covered under the available limit of the retroactive agreement. The retrocessionaire reimburses the cedent for gross losses paid regardless of whether the inuring reinsurance has been collected from the third party. The sponsor noted that in such instances, the reporting entity has limited its net exposure from the initial third party reinsurer; however, it was still forced to record a balance due on its Schedule F and compute a provision for reinsurance for paid amounts it has already received.

12. The sponsor recommended that the reporting entity be allowed to reflect in its property and casualty annual statement Schedule F the balances receivable from/payable to the retrocessionaire, including amounts related to the inuring reinsurance, in lieu of separately reporting the underlying third party reinsurers. In addition, the industry sponsor advocated calculating the provision for reinsurance based on the retrocessionaire's authorization status and payment history. The exception was proposed for contracts which met the following conditions:

- a. The reinsurance agreement must clearly indicate the retrocessionaire has assumed the credit risk associated with the collection of the inuring reinsurance recoverables;
- b. The reinsurance agreement must transfer significant risk of loss to the retrocessionaire;

- c. The retrocessionaire must have a financial strength rating from at least two nationally recognized statistical rating organizations (NRSRO), the lowest of which is higher than or equal to the weighted average NRSRO rating from the underlying third party reinsurance.

### **Key Discussion Items of Agenda Item 2011-45**

#### Whether to Codify Guidance for a Narrow Type of Contract

13. As both of the industry parties that advocated for this guidance already had prescribed or permitted practices which allowed different treatment from the *Accounting Practices and Procedures Manual*, the Working Group discussed not codifying exceptions for such a unique contract for the following three reasons: 1) details regarding recoverables from existing reinsurers pre and post contract inception varied; 2) credit requested regarding unpaid losses and 3) the degree to which the new retroactive contract provided reinsurance coverage on the same existing exposures would still require regulator review. In addition concerns were noted with creating company specific guidance and possible issues with the Credit for Reinsurance Law. In discussing this issue only one reinsurer was noted as providing the retroactive reinsurance agreement for the asbestos and pollution coverages, but several companies had ceded under the similar retroactive contracts to the same reinsurer.

#### Scope

14. The scope of the reporting exceptions was limited to asbestos and pollution exposures. The Working Group was sympathetic regarding these particular lines of business because many of the original reinsurers of these exposures have had protracted legal disputes and delayed payment reimbursement. The asbestos and pollution exposures were often not contemplated risks when the original policies were written and the original reinsurance was placed. The example contract discussed was for asbestos and pollution exposures that were dated to prior to 1990. The Working Group also noted the value of the new retroactive reinsurance agreement in speeding settlement with claimants for overdue claims.

15. Members of the Working Group discussed concerns that the guidance proposed by the industry sponsor was broader than simply providing a provision for reinsurance reduction for paid overdue amounts. The sponsor proposed substituting the overdue status, and the authorized reinsurer status of the original reinsurers with that of the retroactive reinsurer.

16. After initial discussion, the Working Group indicated a willingness to craft a narrow exception only for asbestos and pollution exposures. This narrow exception would provide a provision for reinsurance liability reduction or offset regarding the overdue amounts portion of the provision for reinsurance liability for paid losses only. The Working Group noted that this concession was partially because of the perceived policyholder benefit of improved timeliness of payment of claims to the policyholder by the use of the retroactive reinsurance.

#### Conflicts with Credit for Reinsurance Model Law-Unauthorized Reinsurer Substitution

17. The industry sponsor also proposed to substitute an unauthorized reinsurer with an authorized one without legal right of offset or commutation of the contracts with the original unauthorized reinsurers. This proposed guidance would have allowed credit for reinsurance for an unauthorized reinsurer without acceptable collateral required by the Credit for Reinsurance Law. The Credit for Reinsurance Law prohibits reinsurance reserve reduction for unauthorized reinsurance which does not meet specified collateral requirements.

18. The Working Group discussion noted that the Credit for Reinsurance Law, as adopted in many states, allows commissioner discretion to approve other acceptable security. The use of this discretion does not change the unauthorized reinsurer to an authorized one. Primarily because of this concern, the Working Group did not adopt a reporting exception for an unauthorized reinsurance in the original agenda item for unpaid losses.

## Reporting Transparency

19. Regulators and the reinsurance industry raised transparency concerns about being able to track the balances related to the original reinsurers. It was noted that the original reinsurance contracts had not been novated and there was not a legal assignment of the risks. Because of this, in spite of the retroactive contract, the ceding reporting entity would continue to be legally bound to the underlying reinsurers. In response, the industry sponsor proposed that detailed records of outstanding balances with the underlying reinsurers would continue to be maintained and would be available upon request, or at some other predetermined interval specified by the domestic regulator.

20. After discussion, the Working Group noted that reporting transparency and right of offset were important and that they did not want to remove existing “original” reinsurers from the annual statement reinsurance schedules completely. Through discussions with the industry sponsor and trade group, a supplement to annual statement Schedule F on reinsurance was developed for review. The proposed supplement would continue to detail the original reinsurers with the related balances and contract details.

## Conflicts With Retroactive Accounting Guidance

21. It was also identified that reflecting a retroactive contract in annual statement Schedule F would create a direct conflict with SSAP No. 62R paragraphs 29a. and 29b.:

29. All retroactive reinsurance agreements entered into, renewed or amended on or after January 1, 1994 (including subsequent development of such transactions) shall be accounted for and reported in the following manner:

- a. The ceding entity shall record, without recognition of the retroactive reinsurance, loss and loss expense reserves on a gross basis on the balance sheet and in all schedules and exhibits;
- b. The assuming entity shall exclude the retroactive reinsurance from loss and loss expense reserves and from all schedules and exhibits;

## Reduction of the Provision for Overdue for Paid Losses

22. The Working Group was sympathetic to permitting the reduction of the provision for reinsurance liability for overdue payments related to paid losses because the claimant has been paid by the retroactive counterparty and the recoverable from the original reinsurer on paid losses reflected on Schedule F (Reinsurance) is required to be forwarded to the retroactive counterparty if received. Changes to SSAP No. 62R to reflect these revisions were adopted on August 24, 2013, in agenda item 2011-45: Impact of Additional Reinsurance on Provision for Reinsurance as detailed in Appendix A. The adopted revisions provided a reporting exception for paid losses retroactive reinsurance contracts on asbestos and pollution risks that received department of insurance approval and met certain criteria. This exception was purposely narrow to avoid conflicts with the Credit for Reinsurance Law.

## Subsequent Agenda Item

23. After adoption of agenda item 2011-45, the Working Group submitted an annual statement blanks proposal which was exposed for comment by the Blanks (E) Working Group. The original agenda item sponsor objected to the annual statement blanks proposal on paid losses and requested a broader reporting exception regarding unpaid losses. This request was broader than the guidance on paid losses adopted in agenda item 2011-45. Some Working Group members subsequently indicated willingness to consider a broader reduction in the provision for reinsurance liability. As a result, NAIC staff was directed to provide additional recommendations to the Working Group regarding possible reductions to the provision for reinsurance liability for unpaid losses. This direction resulted in agenda item 2014-28: Asbestos and Pollution Reinsurance Reporting Exception.

**Key Discussion Items of Agenda Item 2014-28**

## Reporting Methods Considered

24. Most of the discussion on this agenda item was focused on how to report the unpaid losses for unauthorized and uncollateralized reinsurers and the exercise of commissioner discretion to approve other security acceptable to the commissioner under the Credit for Reinsurance Law.

25. Similar to the first agenda item, 2011-45, the two members of different national insurance groups recommended a broad substitution of the retrospective reinsurance counterparty in place of the original reinsurers for unpaid losses. Throughout the rest of this section they are referred to as the industry advocates. This proposal included substituting the unauthorized reinsurer status of the original reinsurers with the authorized reinsurer status of the new retroactive counterparty.

26. At the Summer 2014 National Meeting, the Working Group discussed agenda item 2014-28, which contained two proposed options regarding the reduction of the liability for provision for reinsurance for certain asbestos and pollution retroactive reinsurance contracts. Working Group members were divided regarding their preferred reporting. Two options were exposed for a 30-day comment period.

- a. Option one reporting allows the substitution of paid losses on Schedule F, part 3 but continues to detail the original unauthorized and uncollateralized reinsurers for unpaid losses. The detail of the original unauthorized reinsurers would continue to be reported in Schedule F, part 5 along with the use of other acceptable security as other allowable offsets approved by the commissioner. Such treatment reduces or eliminates the provision for uncollateralized liability. This reporting in Schedule F, part 5 was consistent with the existing way to present the use of other security acceptable to the commission discretion on unauthorized and uncollateralized reinsurers.
- b. Option two reporting was recommended by the industry sponsors and proposed excluding detail on the original unauthorized reinsurers from Schedule F, part 5 (unauthorized schedule) and proposed the substitution of the new reinsurer's authorization status in the authorized schedule. In addition, sponsors advocated the use of the new reinsurer's authorization status as an "economic credit substitution." The industry sponsors acknowledged there was not legal right of offset.

27. The industry advocates of agenda item 2014-28 contended that option two would present recoverables on paid and unpaid losses in a consistent aggregated manner, and reflecting the balances as subject to the retroactive reinsurance counterparty's credit risk would provide a better reporting of the reporting entity's credit exposure. They advocated that this approach presented the "economic exposure" of the ceding entity.

28. NAIC staff noted that having an additional reinsurance contract does not change authorization or collateral status of the original and existing reinsurers. As such, option one reporting was more consistent with the Credit for Reinsurance Law and existing reporting of the use of the commissioner discretion in Schedule F, part 5.

29. In discussing the options, it was noted that both reporting methods would provide essentially the same decrease to the provision for reinsurance liability if adequate other acceptable security is approved by the commissioner. However, the industry advocated that the proposal for option two should also exclude disclosure of commissioner approval as a prescribed or permitted practice, or require a decreased disclosure amount.

30. Both reporting methods were proposed to result in an identical supplemental schedule to document the original reinsurers. This supplement is to be completed by ceding entities who receive approvals to change their reporting and calculation of the provision for reinsurance for either or both the overdue and unauthorized reinsurance (by the use of other acceptable security). The supplement is proposed to include amounts for the original reinsurers and the amount of paid losses, loss adjusting expenses and any original collateral. In addition, aging of paid losses and amounts approved as other available offsets were in the proposed supplement.

**Credit for Reinsurance Model Law - Use of Commissioner Discretion**

31. The Credit for Reinsurance Law does not permit reinsurance reserve reduction for the amounts ceded to unauthorized reinsurers unless adequate acceptable collateral is provided. Most states have adopted provisions in the Credit for Reinsurance Law which allows commissioner discretion to approve other acceptable security, which results in reserve credit for the unauthorized reinsurance up to the amount of approved security. Collateral, including other available offsets, are reflected as reductions to the provision for unauthorized reinsurance liability.

32. The Working Group discussed concerns with the option two industry proposal that unauthorized reinsurers be substituted without legal right of offset or change in authorization status. The industry advocates recommended that under option two, instead of calculating the liability for unauthorized and applying commissioner approved other acceptable security, that the liability for unauthorized not even be calculated if the retroactive counterparty is authorized.

33. The Working Group discussed concerns that a broad substitution of the retroactive counterparty's authorization status was not consistent with the Credit for Reinsurance Law, as that law does not include provisions which allow the substitution of authorization reinsurer status of one reinsurer for another. The Credit for Reinsurance Law also does not allow credit for reinsurance for a contract with an unauthorized reinsurer unless certain collateral or security requirements are met. The use of commissioner discretion to approve other acceptable security does not change the original reinsurer's unauthorized status.

34. Ultimately, in agenda item 2014-28, the Working Group determined to allow the substitution of counterparty status in annual statement Schedule F, part 5, but to require full disclosure of the underlying insurer's status and use of other acceptable security in the reinsurance supplement. In addition, the full impact on the provision for reinsurance for overdue and use of other acceptable security for uncollateralized and unauthorized original reinsurers is required to be disclosed in Annual statement Note 1 as a prescribed or permitted practice.

**Disclosure of Prescribed or Permitted Practices**

35. The commissioner discretion to approve other acceptable security, which most states have adopted in the Credit for Reinsurance Law, does not exist in Appendix A-785 - Credit for Reinsurance in the *Accounting Practices and Procedures Manual*. Therefore, the use of commissioner discretion is required to be disclosed in Annual Statement Note 1 by *SSAP No. 1—Disclosure of Accounting Policies, Risks & Uncertainties, and Other Disclosures* as a prescribed or permitted practice that varies from the *Accounting Practices and Procedures Manual* requirements in Appendix A-785.

36. The industry advocates proposed that under reporting option two the unauthorized liability should not exist because the retroactive counterparty is authorized. The industry advocates proposed the unauthorized status to be substituted. However, the Working Group noted this substitution would be inconsistent with the framework of the Credit for Reinsurance Law, which does not include provisions which allow the substitution of authorized reinsurance status of one reinsurer for another.

37. The industry advocates also proposed not disclosing the prescribed or permitted practice of the use of commissioner discretion; however the Working Group noted that all prescribed or permitted practices are required to be disclosed under *SSAP No. 1—Disclosure of Accounting Policies, Risks & Uncertainties, and Other Disclosures* (SSAP No. 1). Therefore disclosure of the full impacts to the provision for reinsurance and the use of commissioner approval to reduce overdue amounts and or commissioner discretion for other acceptable security was required to be disclosed in Note 1 as a prescribed or permitted practice.

### Example of the Use of Commissioner Discretion

38. The draft language exposed in Summer 2014 included an example of the use of commissioner discretion to approve other acceptable security. The language included was:

An example of the use of such discretion would be to approve the funds held in trust related to the retroactive reinsurance contract as other security acceptable to the commissioner related to the asbestos and environmental obligations of the original insurers.

The Working Group agreed to remove the example in the authoritative text, at the request of the industry sponsors because they noted it implied a limitation on the commissioner discretion to approve other security that was not in the Credit for Reinsurance Law. However, because the Working Group agreed the example would likely be the most common use of the discretion, the Working Group directed staff to document this as a valid, potential example in this issue paper.

### Timeline of Working Group Actions-2014-28

39. In response to the Summer 2014 National Meeting exposure of both reporting methods, the industry advocates jointly provided two comment letters which were discussed at the Fall 2014 National Meeting. The first comment letter advocated for reporting option two and provided wording suggestions to SSAP No. 62R. The second comment letter affirmed that consistent with the prior discussions, the sponsors agreed that the proposed reporting supplement would be public. The industry advocates also continued disagreement with the requirement to disclose the use of the commissioner's discretion under the Credit for Reinsurance Law of the use of other security as a prescribed or permitted practice. The industry sponsors acknowledged that option two is a departure from the normal preparation of reinsurance on Schedule F; however, advocated it is more reflective of the economics of the transaction.

40. At the Fall 2014 National Meeting the Working Group voted to proceed with option one and directed NAIC staff to submit the annual statement blanks proposal to the Blanks (E) Working Group. As part of this discussion, the Working Group re-exposed option one modified to include some of the industry proposed SSAP No. 62R revisions for reporting option one language along with proposed changes to add the columns and other edits discussed during the meeting using reporting option one.

41. During the Spring 2015 National Meeting, the Working Group considered comments received from the industry advocates. These comments included recommendations for reporting option one (which was formally exposed) and recommendations regarding option two (which was not formally exposed for comment). After reviewing the comments received, NAIC staff recommended that the Working Group adopt the exposed option one, with minor revisions to paragraphs 66–68 and 100 reflecting some of the industry comments. Prior to the Working Group considering this recommendation, a motion was made to re-expose option two with modification to maintain the prescribed or permitted practice language, and this motion failed.

42. After the option two motion failed, the Working Group unanimously voted to adopt option one, modified in accordance with some of the edits from the industry sponsors. However, in response to comments from interested parties that noted the revised language had not been previously exposed, the Working Group amended the motion to direct NAIC staff to document the discussions and the history of this agenda item, including the example of the use of commissioner discretion within an issue paper and to re-expose the proposed SSAP No. 62R revisions for a 30-day public comment period. The exposed revisions, (using reporting option one, which reflects details of the unpaid losses related to contracts with the original unauthorized reinsurers in Schedule F, part 5 and the amount of other acceptable security approved by the commissioner), included modifications suggested by the industry sponsors to paragraphs 66, 67 and 68.

43. During the June 1, 2015 conference call the chair noted that the Working Group agreed to allow provision for reinsurance reductions (some of which are subject to the commissioner's approval) for the specific contracts, and is still discussing the type of reporting that will be required. It was noted that the proposed decrease impacts two different parts of the provision for reinsurance liability. The decrease to the overdue liability, which allows

the substitution of the retroactive counterparty in place of the original reinsurers when determining timeliness for amounts recoverable as reimbursement from the original reinsurers for claims that have been paid by the retroactive counterparty, was adopted in 2013. The element still under discussion was focused on decreasing the provision for reinsurance related to unpaid losses, which is required by the Credit for Reinsurance Law for unauthorized reinsurers that are uncollateralized. This results in an increased reserve credit for unpaid losses for unauthorized and uncollateralized original reinsurers if other acceptable security is approved by the use of commissioner's discretion under the Credit for Reinsurance Law in the laws adopted by the state of domicile of the ceding entity.

44. During the June 1, 2015 conference call, the Working Group considered the staff recommendation to adopt the exposed reporting option one language with minor edits to: 1) revise the heading to remove "paid amounts"; 2) delete the reference to paragraph 67 in the first sentence of paragraph 68, as aggregate reporting is only allowed under paragraph 66; 3) add "amount of other approved security related to" in paragraph 67 to be consistent with prior Working Group discussions not to limit commissioner discretion in the Credit for Reinsurance Law; and 4) add "and disclosed as a prescribed or permitted practice," in paragraph 67 to be consistent with the paragraph 100 disclosure. In addition, paragraph 112 would be revised provide an effective date for the new change regarding unpaid losses. It was noted that the first two edits were consistent with the recommendations from the industry advocates. In addition, changes to the currently exposed annual statement blanks proposal, which would conform the proposal to the Working Group's exposed language were reviewed.

45. During the June 1, 2015 conference call the industry advocates noted that from their perspective, reporting option one is not as transparent regarding the management of the credit risk for the ongoing business and the exposure that has been transferred through one of these contracts. The industry advocates noted that the proposed supplement would provide all of the details regarding the original reinsurers that currently exist in annual statement Schedule F on reinsurance. They advocated that in reporting option two the regulator will be able to see the amount that has been transferred to the retroactive reinsurer and the amount that is being retained by the ceding reporting entity. They advocated that reporting option two more clearly reflects the true management of the credit risk. They also advocated that treating the unpaid losses consistent with the paid losses provides for better clarity.

46. Regulators from Pennsylvania, Louisiana and Illinois indicated their preference for reporting option two as providing better disclosure, provided the technical edits suggested by NAIC staff were incorporated and that the prescribed or permitted practice disclosure was maintained. As a result of the June 1, 2015 discussion, the Working Group directed staff to prepare reporting option two language for Working Group review with technical edits discussed, with retention of the prescribed or permitted practice disclosure for possible exposure by email vote. The states of California, Michigan, New York and Wisconsin opposed the change to reporting option two.

47. In addition, staff was directed to either update or defer the annual statement blanks proposal which was at that time based on reporting option one. Because of the re-exposure, the annual statement blanks proposal did not meet deadlines to be included as a supplement for annual 2015 reporting and will instead be considered for 2016.

48. At the 2015 Summer National Meeting, the Working Group reviewed option two language that had broader changes than previously discussed by the Working Group. These revisions were suggested by NAIC Staff after reviewing the illustration with the industry advocates, and determining that the proposed SSAP No. 62R wording needed additional clarifications to be consistent with the proposed annual statement reporting. This was because the existing language was divided between paid and unpaid losses; however, that division was not consistent with the flow of data in Schedule F (reinsurance). Therefore, the language under discussion was to provide consistency between the proposed wording and the proposed annual statement reporting.

49. On August 15, 2015, the Statutory Accounting Principles (E) Working Group exposed revisions to SSAP No. 62R, and the illustration of reporting in the proposed new annual statement supplement to Schedule F. These additional changes were necessary to reflect consistency between the language in SSAP No 62R and the proposed annual statement reporting. In addition, NAIC staff was directed to prepare revisions for annual statement reporting.

50. On September 24, 2015, the Statutory Accounting Principles (E) Working Group adopted as final the exposed SSAP No. 62R revisions, as shown in Appendix B and the illustration as shown in Appendix C. In addition, the Working Group directed NAIC staff to proceed with either revising the existing proposal or resubmitting a new annual statement blanks proposal to the Blanks (E) Working Group that incorporates the new proposed supplement. Finally, the Working Group directed NAIC staff to proceed with the issue paper to document the history of this reporting exception.

51. The industry advocates note that they believed the language results in a reporting standard that accurately reflects the economics of the transaction and related de-risking of an insurer's balance sheet while continuing to respect the existing Schedule F and credit for reinsurance framework.

## RELEVANT LITERATURE

### Statutory Accounting

52. Statutory accounting provides guidance in various statements that are relevant to the disclosures of prescribed or permitted practices, the accounting for the provision for reinsurance, retroactive reinsurance and the right of offset.

53. *SSAP No. 1—Disclosure of Accounting Policies, Risks & Uncertainties, and Other Disclosures* provides the following regarding prescribed or permitted practices:

7. NAIC statutory accounting practices and procedures are those that are set forth in the Accounting Practices and Procedures Manual. If a reporting entity employs accounting practices that depart from the NAIC accounting practices and procedures, disclosure of the following information about those accounting practices that affect statutory surplus or risk-based capital shall be made at the date each financial statement is presented:

- a. A description of the accounting practice;
- b. A statement that the accounting practice differs from NAIC statutory accounting practices and procedures; and
- c. The monetary effect on net income and statutory surplus of using an accounting practice which differs from NAIC statutory accounting practices and procedures.
- d. If an insurance enterprise's risk-based capital would have triggered a regulatory event had it not used a prescribed or permitted practice, that fact should be disclosed in the financial statements.

54. *SSAP No. 62R—Property and Casualty Reinsurance* has the following existing guidance on retroactive reinsurance and the provision for reinsurance:

29. All retroactive reinsurance agreements entered into, renewed or amended on or after January 1, 1994 (including subsequent development of such transactions) shall be accounted for and reported in the following manner:

- a. The ceding entity shall record, without recognition of the retroactive reinsurance, loss and loss expense reserves on a gross basis on the balance sheet and in all schedules and exhibits;
- b. The assuming entity shall exclude the retroactive reinsurance from loss and loss expense reserves and from all schedules and exhibits;
- c. The ceding entity and the assuming entity shall report by write-in item on the balance sheet, the total amount of all retroactive reinsurance, identified as retroactive reinsurance reserve ceded or assumed, recorded as a contra-liability by the ceding entity and as a liability by the assuming entity;

- d. The ceding entity shall, by write-in item on the balance sheet, restrict surplus resulting from any retroactive reinsurance as a special surplus fund, designated as special surplus from retroactive reinsurance account;
- e. The surplus gain from any retroactive reinsurance shall not be classified as unassigned funds (surplus) until the actual retroactive reinsurance recovered exceeds the consideration paid;
- f. The special surplus from retroactive reinsurance account for each respective retroactive reinsurance agreement shall be reduced at the time the ceding entity begins to recover funds from the assuming entity in amounts exceeding the consideration paid by the ceding entity under such agreement, or adjusted as provided in subparagraph 29.j.;
- g. For each agreement, the reduction in the special surplus from retroactive reinsurance account shall be limited to the lesser of (i) the actual amount recovered in excess of consideration paid or (ii) the initial surplus gain resulting from the respective retroactive reinsurance agreement. Any remaining balance in the special surplus from retroactive reinsurance account derived from any such agreement shall be returned to unassigned funds (surplus) upon elimination of all policy obligations subject to the retroactive reinsurance agreement;
- h. The ceding entity shall report the initial gain arising from a retroactive reinsurance transaction (i.e., the difference between the consideration paid to the reinsurer and the total reserves ceded to the reinsurer) as a write-in item on the statement of income, to be identified as Retroactive Reinsurance Gain and included under Other Income;
- i. The assuming entity shall report the initial loss arising from a retroactive reinsurance transaction, as defined in the preceding subparagraph 29.g., as a write-in item on the statement of income, to be identified as Retroactive Reinsurance Loss and included under Other Income;
- j. Any subsequent increase or reduction in the total reserves ceded under a retroactive reinsurance agreement shall be reported in the manner described in the preceding subparagraphs 29 h. and 29 i., in order to recognize the gain or loss arising from such increase or reduction in reserves ceded. The Special Surplus from Retroactive Reinsurance Account write-in entry on the balance sheet shall be adjusted, upward or downward, to reflect such increase or reduction in reserves ceded. The Special Surplus from Retroactive Reinsurance Account write-in entry shall be equal to or less than the total ceded reserves under all retroactive reinsurance agreements in-force as of the date of the financial statement. Special surplus arising from a retroactive reinsurance transaction shall be considered to be earned surplus (i.e., transferred to unassigned funds (surplus)) only when cash recoveries from the assuming entity exceed the consideration paid by the ceding entity as respects such retroactive reinsurance transaction; and
- k. The consideration paid for a retroactive reinsurance agreement shall be reported as a decrease in ledger assets by the ceding entity and as an increase in ledger assets by the assuming entity.

#### Provision for Reinsurance

55. The NAIC Annual Statement Instructions for Property and Casualty Companies for Schedule F—Provision for Overdue Reinsurance, provide for a minimum reserve for uncollectible reinsurance with an additional reserve required if an entity's experience indicates that a higher amount should be provided. The minimum reserve Provision for Reinsurance is recorded as a liability and the change between years is recorded as a gain or loss directly to unassigned funds (surplus). Any reserve over the minimum amount shall be recorded on the statement of income by reversing the accounts previously utilized to establish the reinsurance recoverable.

56. The provision for reinsurance is calculated separately for unauthorized and authorized companies. An authorized reinsurer is licensed, accredited or approved by the ceding entity's state of domicile; an unauthorized reinsurer is not so licensed, accredited or approved.

55. *SSAP No. 64—Offsetting and Netting of Assets and Liabilities* has the following existing guidance on right of offset:

#### SUMMARY CONCLUSION

2. Assets and liabilities shall be offset and reported net only when a valid right of setoff exists except as provided for in paragraphs 3 and 4. A right of setoff is a reporting entity's legal right, by contract or otherwise, to discharge all or a portion of the debt owed to another party by applying an amount that the other party owes to the reporting entity against the debt. A valid right of setoff exists only when all the following conditions are met:

- a. Each of the two parties owes the other determinable amounts. An amount shall be considered determinable for purposes of this provision when it is reliably estimable by both parties to the agreement;
- b. The reporting party has the right to setoff the amount owed with the amount owed by the other party;
- c. The reporting party intends to setoff; and
- d. The right of setoff is enforceable at law.

3. Assets and liabilities that meet the criteria for offset shall not be netted when prohibited by specific statements of statutory accounting principles. An example of such is in the case of reinsurance recoverables on paid losses and ceded premiums payable as provided for in *SSAP No. 62R—Property and Casualty Reinsurance*.

4. Netting of assets and liabilities for reporting purposes when no valid right of setoff exists shall be allowed only when provided for by specific statements of statutory accounting principles. An example of such is in the case of real estate investments required to be shown net of encumbrances as provided for in *SSAP No. 40—Real Estate Investments*.

5. Amounts due to or from affiliates shall be offset and reported net only when the provisions of paragraph 2 above are met.

#### Generally Accepted Accounting Principles

56. GAAP does not require a provision for reinsurance liability or the concept of “authorized” reinsurers.

#### REFERENCES

##### Other

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

**APPENDIX A-AGENDA ITEM 2011-45 ADOPTION**

57. August 24, 2013, changes to SSAP No. 62R adopted in agenda item 2011-45: Impact of Additional Reinsurance on Provision for Reinsurance regarding paid losses:

**Asbestos and Pollution Contracts - Counterparty Reporting Exception**

66. Upon approval by the domiciliary regulator(s) of the ceding entity (either the original direct insurer in the case of a reinsurance agreement or the original assuming reinsurer in the case of a retrocession agreement), an exception may be allowed with respect to a retroactive reinsurance agreement providing substantially duplicate coverage as prior reinsurance agreements on asbestos and/or pollution exposures. Under this exception, a reporting entity may aggregate reinsurers into one line item in Schedule F reflecting the counterparty under the retroactive agreement for the purposes of determining the Provision for Reinsurance. This exception would allow the Provision for Reinsurance to reflect that amounts have been recovered by the reporting entity under the duplicate coverage provided by the retroactive contract, and that inuring balances from the original contract(s) are payable to the retroactive counterparty. An agreement must meet all of the requirements in paragraphs 66.a. through 66.e. in order to be considered for this exception.

- a. The underlying agreement clearly indicates the credit risk associated with the collection of the reporting entity's inuring reinsurance recoverables and losses related to the credit risk will be covered by the retroactive reinsurance counterparty.
- b. The retroactive reinsurance agreement must transfer significant risk of loss.
- c. The assuming retroactive reinsurance counterparty must have a financial strength rating from at least two nationally recognized statistical rating organizations (NRSRO), the lowest of which is higher than or equal to the NRSRO ratings of the underlying third-party reinsurers.
- d. The transaction is limited to reinsurance recoverables attributable to asbestos, and/or pollution.
- e. The recoverables from the inuring reinsurers remain subject to credit analysis and contingent liability analysis.

67. The reporting entity will continue to detail the reporting of original reinsurers that were aggregated for one line reporting per paragraph 66 as provided in the Annual Statement Instructions. The aggregation reporting in Schedule F is only to the extent that inuring balances from original reinsurance contracts are also payable to the retroactive reinsurance counterparty. This guidance is not intended to allow credit for reinsurance with respect to any amounts that do not meet the requirements of Appendix A-785. This guidance is not intended to otherwise change the application of retroactive accounting guidance for the retroactive portions of the contract that are not duplicative of the original reinsurance. Other portions of the retroactive contracts should continue to follow guidance applicable to retroactive accounting and reporting.

99. The financial statements shall disclose the following with respect to reinsurance agreements which qualify for reinsurer aggregation in accordance with paragraphs 66-67:

- a. A description of the significant terms of the reinsurance agreement, including established limits and collateral, and
- b. The amount of unexhausted limit as of the reporting date.

111. The guidance in paragraphs 66-67 and 99 allowing retroactive reinsurance exceptions for asbestos and pollution contracts is effective for all accounting periods beginning on or after January 1, 2014.

**APPENDIX B -AGENDA ITEM 2014-28 ADOPTION**

58. On September 24, 2015, changes to SSAP No. 62R were adopted in agenda item 2014-28. These changes reflect tracking to the previously adopted guidance in Appendix A.

**Asbestos and Pollution Contracts - Counterparty Reporting Exception**

66. Upon approval by the domiciliary regulator(s) of the ceding entity (either the original direct insurer in the case of a reinsurance agreement or the original assuming reinsurer in the case of a retrocession agreement), an exception may be allowed with respect to a retroactive reinsurance agreement providing substantially duplicate coverage as prior reinsurance agreements on asbestos and/or pollution exposures, including reinsurance provided through an affiliated reinsurer that retrocedes to the retroactive reinsurance counterparty. Under this exception, a reporting entity may aggregate reinsurers into one line item in Schedule F reflecting the counterparty under the retroactive agreement for the purposes of determining the Provision for Reinsurance regarding overdue amounts paid by the retroactive counterparty (both authorized and unauthorized). This exception would allow the Provision for Reinsurance to be reduced by reflecting that amounts have been recovered by the reporting entity under the duplicate coverage provided by the retroactive contract, and that inuring balances from the original contract(s) are payable to the retroactive counterparty. In addition, such approval would also permit the substitution of the retroactive counterparty for authorized original reinsurers without overdue balances for purposes of reporting on the primary section of the annual statement Schedule F. An agreement must meet all of the requirements in paragraphs 66.a. through 66.e. in order to be considered for this exception.

- a. The underlying agreement clearly indicates the credit risk associated with the collection of the reporting entity's inuring reinsurance recoverables and losses related to the credit risk will be covered by the retroactive reinsurance counterparty.
- b. The retroactive reinsurance agreement must transfer significant risk of loss.
- c. The assuming retroactive reinsurance counterparty must have a financial strength rating from at least two nationally recognized statistical rating organizations (NRSRO), the lowest of which is higher than or equal to the NRSRO ratings of the underlying third-party reinsurers.
- d. The transaction is limited to reinsurance recoverables attributable to asbestos, and/or pollution.
- e. The recoverables from the inuring reinsurers remain subject to credit analysis and contingent liability analysis.

67. With the approval of the reporting entity's domestic state commissioner pursuant to the applicable state credit for reinsurance law regarding the use of other forms of collateral acceptable to the commissioner, the reporting entity shall present the amount of other approved security related to the retroactive reinsurance agreement as an "Other Allowed Offset Item" with respect to the uncollateralized amounts recoverable from unauthorized reinsurers for paid and unpaid losses and loss adjustment expenses under the original reinsurance contracts. Amounts approved as "Other Allowed Offset Items" shall be reflected as amounts recoverable from the retroactive counterparty and aggregated reporting described in paragraph 66 shall also be applied for unpaid losses and loss adjustment expenses under the original reinsurance contracts. The security applied as an "Other Allowed Offset Item" shall also be reflected in the designated sub-schedule and disclosed as a prescribed or permitted practice.

68. The reporting entity will continue to detail the reporting of original reinsurers that were aggregated for one line reporting per paragraph 66 as provided in the Annual Statement Instructions. The aggregation reporting in Schedule F applies is only to the extent that inuring balances currently receivable under ~~from~~ original reinsurance contracts are also payable to the

retroactive reinsurance counterparty, and additionally to reinsurance recoverable on unpaid losses if the domestic state commissioner has approved amounts related to the retroactive reinsurance contract as any other form of security acceptable under the applicable provisions of the state's credit for reinsurance law. This guidance is not intended to allow credit for reinsurance with respect to any amounts that do not meet the requirements of Appendix A-785. This guidance is not intended to otherwise change the application of retroactive accounting guidance for the retroactive portions of the contract that are not duplicative of the original reinsurance. Other than measurement of the provision for reinsurance and presentation in Schedule F, portions of the retroactive contracts should continue to follow guidance applicable to retroactive accounting and reporting.

99-100. The financial statements shall disclose the following with respect to reinsurance agreements, which qualify for reinsurer aggregation in accordance with paragraphs 66-~~67~~68:

- a. A description of the significant terms of the reinsurance agreement, including established limits and collateral, and
- b. The amount of unexhausted limit as of the reporting date.
- c. To the extent that the domestic state insurance department approves the use of the retroactive contract as an acceptable form of security related to the original reinsurers under the applicable provisions of the state's credit for reinsurance law, the use of such discretion shall be disclosed in the annual statement Note 1 as a prescribed or permitted practice. In addition, Note 1 shall disclose as part of the total impact on the provision for reinsurance, the impact on the overdue aspects of the calculation if the reporting entity also receives commissioner approval pursuant to paragraph 66 related to overdue paid amounts (both authorized and unauthorized).

111-112. The guidance in paragraphs 66-67 and 99-100 which alloweding retroactive reinsurance exceptions for asbestos and pollution contracts is was effective for all accounting periods beginning on or after January 1, 2014 for paid losses. This guidance was revised in paragraphs 66-68 and 100 to also allow for unpaid losses effective for reporting periods ending on and after December 31, 2015.

APPENDIX C- ILLUSTRATION ADOPTED ON SEPTEMBER 24, 2015

SCHEDULE F – PART 3  
Ceded Reinsurance as of December 31, Current Year  
 (000 Omitted)

1 ID Number	2 NAIC Company Code	3 Name of Reinsurer	4 Domiciliary Jurisdiction	5 Special Code	6 Reinsurance Premiums Ceded	Reinsurance Recoverable On								Reinsurance Payable		18 Net Amount Recover- able From Rein- surers Cols. 15 - [16 + 17]	19 Funds Held by Company Under Reinsur- ance Treaties	
						7 Paid Losses	8 Paid LAE	9 Known Case Loss Reserves	10 Known Case LAE Reserves	11 IBNR Loss Reserves	12 IBNR LAE Reserves	13 Unearned Premiums	14 Contingent Commissions	15 Cols. 7 through 14 Totals	16 Ceded Balances Payable			17 Other Amounts Due to Reinsurers
FEIN	#####	Retroactive Reinsurer X Original Company A	NE US	3 3		3,000	3,000	15,000 5,000	15,000 2,500	25,000 10,000	37,500 15,000			98,500 32,500	6,000	-	92,500 32,500	-
<b>Subtotal Other U.S. Authorized</b>						<b>3,000</b>	<b>3,000</b>	<b>20,000</b>	<b>17,500</b>	<b>35,000</b>	<b>52,500</b>			<b>131,000</b>	<b>6,000</b>	-	<b>125,000</b>	-
		Original Company B Original Company C	UK UK	3 3		12,000 6,000	9,000 3,000	2,500 7,500	7,500 5,000	12,500 2,500	5,000 17,500			48,500 41,500 -	- - -	- - -	48,500 41,500 -	- - -
<b>Subtotal Other Non-U.S. Unauthorized</b>						<b>18,000</b>	<b>12,000</b>	<b>10,000</b>	<b>12,500</b>	<b>15,000</b>	<b>22,500</b>			<b>90,000</b>	-	-	<b>90,000</b>	
<b>999999 Totals</b>						<b>21,000</b>	<b>15,000</b>	<b>30,000</b>	<b>30,000</b>	<b>50,000</b>	<b>75,000</b>	-	-	<b>221,000</b>	<b>6,000</b>	-	<b>215,000</b>	-

**SCHEDULE F – PART 4**  
**Aging of Ceded Reinsurance as of December 31, Current Year**  
**(000 Omitted)**

1 ID Number	2 NAIC Company Code	3 Name of Reinsurer	4 Domiciliary Jurisdiction	Reinsurance Recoverable on Paid Losses and Paid Loss Adjustment Expenses						11 Total Due Cols. 5 + 10	12 Percentage Overdue Col. 10/Col. 11	13 Percentage More Than 120 Days Overdue Col. 9/Col. 11
				5 Current	Overdue				10 Total Overdue Cols. 6 + 7 + 8 + 9			
					6 1 to 29 Days	7 30 - 90 Days	8 91 - 120 Days	9 Over 120 Days				
FEIN	#####	Retroactive Reinsurer X	NE	6,000						6,000	=	=
<b>Subtotal Other U.S. Authorized</b>				<b>6,000</b>						<b>6,000</b>	=	=
AA-		Original Company B	UK	21,000						21,000		
AA-		Original Company C	UK	9,000						9,000		
<b>Subtotal Other Non-U.S. Unauthorized</b>				<b>30,000</b>				=	=	<b>30,000</b>	=	
<b>999999 Totals</b>				<b>36,000</b>	=	=	=	=	=	<b>36,000</b>	=	=

**SCHEDULE F – PART 5**  
**Provision for Unauthorized Reinsurance as of December 31, Current Year**  
**(000 Omitted)**

<u>1</u> ID Number	<u>2</u> NAIC Company Code	<u>3</u> Name of Reinsurer	<u>4</u> Domiciliary Jurisdiction	<u>5</u> Reinsurance Recoverable All Items Schedule F Part 3 Col. 15	<u>6</u> Funds Held by Company Under Reinsurance Treaties	<u>7</u> Letters of Credit	<u>8</u> Issuing or Confirming Bank Number	<u>9</u> Ceded Balances Payable	<u>10</u> Miscellan- eous Balances Payable	<u>11</u> Trust Funds and Other Allowed Offset Items	<u>12</u> Total Collateral and Offsets Allowed (Cols. 6+7+9+10+ 11 but not in excess of Col. 5)	<u>13</u> Provision for Unauthorized Reinsurance (Col. 5 minus Col. 12)	<u>14</u> Recoverable Paid Losses & LAE Over 90 Days Past Due not in Dispute	<u>15</u> 20% of Amount in Col. 14	<u>16</u> 20% of Amount in Dispute Included in Col. 5	<u>17</u> Provision for Overdue Reinsur- ance (Col. 15 plus Col. 16)	<u>18</u> Total Provision for Reinsurance Ceded to Unauthorized Reinsurers (Col. 13 plus Col. 17 but not in Excess of Col. 5)
		Original Company B Original Company C	UK UK	48,500 41,500	- -	- -	- -	- -	- -	48,500 41,500	48,500 41,500	- -	- -	- -	- -	- -	- -
<b>Subtotal - Other Non-U.S. Unauthorized</b>				<b>90,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>90,000</b>	<b>90,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>999999 Totals</b>				<b>90,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>90,000</b>	<b>90,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Note: Company A and Retroactive Reinsurer are authorized and therefore not shown above.

**SUPPLEMENTAL SCHEDULE FOR AGGREGATION REGARDING RETROACTIVE REINSURANCE FOR ASBESTOS AND ENVIRONMENTAL EXPOSURES**

1 ID Number (Original Reinsurer)	2 NAIC Company Code (Original Reinsurer)	3 Name of Reinsurer (Original Reinsurer)	4 Domiciliary Jurisdiction (Original Reinsurer)	5 ID1 Number (Retroactive Reinsurer)	6 Name of Retroactive Reinsurer Reported in Sch. F Part 3 (Retroactive Reinsurer)	Reinsurance Recoverable On					Original Reinsurer Collateral			Reinsurance Recoverable On Paid Losses and Paid Loss Adjustment Expenses							23 Percentage Overdue	24 Percentage More Than 90 Days Overdue			
						7 Paid Losses	8 Paid LAE	9 Unpaid Case Losses & LAE	10 IBNR Losses & LAE	11 Cols. 7+ 8+9+10 Totals	12 Funds Held (Original Reinsurer)	13 Letters Of Credit (Original Reinsurer)	14 Trust Funds And Other Allowed Offset Items	15 Amounts Approved As Other Allowed Offset Items	Overdue					22 Total Due					
															16 Current	17 1 – 29 Days	18 30 – 90 Days	19 91 – 120 Days	20 Over 120 Days				21 Total Overdue		
		Original Company A	US		Retroactive Reinsurer X	1,000	1,000	7,500	25,000	34,500	-	-	-	(a)	2,000	-	-	-	-	-	2,000	-	-		
<b>Subtotal Authorized</b>						<b>1,000</b>	<b>1,000</b>	<b>7,500</b>	<b>25,000</b>	<b>34,500</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,000</b>							<b>2,000</b>			
		Original Company B	UK		Retroactive Reinsurer X	1,000	1,000	10,000	17,500	29,500	-	-	-	29,500	2,000	-	-	-	-	-	2,000	-	-		
		Original Company C	UK		Retroactive Reinsurer X	1,000	1,000	12,500	20,000	34,500	-	-	-	34,500	2,000	-	-	-	-	-	2,000	-	-		
<b>Subtotal Other Non-U.S. Unauthorized</b>						<b>2,000</b>	<b>2,000</b>	<b>22,500</b>	<b>37,500</b>	<b>64,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>64,000</b>	<b>4,000</b>							<b>4,000</b>			
<b>9999999 Totals</b>						<b>3,000</b>	<b>3,000</b>	<b>30,000</b>	<b>62,500</b>	<b>98,500</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>64,000</b> <b>(b)</b>	<b>6,000</b>								<b>6,000</b>		

(a) Amount is zero because available offsets are not applied for authorized reinsurers under the credit for reinsurance model.

(b) Annual statement Note 1 would disclose total impacts to the provision for reinsurance composed of 1) \$64,000 (impact for unauthorized/uncollateralized) plus 2) reduction to the provision for overdue.