2014 NAIC QUARTERLY STATEMENT INSTRUCTIONS – LIFE

MAR 2014 REVISIONS

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NOTES TO FINANCIAL STATEMENT
Revision: Add new disclosure to Note 21J to the list of required quarterly disclosures
Reason: New disclosure adopted by SAPWG for SSAP No. 35R

PAGE 65:
NOTES TO FINANCIAL STATEMENT
Revision: Add new disclosure to Note 21 for the risk sharing provisions of the Affordable Care Act
Reason: New disclosure adopted by SAPWG for SSAP No. 35R

EDITOR’S NOTE:
The above changes are highlighted within the attached instructions that follow this page.

Recent Blanks Working Group Agenda Items (Exposure Drafts) may be viewed in detail at the following web site: http://www.naic.org/committees_e_app_blanks.htm.
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NOTES TO FINANCIAL STATEMENTS

The interim financial information shall include disclosures sufficient to make the information presented not misleading. It may be presumed that the users of the interim financial information have read or have access to the annual statement for the preceding period and that the adequacy of additional disclosure needed for a fair presentation, except in regard to material contingencies, may be determined in that context. Accordingly, footnote disclosure that would substantially duplicate the disclosure contained in the most recent annual statement or audited financial statements, such as a statement of significant accounting policies and practices, details of accounts that have not changed significantly in amount or composition since the end of the most recently completed fiscal year, may be omitted but the footnote number and annotation such as “no change” should be included. However, provide disclosure for annual Note 1A, 5D, 5E(3)b, 5I(2), 5I(3), 11B, 12A(4), 17B(2)b, 17B(4)a, 17B(4)b, 17C, 20, 21H, 21J and 25 in all quarters; and all other Notes where events subsequent to the end of the most recent fiscal year have occurred that have a material impact on the reporting entity. Disclosures shall encompass, for example, significant changes since the end of the period reported on the last annual statement in such items as statutory accounting principles and practices; estimates inherent in the preparation of financial statements; status of long term contracts; capitalization including significant new borrowings or modifications of existing financial arrangements; and the reporting entity resulting from business combinations or dispositions. Notwithstanding the above, where material noninsurance contingencies exist, disclosure of such matters shall be provided even though a significant change since year-end may not have occurred. If the reporting entity has changed the accounting policies since the end of its preceding year, the changes shall be disclosed in the quarterly financial statements. Information should be reported for current year-to-date.

1. Summary of Significant Accounting Policies

Instruction:

Refer to SSAP No. 1, Disclosure of Accounting Policies, Risks & Uncertainties, and Other Disclosures, for accounting guidance regarding disclosure requirements. The major disclosure requirements are as follows:

A. This note is to be completed, even if there are no prescribed practices or permitted practices to report. Indicate that the statement has been completed in accordance with the Accounting Practices and Procedures Manual. If a reporting entity employs accounting practices that depart from the Accounting Practices and Procedures Manual including different practices required by state law, disclose the following information about those accounting practices that affect net income, statutory surplus or risk-based capital.

Include:

- A description of the accounting practice;
- A statement that the accounting practice differs from NAIC statutory accounting practices and procedures (NAIC SAP);
- The monetary effect on net income and statutory surplus of using an accounting practice that differs from NAIC statutory accounting practices and procedures; and
- 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.

In addition, disclose the following information about accounting practices when NAIC statutory accounting practices and procedures do not address the accounting for the transaction:

- A description of the transaction and of the accounting practice used; and
- A statement that the NAIC statutory accounting practices and procedures do not address the accounting for the transaction.
NOTE: Amounts reported in other notes to the financial statements shall reference Note 1 if impacted by prescribed or permitted practices. The following is an example of inserting a statement within applicable notes:

Example Illustration: Note 3. Business Combinations and Goodwill

Illustration:

A. Statutory Purchase Method

(1) The Company purchased 100% interest of XYZ Insurance Company on 6/30/_____. XYZ Insurance Company is licensed in 49 states and sells individual term life products exclusively.

(2) The transaction was accounted for as a statutory purchase.

(3) The cost was $_______, resulting in goodwill in the amount of $_______.*

(4) Goodwill amortization relating to the purchase of XYZ Insurance Company was $_______ for the year ended 12/31/_____.*

* These amounts reflect prescribed or permitted practices that depart from the **NAIC Accounting Practices and Procedures Manual**, See Note 1, Summary of Significant Accounting Policies for additional information.

Illustration:

A. Accounting Practices

The financial statements of XYZ Company are presented on the basis of accounting practices prescribed or permitted by the ABC Insurance Department.

The ABC Insurance Department recognizes only statutory accounting practices prescribed or permitted by the State of ABC for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the ABC Insurance Law. The **Accounting Practices and Procedures Manual** (NAIC SAP) has been adopted as a component of prescribed or permitted practices by the state of ABC. The state has adopted certain prescribed accounting practices that differ from those found in NAIC SAP. Specifically, 1) goodwill arising from the purchase of a subsidiary, controlled or affiliated entity is written off directly to surplus in the year it originates by ABC domiciled companies. In NAIC SAP, goodwill in amounts not to exceed 10% of an insurer’s capital and surplus may be capitalized and all amounts of goodwill are amortized to unrealized gains and losses on investments over periods not to exceed 10 years, and, 2) 100% of all fixed assets are admitted by ABC domiciled companies. In NAIC SAP, fixed assets are not admitted. The Commissioner of Insurance has the right to permit other specific practices that deviate from prescribed practices.

The Company, with the explicit permission of the Commissioner of Insurance of the State of ___, records the value of its home office building at fair market value instead of at depreciated cost required by the NAIC SAP. If the home office building were carried at depreciated cost, home office property and statutory surplus would be decreased by $______ and $______ as of December 31, 20__ (prior year end) and 20__ (current year to date), respectively. Additionally, net income would be increased by $______ and $______ respectively, for the years then ended. Finally, if the Company had not been permitted to record the value of its home office building at fair market value, the Company’s risk-based capital would have triggered a regulatory event.
The financial statements shall disclose the admitted assets, liabilities and revenue elements by program regarding the risk sharing provisions of the Affordable Care Act for the reporting periods, which are impacted by programs. The disclosure should include the following:

- **Permanent ACA Risk Adjustment Program**
  - Premium adjustments receivable due to ACA Risk Adjustment
  - Risk adjustment user fees payable for ACA Risk Adjustment
  - Premium adjustments payable due to ACA Risk Adjustment
  - Reported as revenue in premium for accident and health contracts (written/collected) due to ACA Risk Adjustment
  - Reported in expenses as ACA risk adjustment user fees (incurred/paid)

- **Transitional ACA Reinsurance Program**
  - Amounts recoverable for claims paid due to ACA Reinsurance
  - Amounts recoverable for claims unpaid due to ACA Reinsurance
  - Amounts receivable relating to uninsured plans for contributions for ACA Reinsurance
  - Claims unpaid – ceded due to ACA Reinsurance
  - Liabilities for contributions payable due to ACA Reinsurance – not reported as ceded premium
  - Ceded reinsurance premiums payable due to ACA Reinsurance
  - Liabilities for amounts held under uninsured plans contributions for ACA Reinsurance
  - Ceded reinsurance premiums due to ACA Reinsurance
  - Reinsurance recoveries (income statement) due to ACA Reinsurance payments or expected payments
  - ACA Reinsurance contributions – not reported as ceded premium

- **Temporary ACA Risk Corridors Program**
  - Accrued retrospective premium due to ACA Risk Corridors
  - Reserve for rate credits or policy experience rating refunds due to ACA Risk Corridors
  - Effect of ACA Risk Corridors on net premium income (paid/received)
  - Effect of ACA Risk Corridors on change in reserves for rate credits

### 25. Change in Incurred Losses and Loss Adjustment Expenses

**Instruction:**

Describe the reasons for changes in the provision for incurred claim and claim adjustment expenses attributable to insured events of prior years. The disclosure should indicate whether additional premiums or return premiums have been accrued as a result of the prior-year effects.

**Illustration:**

Reserves as of December 31, 20__ were $____ million. As of ____, 20__, $____ million has been paid for incurred claims and claim adjustment expenses attributable to insured events of prior years. Reserves remaining for prior years are now $____ million as a result of re-estimation of unpaid claims and claim adjustment expenses principally on yyy and zzz lines of insurance. Therefore, there has been a $____ million unfavorable (favorable) prior-year development since December 31, 20__ to ____, 20__. The increase (decrease) is generally the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased, as additional information becomes known regarding individual claims. Included in this increase (decrease), the Company experienced $____ million of unfavorable (favorable) prior year claim development on retrospectively rated policies. However, the business to which it relates is subject to premium adjustments.
**GENERAL INTERROGATORIES**

The General Interrogatories are required for the quarterly statement.

For interrogatory questions asking if there have been changes (e.g. to the charter, bylaws, articles of incorporation or deed of settlement), the reporting entity should report changes since the prior year-end, unless a different time frame is specifically mentioned by the interrogatory or by reference to another interrogatory. Those changes would continue to be reported in subsequent quarters for that year.

For those interrogatories not referring to a change from a prior reporting period but are asking for information as of a point in time, the reporting entity should answer the question as of the current quarter, unless a different time frame is specifically mentioned by the interrogatory or by reference to another interrogatory.

**General Instructions**

The General Interrogatories are divided into two parts. Part 1 is titled Common Interrogatories. Common Interrogatories are defined as interrogatories that are similar or identical across the Life and Health, Property and Casualty, Health, Fraternal and Title Blanks. The common interrogatories are further divided into three sections: General, Financial and Investment. Part 2 interrogatories are those interrogatories that pertain only to the individual blanks.

**Sections**

1. General is defined as those interrogatories that relate to the reporting entity framework.
2. Financial is defined as those interrogatories that relate to financial transactions of the reporting entity.
3. Investment is defined as those interrogatories that pertain to the solvency of the reporting entity.

**NOTE:** New Interrogatories are to be added to the section that relates to them.

**PART 1 – COMMON INTERROGATORIES**

**GENERAL**

3.3 If the response to question 3.2 is “YES,” provide a brief description of the nature of the changes to the organizational chart.

6.1 The date of the financial examination that should be reported is for a financial examination conducted by a state regulatory authority. (It is not a CPA annual audit.) The financial examination is considered “being made” for a given calendar year as soon as a formal notice is received from the domiciliary state that it intends to conduct the examination.

7.1 If any action has occurred during the current period, or if the company has any outstanding suspensions or revocations from a prior period, the company should respond “YES” to 7.1.

8.4 Enter “YES” or “NO” in Columns 3 through 6.

9. The response to this interrogatory applies to the reporting entity’s principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions.

9.31 Include the nature of any waiver, including any implicit waiver, from a provision of the code of ethics granted by the reporting entity, an affiliate that provides management services to the entity or the entity’s ultimate parent to one of these specified officers, the name of the person to whom the waiver was granted and the date of the waiver.