Statutory Accounting Principles Working Group
Hearing Agenda
June 1, 2015

Roll Call

Dale Bruggeman, Chair  Ohio  Patricia Gosselin  New Hampshire
Jim Armstrong, Vice Chair  Iowa  Stephen Wiest  New York
Kim Hudson  California  Stephen Johnson  Pennsylvania
David Lonchar  Delaware  Doug Slape / Jamie Walker  Texas
Eric Moser  Illinois  Doug Stolte / David Smith  Virginia
Stewart Guerin  Louisiana  Tom Houston  Wisconsin
Judy Weaver  Michigan

REVIEW of COMMENTS on EXPOSED ITEMS

The Working Group will consider each of the following items separately.

1. Ref #2014-28: Asbestos and Pollution Reinsurance Reporting Exception

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<td>Ref # 2014-28 SSAP No. 62R</td>
<td>Asbestos and Pollution Reinsurance Reporting Exception</td>
<td>A - Agenda Item  B – Blanks modifications  D - Issue Paper-pending</td>
<td>Support the liability reduction, but prefer different reporting</td>
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Summary:

This agenda item proposes to decrease the provision for reinsurance liability related to certain asbestos and pollution reinsurance contracts with retroactive counterparties. The decrease impacts two different parts of the provision for reinsurance liability:

1. Overdue amounts - Substitution of the retroactive counterparty in place of the original reinsurers when determining timeliness of paying claims for amounts recoverable as reimbursement from the original reinsurers for claims which have been paid by the retroactive counterparty. This substitution decreases the overdue liability and was adopted in 2013.

2. 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 785. It should be noted that 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.)

Most of the current discussion is 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 Model Law.

1. Option One reflects the unpaid amounts from the unauthorized and uncollateralized reinsurers
and the use of other acceptable security which reduces or eliminates the liability.

2. **Option Two** excludes the unauthorized reinsurers from the Schedule F part 5 (unauthorized schedule) and proposes the substitution of the new reinsurer’s authorization status in the authorized schedule. The effect of this is that the liability for unauthorized is not shown. **Staff’s concern with Option 2 is that it implies that unauthorized reinsurers can be substituted without legal right of offset or change in authorization status which is not consistent with the Credit for Reinsurance Model Law. The Credit for Reinsurance Model Law requires that reserve credit not be provided for unauthorized reinsurers without acceptable collateral.**

Both methods result in an identical supplemental schedule which documents the original reinsurers. Below, staff has provided a brief history of these discussions and the actions taken by the Working Group.

**Most Recent Working Group Actions**

On March 28, 2015, the Working Group unanimously agreed to adopt the motion to utilize **Option One with the CNA and AIG edits.** However, in response to comments from interested parties that noted the CNA and AIG language changes had not been previously exposed, the Working Group added an additional amendment to the motion to direct NAIC staff to document the discussions and the history of this agenda item, including the examples of the use of commissioner discretion within an issue paper and to re-expose revisions for a 30-day public comment period. The Working Group unanimously agreed to amend the motion from adoption to exposure for a 30-day public comment period.

The unanimously 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), with modifications suggested by CNA and AIG to paragraphs 66, 67 and 68 as discussed. *(This exposure action for Option One was supported by a majority vote after a motion to proceed with reporting Option Two failed to pass.)* *(Option two would exclude the original unauthorized reinsurers from Schedule F, Part 5)* Additionally, NAIC staff was instructed to document discussions and history of this topic within a new issue paper, which is detailed in Issue Paper XXX (Attachment B).

**Agenda Item Background**

On August 24, 2013, the Statutory Accounting Principles (E) Working Group adopted nonsubstantive revisions to **SSAP No. 62—Property and Casualty Reinsurance – Revised (SSAP No. 62R)** in agenda item 2011-45: Impact of Additional Reinsurance on Provision for Reinsurance. The adopted revisions provided a reporting exception for **paid losses** from 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 **paid losses.** The reasoning for allowing the reduction for the liability for the paid amounts was that the claimant has been paid and the recoverable from the original reinsurer was required to be forwarded to the retroactive counterparty if received. Some Working Group members subsequently indicated that their intention was to adopt 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.**
Summer 2014 National Meeting Actions
At this meeting, NAIC staff presented 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. Option one reports unpaid detail of the original unauthorized reinsurers and reflects other allowable offsets approved by the commissioner on Schedule F, Part 5. Staff noted that having an additional contract does not change authorization or collateral status of the original and existing reinsurers and therefore Option one reporting was more consistent with the Credit for Reinsurance model law 785 and existing reporting of the use of the Commissioner discretion. Option two reporting was recommended by CNA and AIG and proposes excluding detail on the original unauthorized reinsurers from Schedule F, Part 5 and advocates the use of the new authorized reinsurer’s authorization status as an “economic credit substitution” which they acknowledged does not have legal right of offset. In response to an inquiry of which option provided greater transparency, members of the working group were divided regarding their preferred reporting. Both options one and two were exposed for a 30-day comment period.

Fall 2014 National Meeting
In response to the Summer 2014 National Meeting exposure of agenda item 2014-28, CNA and American International Group (AIG) jointly provided two comment letters. The first comment letter received advocated for reporting Option Two and provided wording suggestions to SSAP No. 62R. The second comment letter received addressed requiring the supplement to be public and a continued disagreement with the requirement to disclose the use of the commissioner’s discretion for the use of other security as a prescribed or permitted practice under the credit for reinsurance model law. To clarify the different reporting options, Mr. Bruggeman advised that both options provided the same provision for reinsurance liability reduction (provided there is adequate security), the same level of detail on the supplemental schedule and in his opinion, option one provides a greater level of detail than option two. CNA and AIG 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.

A motion was made to expose revisions to SSAP No. 62R to change the amounts to be included in Schedule F related to an asbestos and pollution reinsurance reporting exception for retroactive counterparties, along with updates for the proposed reporting to add the columns and the other edits discussed during the meeting using reporting Option One.

Spring 2015 National Meeting
In response to the Fall 2014 National Meeting exposure of agenda item 2014-28, the Working Group received comments and suggested revisions from CNA and AIG. NAIC staff recommended adopting the exposed Option One, which included revisions to paragraphs 66–68 and 99. In addition, CNA and AIG provided additional comments again advocating for Option Two, which was previously discussed at the 2014 Fall National Meeting and the Working Group instead voted to proceed with Option One.

Mr. Johnson advised that he has always been a proponent of Option Two, believing it demonstrates a better reporting presentation than Option One. Further, Mr. Johnson indicated a preference for the revisions to paragraphs 66–68 suggested by CNA and AIG, but opposed the revisions suggested by CNA and AIG that suggested deleting the permitted and prescribed practices disclosure outlined in paragraph 99. Mr. Johnson made a motion, seconded by Mr. Moser, to revise SSAP No. 62R to incorporate revisions in paragraphs 66–68 as suggested by CNA and AIG using reporting Option Two and to re-expose this agenda item for a 30-day public comment period. Mr. Hudson
advised that the revisions suggested by CNA and AIG provide less reporting transparency than the language proposed by NAIC staff and he continues to support option one because he prefers greater transparency. Mr. Slape indicated that Texas supports the option two proposal. In response to Mr. Hudson’s comments, Jeff Alton (CNA) indicated that option two provides better transparency, as the underlying detail to the information in Schedule F, Part 3 will be provided in the supplemental schedule and the enhancements in option two show the economics of the transaction on Schedule F, Part 3. In response to the motion, a roll-call vote was conducted to incorporate revisions in paragraphs 66–68 as suggested by CNA and AIG using option two and to re-expose this agenda item for a 30-day public comment period. The Option Two motion failed.

Mr. Hudson made a motion, seconded by Mr. Armstrong, to adopt Option One with the changes recommended by NAIC staff to paragraphs 66–68, without new changes to paragraph 99. Mr. Alton noted his preference for Option Two, noting that the example of collateral in the option one language is too limiting regarding the other security acceptable to the commissioner language in the model law. Mr. Johnson proposed an amendment to the motion proposed by Mr. Hudson, which was seconded by Mr. Moser, to adopt to adopt Option One with modifications for paragraphs 66–68 as proposed by CNA and AIG. Further, Mr. Bruggeman clarified the amended motion for consideration, noting that paragraph 99 would contain the revisions that were exposed at the 2014 Fall National Meeting and paragraphs 66–68 would contain the revisions suggested by CNA/AIG in the comment letter received for Option One.

As noted above, the Working Group unanimously agreed to adopt the motion to utilize Option One with the CNA and AIG edits. However, in response to comments from interested parties that noted the CNA and AIG language changes had not been previously exposed, the Working Group added an additional amendment to the motion to direct NAIC staff to document the discussions and the history of this agenda item, including the examples of the use of commissioner discretion within an issue paper and to re-expose revisions for a 30-day public comment period. The Working Group unanimously agreed to amend the motion from adoption to exposure for a 30-day public comment period.

CNA and AIG April 30, 2015 Comments (Attachment C)

Amendments to SSAP 62R effective in 2014 provided that reinsurance recoverables on paid losses under original reinsurance arrangements could be aggregated and reported reflecting the retroactive reinsurance counterparty in certain cases. This agenda item seeks to codify the treatment of reinsurance recoverables on unpaid losses from original reinsurers in those same cases – where the retroactive reinsurance agreement provides substantially duplicate coverage as prior reinsurance agreements on A&P exposures. A number of criteria must be met in order to qualify for this exception reporting, one of which being that the credit risk associated with the collection of the original third party reinsurers is transferred to the retroactive reinsurer. Previous exposure drafts described two options for the reporting of the impacted reinsurance recoverables on unpaid losses which can be summarized as follows:

- "Option 1" - Reinsurance recoverables on unpaid losses would be reported as owing from the original reinsurer in Schedule F and pursuant to commissioner approval, an amount would be entered as an "Other Allowed Offset" to negate any resulting Provision for Reinsurance.

- "Option 2" - Pursuant to commissioner approval and consistent with the previously adopted guidance relating to reinsurance recoverables on paid losses, reinsurance recoverables on unpaid losses would be aggregated into one line item in Schedule F reflecting the
counterparty under the retroactive reinsurance agreement for purposes of determining the Provision for Reinsurance.

In a 6 to 5 vote during the Spring 2015 NAIC national meeting, the consensus of SAPWG was to expose revised language in SSAP No. 62R requiring an "Option 1" reporting approach for the recoverables on unpaid losses, thus resulting in different treatments for recoverables on paid versus unpaid losses.

CNA/ AIG - Option 2 Provides Clearer and More Useful Information

We continue to advocate and recommend for adoption an "Option 2" approach to reporting impacted recoverables on unpaid losses for the following reasons:

- Presenting recoverables on paid and unpaid losses in a consistent manner, aggregated to reflect the balances as subject to the retroactive reinsurance counterparty's credit risk provides a clear view of the reporting entity's true economic exposure while still providing complete underlying third party reinsurer detail in the proposed supplemental schedule. This allows Schedule F to accurately reflect the associated credit risk while the supplemental schedule provides full detail as to the underlying contractual relationships with the original reinsurers.

- Under the proposed "Option 1" reporting, Schedule F would not provide the information necessary for a reader to distinguish the amount of recoverables on unpaid losses that are subject to the underlying reinsurer's credit risk (i.e. non – A&P) and those for which the retroactive reinsurer has assumed the credit risk. The supplemental schedule will only provide the underlying reinsurer detail for the recoverables on paid losses that have been aggregated on Schedule F which represents only one small piece of the retroactive reinsurance transaction.

- Inconsistent treatment of recoverables on paid and unpaid losses is inappropriate as it would appear that the exposure to such loss shifts from one reinsurer to another once the loss has been paid. In addition, while the collateral received from the original reinsurers will need to be allocated between that supporting A&P recoverables versus that supporting the non-A&P balances under either reporting approach, "Option 1" reporting would require the A&P collateral to be further split between that supporting recoverables on paid versus unpaid losses.

The attached example demonstrates the superior transparency of “Option 2 by comparing Schedule F presentation (inclusive of the supplemental schedule) under a realistic example where each original reinsurer has both A&P and non-A&P exposures. As you will note, the “Option 2” presentation clearly distinguishes and quantifies the A&P exposures that are subject to the retroactive reinsurance agreement, reflecting the economic exposures, while “Option 1” does not.

CNA/ AIG - Proposed Option 1 Language

While we continue to urge SAPWG to move forward with an “Option 2” approach, should the currently exposed language be chosen as the path forward, we offer the following minor suggested edits:

- We would suggest the heading reading “Asbestos and Pollution Contracts – Counterparty Reporting Exception for Unpaid Amounts” be added back in before paragraph 67

- The reference to paragraph 67 in the first sentence of paragraph 68 should be removed as
aggregate reporting is only allowed under paragraph 66.

CNA/ AIG - Proposed Option 2 Language

Should SAPWG collectively recognize the merits of “Option 2” and opt to proceed with that proposed reporting, we would like to respectfully submit the following proposed language revisions which would achieve that goal. These proposed revisions are consistent with those provided in our comment letter dated January 16, 2015.

67. **With the approval of the** reporting entity’s domestic state commissioner insurance department may also choose to grant a prescribed or permitted practice that allows the retroactive contract as an acceptable form of security related to the original insurers pursuant to under the applicable provisions of the state’s credit for reinsurance law **regarding the use of other forms of collateral acceptable to the commissioner**. 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. If so, the state may permit the reporting entity to **shall present** reflect the other acceptable security provided under the retroactive reinsurance agreement as an “Other Allowed Offset Item” with respect to the amount recoverable for unpaid losses and loss adjustment expenses under the original reinsurance contracts. With this permission, for amounts approved as an “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.

68. The reporting entity will continue to detail the reporting of original reinsurers that were aggregated for one line reporting per paragraph 66-67 as provided in the Annual Statement Instructions. The aggregation reporting in Schedule F applies only to the extent that inuring balances currently receivable under 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 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 the 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.

We again urge SAPWG to reconsider its current course of proceeding with an "Option 1" approach for the reporting of impacted A&P reinsurance recoverables on unpaid losses and instead move forward with the option that provides the greatest level of transparency by letting Schedule F reflect what it is intended to capture, credit risk, while still providing all underlying detail as if the recoverables had been reported with the underlying third party reinsurer. This option is "Option 2". All of our comments and proposed alternatives have been included in prior exposure documents and therefore we do not believe adopting our recommendations should require further exposure.

**Staff Clarification Regarding the Voting Comment Received**

In response to the comment letter received by CNA/AIG, specifically the following language: “In a 6 to 5 vote during the Spring 2015 NAIC national meeting, the consensus of SAPWG was to expose..."
revised language in SSAP No. 62R requiring an “Option 1” reporting approach for the recoverables on unpaid losses, thus resulting in different treatments for recoverables on paid versus unpaid losses,” NAIC staff wanted to clarify the voting that occurred at the Spring National Meeting.

At the Spring National Meeting, the Working Group unanimously agreed to adopt the motion to utilize Option One with CNA/AIG technical edits. However, in response to comments from interested parties that noted the CNA/AIG language changes had not been previously exposed, the Working Group amended the motion and unanimously agreed to expose revised language in SSAP No. 62R requiring an Option One reporting approach (with edits suggested by CNA/AIG but maintaining the language on permitted practices) for the recoverables on unpaid losses. Additionally, it should be noted, in a 6-5 vote, the Working Group elected to not move forward with CNA/AIG suggested revisions in SSAP No. 62R to require Option Two reporting.

**Staff Recommended Action:**

Staff recommends that the Working Group adopt the exposed revisions to SSAP No. 62R with the following minor edits:

- **Revise the heading** prior to paragraph 66 to read “Asbestos and Pollution Contracts – Counterparty Reporting Exception.” (Note that this is not identical to the IP proposal, but incorporates a heading that would be appropriate for all of the guidance within this section. This in effect removes “for Paid Amounts” from the exposed heading.)

- **Update a paragraph reference** - Delete the reference to paragraph 67 in the first sentence of paragraph 68 as aggregate reporting is only allowed under paragraph 66. (This is revised per the IP suggestion.)

- **Clarifications** - Add “amount of other approved security related to” so that consistent with prior Working Group discussion it is clear that the amount of other approved to approve other security is not limited (Ex. in some states it might be the funds in trust in others something else). Add “and disclosed as a prescribed or permitted practice,” which is consistent with the paragraph 99 disclosure.

Staff highlights that the above edits are minor and the proposed recommendation to adopt is consistent with the actions of the Working Group during the Spring 2015 National Meeting. As noted previously, during the Spring meeting the Working Group unanimously voted to adopt Option One with the CNA/AIG edits before the interested parties requested one more exposure period.

To reiterate, Option One is more consistent with the reporting of the use of commissioner discretion to approve other acceptable security and the collateral provisions under the Credit for Reinsurance Model. This results in reserve credit for the unauthorized reinsurance up to the amount of approved security, but does not change the original reinsurer’s unauthorized status. In addition, disclosing the state prescribed or permitted practices is consistent with SSAP No. 1. With the adoption of Option One, with the minor technical edits, the Working Group would also:

a. Approve edits and minor instructional changes which conform the currently exposed Option 1 annual statement blanks proposal (2015-16 BWG) and the below recommendations (Attachment B) to be forwarded to the Blanks (E)
b. Expose Issue Paper 15X- Counterparty Reporting Exception for Asbestos and Pollution Contracts (Attachment D will be posted when available) or provide additional staff direction.

The exposed Option One guidance, with the minor edits shaded, are illustrated below:

Asbestos and Pollution Contracts - Counterparty Reporting Exception for Paid Amounts

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 with respect to amounts paid by the retroactive counterparty. 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. With the approval of the reporting entity’s domestic state commissioner pursuant to 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" in Schedule F, Part 5 for purposes of determining the Provision for Reinsurance with respect to the amount recoverable 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
The reporting entity will continue to detail the reporting of original reinsurers that were aggregated for one line reporting per paragraph 66-67 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 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 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.

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.

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.

As detailed in the history, the Working Group has previously voted to reject Option Two twice before – once during the 2014 Fall National Meeting, and again during the 2015 Spring National Meeting. However, if the Working Group wants to reconsider Option Two (which is suggested in the CNA/AIG comment letter):

- The Option Two language would need to be revised and exposed. Staff notes the language proposed by CNA/AIG to the Option Two, paragraph 67 go beyond a substitution in unpaid losses reporting.
- Model 785 as adopted in most states, allows the commissioner to approve other acceptable security which results in reserve credit for the unauthorized reinsurance up to the amount of approved security, but this security does not change the original reinsurer’s unauthorized status. Staff’s concern with Option Two is that instead of calculating the liability for unauthorized and applying commissioner approved security, it does not calculate the liability and proposes not to disclose the reduction in the liability. Option Two proposes that the liability does not exist because the retroactive counterparty is authorized and therefore proposing the original reinsurer’s unauthorized status to be substituted. However, this substitution of the original reinsurer’s unauthorized status would be inconsistent with the framework of the Model. The Credit for Reinsurance Model law does not include provisions which allow the substitution of authorized reinsurer status of one reinsurer for another.
- Staff notes that an “economic” substitution is not the same as a legal substitution. The Model also does not allow credit for reinsurance for a contract with an unauthorized...
reinsurer unless certain collateral or security requirements are met. Acquiring new reinsurance does not change the unauthorized status of the original entity.

- The CNA/AIG Option Two language recommends removing reference to the requirement to disclose the use of the commissioner discretion to approve other security as a **prescribed or permitted practice**. Removal of this language would be inconsistent with SSAP No. 1 and prior Working Group discussions. The Working Group agreed to remove the example of the use of the commissioner discretion (shown as deleted text in the current exposure) but has affirmed on multiple occasions that it is a prescribed or permitted practice which is a variation from the *Accounting Practices and Procedures Manual (A-785)* which must be disclosed.

- In addition, several changes to the Blanks proposal would be needed. Therefore the only paragraph 67 change per prior Working Group direction would be the continued deletion of the example.

NOTE: The 8 pages of comment letters are included as Attachment C.
Issue: Asbestos and Pollution Reinsurance Reporting Exception

Check (applicable entity):

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Description of Issue:

On August 24, 2013, the Statutory Accounting Principles (E) Working Group adopted nonsubstantive revisions to SSAP No. 62—Property and Casualty Reinsurance – Revised (SSAP No. 62R) in agenda item 2011-45: Impact of Additional Reinsurance on Provision for Reinsurance with a 2014 effective date. The adopted revisions provided a narrow reporting exception for retroactive reinsurance contracts on asbestos and environmental risks that received department of insurance approval and met certain criteria. The changes also affected the property and casualty annual statement Schedule F reinsurance reporting and the provision for reinsurance calculation. In addition, a new part to the property and casualty annual statement Schedule F was planned.

Subsequent to the adoption, the Statutory Accounting Principles (E) Working Group sponsored annual statement blanks proposal 2014-15BWG MOD, which was submitted to the Blanks (E) Working Group. The original sponsor of the agenda item 2011-45 raised questions about the blanks proposal at the Spring National Meeting.

The guidance adopted in SSAP No. 62R allowed an environmental and asbestos reporting exception for paid losses. However, some Working Group members subsequently indicated that their intention was to adopt something broader. On June 12, 2014, the Working Group approved sending a request to the Blanks (E) Working Group to defer item 2014-15BWG MOD. In addition, NAIC staff was directed to provide recommendations to the Working Group.

Existing Authoritative Literature:

SSAP No. 62—Property and Casualty Reinsurance– Revised

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.

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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.

Activity to Date (issues previously addressed by SAPWG, Emerging Accounting Issues WG, SEC, FASB, other State Departments of Insurance or other NAIC groups):
See description of the issue section for previous activity.

Information or issues (included in Description of Issue) not previously contemplated by the SAPWG:
None

Recommending Party:
Working Group direction to NAIC staff based on 2014 Spring National Meeting discussion

Staff Review Completed by:
Robin Marcotte
August 2014

Recommended Conclusion or Future Action on Issue:
Staff notes that the goal seems to be reduction of the provision for reinsurance penalty calculated on the existing reinsurers to the extent that there is remaining coverage on the new retroactive contract for the same claims. The provision for reinsurance liability is required by SSAP No. 62R and includes accounting elements and amounts, which implement requirements indicated by the Credit for Reinsurance...
Model Law 785. The Credit for Reinsurance Model Law 785 indicates requirements for ceding domestic insurers to obtain reinsurance loss reserve reduction for ceding reinsurance.

The provision for reinsurance results in a single liability, which is based on multiple calculations, and can be summarized as including the following:

1. A liability for paid claims amounts which are overdue from the reinsurer (including amounts in dispute), which is termed the provision for overdue / slow paying reinsurers.
2. A liability, which results in the reduction or elimination of the reinsurance credit for unauthorized reinsurers, which are not collateralized in accordance with the Model Law 785.

The statement of statutory accounting can only grant the reporting of substitution of paid amounts to the extent there is a payable. Substitution of the paid amounts affects the overdue and slow pay calculation in the provision for reinsurance. The overdue/ slow pay aspect of the provision for reinsurance calculation is an accounting mechanism and not part of the penalties imposed by Credit for Reinsurance Model Law 785. Even though there is not legal right of offset, Working Group members seemed comfortable with this when agenda item 2011-45 was adopted because the retroactive reinsurer has paid the claimant for these amounts. Therefore, incurring an overdue penalty for amounts that have been paid to the claimant seemed unnecessary. In addition, there is a payable to the retroactive reinsurer for the paid amounts, because the amounts inure to the benefit of the retroactive reinsurance contract.

Any offsetting of the unpaid amounts pursuant to the exercise of the commissioner’s discretion to approve other form of security acceptable under the Credit for Reinsurance Model Law 785 provided that such discretion exists in the laws adopted by the state of domicile. For example, some states have approved the funds held in trust related to the retroactive reinsurance or other form of security acceptable to the commissioner for the reinsurance credit being taken related to the original reinsurers who may be unauthorized and uncollateralized. Appendix A-785 of the Accounting Practices and Procedures Manual incorporates excerpts of Model Law 785; however, it does not incorporate the commissioner discretion to approve other acceptable forms of security. As such, the use of commissioner discretion would be 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. This “other acceptable security” allows credit for the unauthorized /uncollateralized parts of the provision, which are required by the Credit for Reinsurance Model Law 785.

It is recommended that the Working Group move this item to the nonsubstantive active listing and expose one of the two reporting and language options illustrated below and in the attachment for comment.

Staff has provided two different reporting options for Working Group review. Both options include the same detail in the proposed new sub schedule and both options should result in the same provision for reinsurance penalty amount (if there are adequate amounts of other security acceptable to the commissioner).

The difference is that option 2 provides no detail regarding the unauthorized / uncollateralized reinsurers in Schedule F, Part 5, which calculates the provision for reinsurance for unauthorized amounts. Staff recommends that the Working Group provide direction regarding:
1. Which of two reporting options shown in the attachment are preferred? In addition, it is recommended that the chosen reporting option be exposed for comment. In addition, input should be requested regarding where the illustration should be incorporated. Staff also inquires whether any of the additional explanatory language similar to the paragraphs in the recommendation section above would be beneficial to incorporate in some location.

2. Based on the preferred reporting option, the Working Group would also expose the changes to SSAP No. 62R with one of the paragraph 67 language choices illustrated below.

Asbestos and Pollution Contracts - Counterparty Reporting Exception for Paid Amounts

66. Upon approval by the domiciliary regulator(s) of the ceding entity (either the original direct insurer in the case of a retrocession 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 with respect to amounts paid by the retroactive counterparty. 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.

Asbestos and Pollution Contracts - Counterparty Reporting Exception for Unpaid Amounts

Option 1 reporting - Includes detail on original unauthorized reinsurers and reflects other allowable offsets on Schedule F, Part 5

67. The reporting entity's domestic state insurance department may also choose to grant a prescribed or permitted practice that allows the retroactive contract as an acceptable form of security related to the original insurers under the applicable provisions of the state’s credit for reinsurance law. 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. If so, the state may permit the reporting entity to reflect the other acceptable security provided under the retroactive reinsurance agreement as an “Other Allowed Offset Item” in Schedule F, Part 5 in determining the Provision for Reinsurance with respect to the amount recoverable for unpaid losses and loss adjustment expenses under the original reinsurance contracts. The security applied as an “Other Allowed Offset” shall also be reflected in the designated sub-schedule.
Option 2 reporting (Alternative paragraph 67) – Excludes Schedule F, Part 5 detail on original unauthorized reinsurers

67. The reporting entity’s domestic state insurance department may also choose to grant a prescribed or permitted practice that allows the retroactive contract as an acceptable form of security related to the original insurers under the applicable provisions of the state’s credit for reinsurance law. 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. If so, the state may permit the reporting entity to reflect the other acceptable security provided under the retroactive reinsurance agreement as an “Other Allowed Offset Item” with respect to the amount recoverable for unpaid losses and loss adjustment expenses under the original reinsurance contracts. With this permission, for amounts approved as an “Other Allowed Offset 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” shall also be reflected in the designated sub-schedule.

6768. The reporting entity will continue to detail the reporting of original reinsurers that were aggregated for one line reporting per paragraph 66-67 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,
   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.

Status:
On August 16, 2014, the Statutory Accounting Principles (E) Working Group moved this item to the nonsubstantive active listing and exposed two options for SSAP No. 62R accounting revisions, as detailed above and in the attached illustration of Schedule F reporting of the two options. The Working Group requests comments regarding the preferred accounting and reporting treatment. In addition, comments are requested regarding the preferred placement of the illustration and if additional background language similar to the introductory paragraphs in the recommendation above should be incorporated with the illustration. This item was exposed with a 30-day comment period expiring Sept. 16, 2014 to allow for interim discussion. The Working Group also requested the Blanks (E) Working Group to withdraw blanks proposal 2014-15BWG.

On November 16, 2014, the Statutory Accounting Principles (E) Working Group exposed nonsubstantive revisions to SSAP No. 62R, as illustrated below, to change the guidance regarding the amounts to be included in Schedule F related to an asbestos and environmental reinsurance reporting exception for retroactive counterparties, along with updates for the proposed reporting. There are multiple parts to the
provision for reinsurance liability calculation. The statement of statutory accounting can only grant the reporting of substitution of **paid amounts** to the extent there is a payable. Substitution of the paid amounts affects the overdue and slow pay calculation in the provision for reinsurance. Any offsetting of the **unpaid amounts** is pursuant to the exercise of the commissioner’s discretion to approve other form of security acceptable under the Credit for Reinsurance Model Law 785 if such discretion exists in the laws adopted by the state of domicile.

This exposure and the illustration reflect reporting **option one, which** includes detail on original unauthorized reinsurers and reflects other allowable offsets on Schedule F, Part 5. In addition, minor changes to paragraphs 68 were also exposed. Finally, additional columns were added to the Schedule F supplement as illustrated, which reflect the collateral associated with the original reinsurers. The effect of the revisions **decrease the provision for reinsurance liability** for 1) overdue paid amounts and 2) the liability for unauthorized uncollateralized reinsurers’ unpaid amounts related to an asbestos and environmental reinsurance if other acceptable collateral is approved by the commissioner.

**Asbestos and Pollution Contracts - Counterparty Reporting Exception for Paid Amounts**

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 with respect to amounts paid by the retroactive counterparty. 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's domestic state insurance department may also choose to grant a prescribed or permitted practice that allows the retroactive contract as an acceptable form of security related to the original insurers under the applicable provisions of the state’s credit for reinsurance law. 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. If so, the state may permit the reporting entity to reflect the other acceptable security provided under the retroactive reinsurance agreement as an "Other Allowed Offset Item" in Schedule F, Part 5 in determining the Provision for Reinsurance with respect to the amount recoverable for unpaid losses and loss adjustment expenses under the original reinsurance contracts. The security applied as an "Other Allowed Offset" shall also be reflected in the designated sub-schedule.
The reporting entity will continue to detail the reporting of original reinsurers that were aggregated for one line reporting per paragraph 66-67 as provided in the Annual Statement Instructions. The aggregation reporting in Schedule F applies only to the extent that inuring balances currently receivable under 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 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. The financial statements shall disclose the following with respect to reinsurance agreements which qualify for reinsurer aggregation in accordance with paragraphs 66-68:
   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.

On March 28, 2015, the Statutory Accounting Principles (E) Working Group exposed nonsubstantive revisions to SSAP No. 62R, for a shortened 30-day comment period ending April 30, as illustrated below. These revisions reflect option one with proposed edits from CNA/AIG to paragraphs 66, 67 and 68. (Proposed CNA/AIG edits to paragraph 99 were not supported by the Working Group and are not reflected in the exposed revisions.) Option one reporting is also detailed in the attached illustration. In addition, staff was directed to begin drafting an issue paper to document the background of this change.

March 28, 2015 Exposure:
Asbestos and Pollution Contracts - Counterparty Reporting Exception for Paid Amounts

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 with respect to amounts paid by the retroactive counterparty. 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. **With the approval of the reporting entity’s domestic state commissioner pursuant to applicable state credit for reinsurance law regarding the use of other forms of collateral acceptable to the commissioner, the reporting entity shall present the retroactive reinsurance agreement as an “Other Allowed Offset Item” in Schedule F, Part 5 for purposes of determining the Provision for Reinsurance with respect to the amount recoverable 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.**

6768. The reporting entity will continue to detail the reporting of original reinsurers that were aggregated for one line reporting per paragraph 66-67 as provided in the Annual Statement Instructions. The aggregation reporting in Schedule F applies only to the extent that inuring balances currently receivable under 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 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. 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.

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.

**Language for discussion on June 1, 2015 conference call reflecting tracking to SSAP No. 62:**

**Asbestos and Pollution Contracts - Counterparty Reporting Exception for Paid Amounts**

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 with respect to amounts paid by the retroactive counterparty. 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. With the approval of the reporting entity's domestic state commissioner pursuant to 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" in Schedule F, Part 5 for purposes of determining the Provision for Reinsurance with respect to the amount recoverable 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.

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 applies 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.

6768. 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 only to the extent that inuring balances currently receivable under 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 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. 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.

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 as a prescribed or permitted practice.

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 for paid losses was substantively revised to also allow for unpaid losses effective for reporting periods ending on and after December 31, 2015.
### Reporting Option 1: Based on Current Language/Blanks Proposal

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<thead>
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<th>Description</th>
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<tr>
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<td>Subtotal Other Non-U.S. Unauthorized</td>
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### Net Amount Funds Held Recoverable by Other From Company

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### Schedule F Part 3

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### REPORTING OPTION 1: BASED ON CURRENT LANGUAGE/BLANKS PROPOSAL

**Schedule F – Part 4**

Aging of Ceded Reinsurance as of December 31, Current Year (000 OMITTED)

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<td></td>
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<td>Reinsurance Recoverable on Paid Losses and Paid Loss Adjustment Expenses</td>
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**9999999 Totals**

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**REPORTING OPTION 1: BASED ON CURRENT LANGUAGE/BIANKS PROPOSAL**

**Schedule F Part 5**

Provisions for Unauthorized Reinsurance as of December 31, Current Year (000 Omitted)

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<tr>
<th>IDNumber</th>
<th>NAIC Company Code</th>
<th>Name of Reinsurer</th>
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<th>Reinsurance Recoverable All Items Schedule F Part 3 Col. 12</th>
<th>Funds Held by Company Under Reinsurance Treaties</th>
<th>Letters of Credit Issuing or Confirming Bank Number</th>
<th>Ceded Balance Payable</th>
<th>Miscellaneous Balances Payable</th>
<th>Special Code</th>
<th>Total Ceded and Other Allowed All Items Schedule F Part 3 Col. 12</th>
<th>Provision for Unauthorized Reinsurance Col. 5 minus Col. 12</th>
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<th>Provision for Unauthorized Reinsurance Col. 5 minus Col. 12</th>
<th>Provision for Unauthorized Reinsurance Col. 5 minus Col. 12</th>
<th>Provision for Unauthorized Reinsurance Col. 5 minus Col. 12</th>
<th>Provision for Unauthorized Reinsurance Col. 5 minus Col. 12</th>
<th>Provision for Unauthorized Reinsurance Col. 5 minus Col. 12</th>
<th>Provision for Unauthorized Reinsurance Col. 5 minus Col. 12</th>
<th>Provision for Unauthorized Reinsurance Col. 5 minus Col. 12</th>
<th>Provision for Unauthorized Reinsurance Col. 5 minus Col. 12</th>
<th>Provision for Unauthorized Reinsurance Col. 5 minus Col. 12</th>
<th>Provision for Unauthorized Reinsurance Col. 5 minus Col. 12</th>
<th>Total Provision for Reinsurance Ceded to Unauthorized Reinsurers (Col. 13 plus Col. 17 but not in excess of Col. 5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
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<td>19</td>
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<tr>
<td>Subtotal: Other U.S. Authorized</td>
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</tr>
<tr>
<td>A, B</td>
<td>Original Company B</td>
<td>UK</td>
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<td>-</td>
<td>-</td>
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</tr>
<tr>
<td>A, C</td>
<td>Original Company C</td>
<td>UK</td>
<td>40,000</td>
<td>-</td>
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<td>-</td>
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</tr>
</tbody>
</table>
### Illustrated Supplement which applies to both options

New columns for November 16, 2014 exposure are shown as shaded text.

**EXHIBIT A**

Supplemental Schedule for Aggregation Regarding Retroactive Reinsurance for Asbestos and Environmental Exposures

<table>
<thead>
<tr>
<th>ID Number</th>
<th>Code of Reinsurer</th>
<th>Schedule of Reinsurer Reported to Sch. F Part 3</th>
<th>Original Reinsurer</th>
<th>Retrospective Reinsurer</th>
<th>Original Company Name</th>
<th>Original Company Domiciliary ID</th>
<th>Original Reinsurer Name</th>
<th>Overdue Percentage 90 Days</th>
<th>Overdue Percentage 120 Days</th>
<th>Overdue Percentage 180 Days</th>
<th>Overdue Percentage 270 Days</th>
<th>Overdue Percentage 360 Days</th>
<th>Overdue Percentage 450 Days</th>
<th>Overdue Percentage 540 Days</th>
<th>Overdue Percentage 720 Days</th>
</tr>
</thead>
<tbody>
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<tr>
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<td>25</td>
<td>26</td>
<td>27</td>
<td>28</td>
<td>29</td>
<td>30</td>
<td></td>
</tr>
</tbody>
</table>

**Original Company A**

- US
- Reinsurer X: 1,000
- Collateral: 20,000
- IBNR: 42,000
- LAE: -
- LAE & LAE: 2,000
- Total: 2,000

**Original Company B**

- UK
- Reinsurer X: 1,000
- Collateral: 20,000
- IBNR: 42,000
- LAE: -
- LAE & LAE: 2,000
- Total: 2,000

**Original Company C**

- UK
- Reinsurer X: 1,000
- Collateral: 20,000
- IBNR: 42,000
- LAE: -
- LAE & LAE: 2,000
- Total: 2,000

**Subtotal**

- Other Non-U.S.
- Unauthorized: 2,000
- Total: 2,000

**Totals**

- 5,000
- 40,000
- 40,000
- 84,000
- 64,000
- 4,000

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NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

| CONTACT PERSON: | Dale Bruggeman |
| TELEPHONE: | |
| EMAIL ADDRESS: | |
| ON BEHALF OF: | Ohio Department of Insurance |
| NAME: | Dale Bruggeman |
| TITLE: | Chair SAPWG |
| AFFILIATION: | Ohio Department of Insurance |
| ADDRESS: | 50W. Town St., 3rd Fl., Ste. 300  
Columbus, OH 43215 |

**BLANK(S) TO WHICH PROPOSAL APPLIES**

- [X] ANNUAL STATEMENT  
- [X] INSTRUCTIONS  
- [ ] QUARTERLY STATEMENT  
- [X] CROSSCHECKS  
- [X] BLANK

- [X] Life and Accident & Health  
- [X] Property/Casualty  
- [X] Fraternal  
- [X] Health  
- [X] Title  
- [ ] Separate Accounts  
- [ ] Other Specify

Anticipated Effective Date: Annual 2015

**IDENTIFICATION OF ITEM(S) TO CHANGE**

Add a new supplement with details of reinsurers aggregated on Schedule F, Part 3 and conforming modifications to the existing instructions (Schedule F, Parts 3 and 5) and blank (Schedule F, Part 3). A disclosure Note 23J is also being added and 23J(2) will be data captured. The Life, Fraternal and Title statement types are included in this proposal due to the barcode instructions form numbers being uniform for all statement types. The Health statement is included due to Schedule F, Part 3 being in the Health Property Supplement. The new supplement will be a public document.

**REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

This proposed change reflects a compromise adopted by the Statutory Accounting Principles Working Group that will allow companies to aggregate asbestos and pollution reinsurers on Schedule F, Part 3 and for paid losses if certain criteria identified in paragraphs 66-68 SSAP No. 62R are met. The effect of the revisions decrease the provision for reinsurance liability for 1) overdue paid amounts and 2) the liability for unauthorized uncollateralized reinsurers’ unpaid amounts related to an asbestos and environmental reinsurance if other acceptable collateral security is approved by the commissioner.

**NAIC STAFF COMMENTS**

Comment on Effective Reporting Date: ____________________________

Other Comments: ____________________________

** This section must be completed on all forms.  
Revised 6/13/2009
ANNUAL STATEMENT INSTRUCTIONS – PROPERTY AND HEALTH (PROPERTY SUPPLEMENT)

SCHEDULE F – PART 3

CEDED REINSURANCE
AS OF DECEMBER 31, CURRENT YEAR

If a reporting entity has amounts reported for any of the following required groups, categories, or subcategories, it shall report the subtotal amount of the corresponding group, category, or subcategory, with the specified subtotal line number appearing in the same manner and location as the pre-printed total or grand total line and number:

Unaffiliated reinsurers may be aggregated under the designated categories and line numbers to the extent that the amounts in both Column 6 – Reinsurance Premium Ceded and Column 15 – Total (Recoverable) are individually less than $100,000 and none of the amounts are over 90 days past due. This procedure is applicable to Part 3 only.

Counterparty Reporting Exception for Asbestos and Pollution Contracts

Upon approval by the reporting entity’s domestic state insurance department, aggregation of individual reinsurers may also be allowed pursuant to the Counterparty Reporting Exception for Asbestos and Pollution Contracts under SSAP No. 62R, Property Casualty Reinsurance, paragraphs 66-68. Under this exception, a reporting entity may aggregate amounts recoverable for paid losses and loss adjustment expenses from original reinsurance contracts with respect to asbestos and pollution exposures on this schedule, to the extent that such amounts have been recovered by the reporting entity under a retroactive reinsurance contract meeting the criteria provided in SSAP No. 62R, paragraphs 66-68, and to the extent that such amounts recoverable under the original reinsurance contracts inure to the benefit of the retroactive reinsurance counterparty. This exception includes reinsurance provided through an affiliated reinsurer that retrocedes to the retroactive reinsurance counterparty. If a reporting entity is approved for this exception, pursuant to SSAP No. 62R, the Supplemental Schedule for Reinsurance Counterparty Reporting Exception – Asbestos and Pollution Contracts must be completed in order to continue to detail the reporting of original reinsurers paid losses that are aggregated for one line reporting. This reporting decreases the provision of reinsurance liability for overdue on paid amounts related to a qualifying asbestos and environmental reinsurance contract.

The reporting entity shall continue to report the counterparties under the original reinsurance contracts in Part 3 with respect to amounts recoverable for unpaid losses and loss adjustment expenses attributable to the original reinsurance contracts.

With the approval of the reporting entity’s domestic state commissioner pursuant to applicable state’s credit for reinsurance law, regarding the use of other forms of collateral acceptable to the commissioner, the reporting entity shall present the state may also choose to permit the reporting entity to reflect the coverage or other approved security provided related to under the retroactive reinsurance agreement as an “Other Allowed Offset Item” in Schedule F, Part 5 in determining the Provision for Reinsurance with respect to the amount recoverable for unpaid losses and loss adjustment expenses under the original reinsurance contracts. Such a prescribed or permitted variation from Appendix A-785 in the Accounting Practices and Procedures Manual would be disclosed in Annual Statement Note 1. This reporting is not intended to allow credit for reinsurance with respect to any amounts that do not meet the requirements of Appendix A-785. The security applied as an “Other Allowed Offset Item” shall also be reflected in the designated sub-schedule. This reporting decreases the provision for reinsurance liability for unauthorized uncollateralized reinsurers’ unpaid amounts related to asbestos and environmental reinsurance if other acceptable collateral is approved by the commissioner.

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Special Code “2” – Reinsurance Contracts Ceding 75% or More Direct Premiums Written

Each individual contract, except those listed below, which provides for the cession of 75% or more of direct premiums written under such cession during the year, should be identified by inserting a 2 in this column. The reinsurance transactions so identified shall include both treaty and facultative cessions of direct business written by the company.

Exclude: Intercompany reinsurance transactions with affiliates.

Reinsurance transactions involving any group, association, pool, or organization of insurers that engage in joint underwriting activities and which are subject to examination by any state regulatory authority or which operate pursuant to any state or federal statutory or administrative authorization.

Any reinsurance transaction in which the annual gross premium ceded is less than 5% of policyholder surplus.

Reinsurance transactions involving captive insurance companies.

Special Code “3” – Counterparty Reporting Exception for Asbestos and Pollution Contracts Under SSAP No. 62R, Property Casualty Reinsurance.

Each individual reinsurance contract meeting the counterparty reporting exception for asbestos and pollution contracts under SSAP No. 62R, paragraphs 66-68, should be identified by inserting a 3 in this column. This code should be inserted on the line for which the counterparty under the qualifying retroactive contract is reported, as well as on the line for which the counterparty under the original reinsurance contract is reported. See SSAP No. 62R, paragraphs 66-68 for additional information.

Note If a reporting entity is approved for this exception, pursuant to SSAP No. 62R the Supplemental Schedule for Reinsurance Counterparty Reporting Exception – Asbestos and Pollution Contracts must be completed in order to continue to detail the reporting of original reinsurers that are aggregated for one line reporting of paid loss and paid loss adjustment expenses.

Detail Eliminated To Conserve Space
ANNUAL STATEMENT INSTRUCTIONS – PROPERTY

SCHEDULE F – PART 5

PROVISION FOR UNAUTHORIZED REINSURANCE
AS OF DECEMBER 31, CURRENT YEAR

If a reporting entity has amounts reported for any of the following required groups, categories, or subcategories, it shall report the subtotal amount of the corresponding group, category, or subcategory, with the specified subtotal line number appearing in the same manner and location as the pre-printed total or grand total line and number:

<table>
<thead>
<tr>
<th>Column 5</th>
<th>Special Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Detail Eliminated To Conserve Space</td>
<td></td>
</tr>
</tbody>
</table>

Column 5 – Special Code

Special Code “2” – Reinsurance Contracts Ceding 75% or More Direct Premiums Written

Each individual contract, except those listed below, which provides for the cession of 75% or more of direct premiums written under such cession during the year, should be identified by inserting a 2 in this column. The reinsurance transactions so identified shall include both treaty and facultative cessions of direct business written by the company.

Exclude: Intercompany reinsurance transactions with affiliates.

Reinsurance transactions involving any group, association, pool, or organization of insurers that engage in joint underwriting activities and which are subject to examination by any state regulatory authority or which operate pursuant to any state or federal statutory or administrative authorization.

Any reinsurance transaction in which the annual gross premium ceded is less than 5% of policyholder surplus.

Reinsurance transactions involving captive insurance companies.

Special Code “3” – Counterparty Reporting Exception for Asbestos and Pollution Contracts Under SSAP No. 62R, Property Casualty Reinsurance

Each individual reinsurance contract meeting the counterparty reporting exception for asbestos and pollution contracts under SSAP No. 62R, paragraphs 66-68, should be identified by inserting a 3 in this column. This code should be inserted on the line for which the counterparty under the qualifying retroactive contract is reported, as well as on the line for which the counterparty under the original reinsurance contract is reported. See SSAP No. 62R, paragraphs 66-68 for additional information.

Note If a reporting entity is approved for this exception, pursuant to SSAP No. 62R the Supplemental Schedule for Reinsurance Counterparty Reporting Exception – Asbestos and Pollution Contracts must be completed in order to continue to detail the reporting of original reinsurers that are aggregated for one line reporting of paid loss and paid loss adjustment expenses.

Column 56 – Reinsurance Recoverable All Items Schedule F, Part 3, Column 15

Carry forward, subject to the provisions of General Interrogatories, Part 2, Property & Casualty Interrogatory 17, unauthorized reinsurers from Schedule F, Part 3, Column 15.
### Column 67 – Funds Held by Company Under Reinsurance Treaties

Should agree with unauthorized portion of Schedule F, Part 3, Column 19.

### Column 89 – Issuing or Confirming Bank Name Reference Number

Enter a reference number in this column (e.g., 0001, 0002, etc.) for each reinsurer that provided a letter(s) of credit to the reporting entity. This reference number will be used in the footnote table to provide more detail of the letter(s) of credit provided by the reinsurer.

If no letter of credit has been provided, leave blank.

### Column 910 – Ceded Balances Payable

From Schedule F, Part 3, Column 16.

### Column 1011 – Miscellaneous Balances Payable

From Schedule F, Part 3, Column 17.

### Column 1112 – Trust Funds and Other Allowed Offset Items

Report trust funds and other acceptable security.

**NOTE:** With respect to contracts meeting the requirements of SSAP No. 62R, paragraphs 66-68, if the reporting entity’s domestic state insurance department also permits the collateral other security related to the retroactive contract as an acceptable form of security under applicable provisions of the state’s credit for reinsurance law, the state may also choose to permit the reporting entity to reflect the coverage or amount of other approved security provided by the retroactive reinsurance agreement as an “Other Allowed Offset Item” within Schedule F, Part 5 in determining the Provision for Reinsurance with respect to the amounts recoverable for unpaid losses and loss adjustment expenses under the original reinsurance contracts. Such a prescribed or permitted variation from Appendix A-785 in the Accounting Practices and Procedures Manual would be disclosed in Annual Statement Note 1. This reporting is not intended to allow credit for reinsuranc with respect to any amounts that do not meet the requirements of Appendix A-785.

### Column 1314 – Provision for Unauthorized Reinsurance

Amount recorded should not be less than zero.

### Column 1415 – Recoverable Paid Losses and LAE Over 90 Days Past Due Not in Dispute

Eliminate items in dispute by reason of notification, arbitration or litigation from Schedule F, Part 4, Columns 8 plus 9. “Notification” means a formal written communication from a reinsurer denying the validity of coverage. (For items in dispute with affiliates, see the NAIC Accounting Practices and Procedures Manual).

### Column 1617 – 20% of Amount in Dispute Included in Column 5

This amount should never be less than zero.

### Column 1819 – Total Provision for Reinsurance Ceded to Unauthorized Reinsurers

If the company’s experience indicates that a higher amount should be provided, such higher amount should be entered.

Column **18-19** Total multiplied by 1000 should be entered on Schedule F, Part 8, Line 5.

This amount should never be less than zero.
Issuing and Confirming Bank Detail Table

Issuing or Confirming Bank Name Reference Number:

Enter a reference number in this column (e.g., 0001, 0002, etc.) that corresponds to the reinsurer providing the letter(s) of credit from the issuing or confirming bank. The reference number may be used multiple times if the letter(s) of credit provided by the reinsurer are from more than one bank or as part of a Syndicated Letter of Credit.

Letter of Credit Code:

Enter “1” for single letter of credit that is not a syndicated letter of credit.
Enter “2” for syndicated letter of credit.
Enter “3” for multiple letters of credit.

Letter of Credit Issuing or Confirming Bank’s American Bankers Association (ABA) Routing Number:

Provide for each issuing or confirming bank its nine-digit American Bankers Association (ABA) routing number.

For Fronted Letters of Credit, where a single bank issues a letter of credit as the fronting bank and sells to other banks undivided interests in its obligations under the credit, provide the ABA routing number for the fronting bank but not the other banks participating.

For Syndicated Letters of Credit, where one bank acts as agent for a group of banks issuing the letter of credit but each participating bank is severally, not jointly, liable, provide the ABA routing number for all banks in the syndicate.

For reinsurers providing letters of credit from multiple banks that are not part of a syndicated letter of credit, provide the ABA routing number for all of the banks.

Letter of Credit Issuing or Confirming Bank Name:

Provide the name of each issuing or confirming bank.

For Fronted Letters of Credit, where a single bank issues a letter of credit as the fronting bank and sells to other banks undivided interests in its obligations under the credit, provide the name of the fronting bank but not the other banks participating.

For Syndicated Letters of Credit, where one bank acts as agent for a group of banks issuing the letter of credit but each participating bank is severally, not jointly, liable, provide the name of each bank in the syndicate.

For reinsurers providing letters of credit from multiple banks that are not part of a syndicated letter of credit, provide the name of each bank.

Letters of Credit Amount:

Enter the amount for the letter of credit issued or confirmed by the bank.

The sum of the amounts by reference number should equal the amount reported for that reference number in Schedule F, Part 5, Column 78.

The total for this column should also equal the total of Schedule F, Part 5, Column 78.
SUPPLEMENTAL SCHEDULE FOR REINSURANCE COUNTERPARTY REPORTING EXCEPTION – ASBESTOS AND POLLUTION CONTRACTS

DETAIL OF ORIGINAL REINSURERS AGGREGATED ON SCHEDULE F PART 3
AS OF DECEMBER 31, CURRENT YEAR

Upon approval by the reporting entity’s domestic state insurance department, aggregation of individual reinsurers may also be allowed pursuant to the Counterparty Reporting Exception for Asbestos and Pollution Contracts under SSAP No. 62R, Property Casualty Reinsurance, paragraphs 66-68. Under this exception, a reporting entity may aggregate amounts recoverable in Schedule F, Part 3 for paid losses and loss adjustment expenses from original reinsurance contracts with respect to asbestos and pollution exposures, to the extent that such amounts have been recovered by the reporting entity under a retroactive reinsurance contract meeting the criteria provided in SSAP No. 62R, paragraphs 66-68, and to the extent such amounts recoverable under the original reinsurance contracts inure to the benefit of the retroactive reinsurance counterparty. If a reporting entity is approved for this exception, pursuant to SSAP No. 62R, this Supplemental Schedule for Reinsurance Counterparty Reporting Exception – Asbestos and Pollution Contracts must be completed in order to continue to detail the reporting of original reinsurers that are aggregated for one line reporting.

The reporting entity shall continue to report the counterparties under the original reinsurance contracts in Schedule F, Part 3 with respect to amounts recoverable for unpaid losses and loss adjustment expenses attributable to the original reinsurance contracts.

With the approval of the reporting entity’s domestic state commissioner pursuant to applicable However, if the reporting entity’s domestic state insurance department also permits the collateral related to the retroactive contract as an acceptable form of security under applicable provisions of the state’s 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 state may also choose to permit the reporting entity to reflect the coverage or other security provided by the retroactive reinsurance agreement as an “Other Allowed Offset Item” within Schedule F, Part 5 in determining the Provision for Reinsurance with respect to amounts recoverable for unpaid losses and loss adjustment expenses under the original reinsurance contracts. Such a prescribed or permitted variation from Appendix A-785 in the Accounting Practices and Procedures Manual would be disclosed in Annual Statement Note 1. This reporting is not intended to allow credit for reinsurance with respect to any amounts that do not meet the requirements of Appendix A-785. The security applied as an “Other Allowed Offset Item” shall also be reflected in the designated sub-schedule. This reporting decreases the provision for reinsurance liability for unauthorized uncollateralized reinsurers’ unpaid amounts related to asbestos and environmental reinsurance if other acceptable collateral is approved by the commissioner.

If a reporting entity has amounts reported for any of the following required groups, categories, or subcategories, it shall report the subtotal amount of the corresponding group, category, or subcategory, with the specified subtotal line number appearing in the same manner and location as the pre-printed total or grand total line and number:

<table>
<thead>
<tr>
<th>Group or Category</th>
<th>Line Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Authorized</td>
<td></td>
</tr>
<tr>
<td>Affiliates</td>
<td></td>
</tr>
<tr>
<td>U.S. Intercompany Pooling</td>
<td>0199999</td>
</tr>
<tr>
<td>U.S. Non-Pool Captive</td>
<td>0299999</td>
</tr>
<tr>
<td>U.S. Non-Pool Other</td>
<td>0399999</td>
</tr>
<tr>
<td>U.S. Non-Pool Total</td>
<td>0499999</td>
</tr>
<tr>
<td>Other (Non-U.S.) Captive</td>
<td>0599999</td>
</tr>
<tr>
<td>Other (Non-U.S.) Other</td>
<td>0699999</td>
</tr>
<tr>
<td>Other (Non-U.S.) Total</td>
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</tr>
<tr>
<td>Total Authorized – Affiliates</td>
<td>0899999</td>
</tr>
<tr>
<td>Other U.S. Unaffiliated Insurers (Under $100,000)</td>
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</tr>
<tr>
<td>Other U.S. Unaffiliated Insurers</td>
<td>0999999</td>
</tr>
<tr>
<td>Pools</td>
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</tr>
<tr>
<td>Mandatory Pools*@</td>
<td>1099999</td>
</tr>
<tr>
<td>Voluntary Pools**%</td>
<td>1199999</td>
</tr>
</tbody>
</table>

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Other Non-U.S. Insurers# (Under $100,000) ..................................................................................................................... 1299998
Other Non-U.S. Insurers# .................................................................................................................................................. 1299999
Total Authorized............................................................................................................................................................ 1399999

Total Unauthorized

Affiliates

U.S. Intercompany Pooling.................................................................................................................................................. 1499999
U.S. Non-Pool
Captive................................................................................................................................................................................. 1599999
Other.................................................................................................................................................................................. 1699999
Total.................................................................................................................................................................................. 1799999

Other Non-U.S.
Captive................................................................................................................................................................................. 1899999
Other.................................................................................................................................................................................. 1999999
Total.................................................................................................................................................................................. 2099999

Total Unauthorized – Affiliates............................................................................................................................................. 2199999

Other U.S. Unaffiliated Insurers (Under $100,000) ........................................................................................................ 2299998
Other U.S. Unaffiliated Insurers ....................................................................................................................................... 2299999

Pools

Mandatory Pools*@ ............................................................................................................................................................ 2399999
Voluntary Pools*%............................................................................................................................................................. 2499999

Other Non-U.S. Insurers# (under $100,000) ................................................................................................................. 2599998
Other Non-U.S. Insurers# ................................................................................................................................................ 2599999
Total Unauthorized.............................................................................................................................................................. 2699999

Total Certified

Affiliates

U.S. Intercompany Pooling.................................................................................................................................................. 2799999
U.S. Non-Pool
Captive................................................................................................................................................................................. 2899999
Other.................................................................................................................................................................................. 2999999
Total.................................................................................................................................................................................. 3099999

Other Non-U.S.
Captive................................................................................................................................................................................. 3199999
Other.................................................................................................................................................................................. 3299999
Total.................................................................................................................................................................................. 3399999

Total Certified – Affiliates.................................................................................................................................................... 3499999

Other U.S. Unaffiliated Insurers (Under $100,000) ........................................................................................................ 3599998
Other U.S. Unaffiliated Insurers ....................................................................................................................................... 3599999

Pools

Mandatory Pools*@ ............................................................................................................................................................ 3699999
Voluntary Pools*%............................................................................................................................................................. 3799999

Other Non-U.S. Insurers# (under $100,000) ................................................................................................................. 3899998
Other Non-U.S. Insurers# ................................................................................................................................................ 3899999
Total Certified................................................................................................................................................................. 3999999

Total Authorized, Unauthorized and Certified.................................................................................................................. 4099999
Total Protected Cells........................................................................................................................................................ 4199999

Totals.................................................................................................................................................................................. 9999999

* – Pools and Associations consisting of affiliated companies should be listed by individual company names.

@ – Include in Mandatory Pools all U.S. Government programs (e.g., National Flood Insurance, National Crop Insurance Corporation), all state residual market mechanisms, the Workers Compensation Reinsurance Pool, and the National Council on Compensation Insurance.

% – Include in Voluntary Pools all pool participation that is voluntary on the part of the reporting entity. Include participation in any state program for which participation is not mandatory.

# – Alien Pools and Associations should be reported on Schedule F under the category “Other Non-U.S. Insurers.”
Attachment B

Column 1 – ID Number (Original Reinsurer)

Enter one of the following as appropriate for the entity being reported on the schedule. See the Schedule F General Instructions for more information on these identification numbers.

- Federal Employer Identification Number (FEIN)
- Alien Insurer Identification Number (AIIN)
- Certified Reinsurer Identification Number (CRIN)
- Pool/Association Identification Number

Column 2 – NAIC Company Code (Original Reinsurer)

If a reinsurer has merged with another entity, report the company code for the surviving entity.

Column 3 – Name of Reinsurer (Original Reinsurer)

Report the name of the counterparty under the original reinsurance agreement for which amounts recoverable on paid losses and loss adjustment expenses have been aggregated into one line reporting on Schedule F, Part 3 reflecting the counterparty under the retroactive reinsurance agreement.

Column 4 – Domiciliary Jurisdiction (Original Reinsurer)

Report the two-character U.S. postal code abbreviation for the domiciliary jurisdiction for U.S. states, territories and possessions. A comprehensive listing of three-character (ISO Alpha 3) abbreviations for foreign countries is available in the appendix of these instructions.

For Pools and Associations enter the state where the administrative office of such pool or association is located.

If a reinsurer has merged with another entity, report the domiciliary jurisdiction of the surviving entity.

Column 5 – ID Number (Retroactive Reinsurer)

Enter one of the following as appropriate for the entity being reported on the schedule. See the Schedule F General Instructions for more information on these identification numbers.

- Federal Employer Identification Number (FEIN)
- Alien Insurer Identification Number (AIIN)
- Certified Reinsurer Identification Number (CRIN)
- Pool/Association Identification Number

Column 6 – Name of Reinsurer Reported in Schedule F, Part 3 (Retroactive Reinsurer)

Report the name of the counterparty under the retroactive agreement that is reflected in the aggregated one line reporting for amounts recoverable on paid losses and loss adjustment expenses on Schedule F, Part 3.

Column 7 – Reinsurance Recoverable on Paid Losses

Report amounts with respect to paid losses that have been recovered by the reporting entity under the duplicate coverage provided by the retroactive contract, with inuring balances from the original contracts payable to the retroactive counterparty.

Column 8 – Reinsurance Recoverable on Paid LAE

Report amounts with respect to paid loss adjustment expenses that have been recovered by the reporting entity under the duplicate coverage provided by the retroactive contract, with inuring balances from the original contracts payable to the retroactive counterparty.
Column 9 – Reinsurance Recoverable on Unpaid Case Losses & LAE

Report amounts related to the original reinsurance agreement on unpaid Case and LAE that have not been recovered.

Column 10 – Reinsurance Recoverable on IBNR Losses & LAE

Report amounts related to the original reinsurance agreement on IBNR losses and LAE. Columns 12 through 14 detail the collateral related to the original underlying reinsurers.

Column 12 – Funds Held (Original Reinsurer Collateral)

Report any funds held with respect to the original reinsurance agreements.

Column 13 – Letters of Credit (Original Reinsurer Collateral)

Report any letters of credit with respect to the original reinsurance agreements.

Column 14 – Trust Funds and Other Allowed Offset Items (Original Reinsurer Collateral)

Report any trust funds or other allowed offsets items with respect to the original reinsurer collateral.

Column 15 – Amounts Approved as Other Offset Items

Column 15 provides detail of amounts approved as other acceptable collateral to the commissioner which are related to the retroactive counterparty that are included in Schedule F, Part 5. These amounts are subject to disclosure.

Columns 16 through 24 provide an aging schedule with respect to inuring balances for paid losses and loss adjustment expenses from the original reinsurance contract that are payable to the counterparty under the retroactive reinsurance agreement. The aging schedule is intended to facilitate analysis with respect to SSAP No. 62R, paragraph 66.e., i.e., credit analysis and contingent liability analysis for these inuring balances.

For purposes of completing Columns 16 through 24, a paid loss and paid loss adjustment expense recoverable is due pursuant to original contract terms (as the contract stood on the date of execution).

Where the reinsurance agreement specifies or provides for determination of a date at which claims are to be paid by the reinsurer, the aging period shall commence from that date.

Where the reinsurance agreement does not specify a date for payment by the reinsurer, but does specify or provide for determination of a date at which claims are to be presented to the reinsurer for payment, the aging period shall commence from that date.

Where the reinsurance agreement does not specify or provide for the determination of either of such dates, the aging period shall commence on the date on which the ceding company enters in its accounts a paid loss recoverable which, with respect to the particular reinsurer, exceeds $50,000. If the amount is less than $50,000 it should be reported as currently due. Any such amounts so reported in a prior year’s annual statement and still outstanding as of the date of this annual statement must be reported under Column 20 and included in Column 21.

In the event that reinsurance is placed through a broker or intermediary, notice to such broker or intermediary shall constitute notice to the reinsurer. Aging of overdue paid loss and paid loss adjustment expense recoverables begins the day after the due date.
NOTES TO FINANCIAL STATEMENTS

23. Reinsurance

Instruction:

J. Reinsurance Agreements Qualifying for Reinsurer Aggregation

The financial statements shall disclose the following with respect to reinsurance agreements which qualify for reinsurer aggregation in accordance with SSAP No. 62R, Property and Casualty Reinsurance, paragraphs 66-68:

(1) A description of the significant terms of the reinsurance agreement, including established limits and collateral, and

(2) The amount of unexhausted limit as of the reporting date.

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.

Illustration:

J. Reinsurance Agreements Qualifying for Reinsurer Aggregation

(1) In 2012, the Company entered into a retroactive reinsurance agreement with ABC Reinsurance Company, which provides quota share coverage up to $100 million for asbestos and pollution exposures. ABC Reinsurance Company also administers claims and pursues amounts recoverable from prior reinsurers with respect to paid losses and loss adjustment expenses. To the extent that the prior reinsurers pay the amounts are collected and retained by ABC Reinsurance Company. Schedule F, Part 3 and the Schedule F Supplemental Schedule for Counterparty Reporting Exception – Asbestos and Pollution Exposures detail amounts that have been paid by ABC Reinsurance Company and are recoverable from prior reinsurers. ABC Reinsurance Company maintains funds in trust for the remaining limits on the contract.
THIS EXACT FORMAT MUST BE USED IN THE PREPARATION OF THIS NOTE FOR THE TABLE BELOW. REPORTING ENTITIES ARE NOT PRECLUDED FROM PROVIDING CLARIFYING DISCLOSURE BEFORE OR AFTER THIS ILLUSTRATION.

(2) The amount of unexhausted limit as of the reporting date.

<table>
<thead>
<tr>
<th>Name of Reinsurer</th>
<th>Amount of Unexhausted Limit</th>
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ANNUAL STATEMENT BLANK – LIFE, HEALTH, PROPERTY, FRATERNAL AND TITLE

APPENDIX

INSTRUCTIONS FOR USE OF BARCODES

<table>
<thead>
<tr>
<th>FORM</th>
<th>DOCUMENT IDENTIFIER</th>
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<tbody>
<tr>
<td>Statement (Annual, Quarterly and Combined)</td>
<td>201</td>
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<td>Separate Accounts Statement</td>
<td>202</td>
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<td>Protected Cell Statement</td>
<td>203</td>
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<tr>
<td>Bail Bond Supplement</td>
<td>500</td>
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<tr>
<td>Director and Officer Insurance Coverage Supplement</td>
<td>505</td>
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<tr>
<td>Analysis of Annuity Operations by Lines of Business</td>
<td>510</td>
</tr>
<tr>
<td>Analysis of Increase in Annuity Reserves During the Year</td>
<td>515</td>
</tr>
<tr>
<td>Supplemental Schedule for Reinsurance Counterparty Reporting Exception – Asbestos and Pollution Contracts</td>
<td>520</td>
</tr>
</tbody>
</table>
### MARCH FILING

1. Will an actuarial opinion be filed by March 1?
2. Will the Supplemental Compensation Exhibit be filed with the state of domicile by March 1?
3. Will the confidential Risk-based Capital Report be filed with the NAIC by March 1?
4. Will the confidential Risk-based Capital Report be filed with the state of domicile, if required, by March 1?

### APRIL FILING

5. Will the Insurance Expense Exhibit be filed with the state of domicile and the NAIC by April 1?
6. Will Management’s Discussion and Analysis be filed by April 1?
7. Will the Supplemental Investment Risks Interrogatories be filed by April 1?

### AUGUST FILING

33. Will Management’s Report of Internal Control Over Financial Reporting be filed with the state of domicile by August 1?
## SCHEDULE F – PART 3
Ceded Reinsurance as of December 31, Current Year (000 Omitted)

| ID Number | NAIC Company Code | Name of Reinsurer | Domiciliary Jurisdiction | Reinsurance Premiums Ceded | Paid Losses | Paid LAE | Known Case Loss Reserves | Known Case LAE Reserves | IBNR Reserves | IBNR LAE Reserves | Unearned Premiums | Contingent Commissions | Cols. 7 through 14 Totals | Ceded Balances Payable | Other Amounts Due to Reinsurers | Net Amount Recoverable From Reinsurers | Col. 15–17 | Funds Held by Company Under Reinsurance Treaties |
|-----------|-------------------|------------------|--------------------------|---------------------------|-------------|--------|------------------------|------------------------|---------------|------------------|------------------|--------------------------|-----------------------------|-----------------------------|-------------------------------|-----------------|----------------------------------|
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### NOTE:

A. Report the five largest provisional commission rates included in the cedant’s reinsurance treaties. The commission rate to be reported is by contract with ceded premium in excess of $50,000:

<table>
<thead>
<tr>
<th>Name of Reinsurer</th>
<th>Commission Rate</th>
<th>Ceded Premium</th>
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B. Report the five largest reinsurance recoverables reported in Column 15, due from any one reinsurer (based on the total recoverables, Line 9999999, Column 15, the amount of ceded premium, and indicate whether the recoverables are due from an affiliated insurer:

<table>
<thead>
<tr>
<th>Name of Reinsurer</th>
<th>Total Recoverables</th>
<th>Ceded Premiums</th>
<th>Affiliated</th>
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## SCHEDULE F – PART 5
Provision for Unauthorized Reinsurance as of December 31, Current Year (000 OMITTED)

<table>
<thead>
<tr>
<th>ID Number</th>
<th>NAIC Company Code</th>
<th>Name of Reinsurer</th>
<th>Domiciliary Jurisdiction</th>
<th>Special Code</th>
<th>Reinsurance Recoverable All Items Schedule F Part 3, Col. 15</th>
<th>Trust Funds and Other Allowed Offset Items</th>
<th>Letters of Credit</th>
<th>Issuing or Confirming Bank Number</th>
<th>Ceded Reinsurance</th>
<th>Miscellaneous Balances Payable</th>
<th>Provision for Unauthorized Reinsurance (Col. 64 Minus Col. 4413)</th>
<th>Recoverable Paid Losses &amp; L&amp;I Expenses Over 90 Days past Due not in Dispute</th>
<th>20% of Amount in Col. 4415 plus Col. 4417</th>
<th>Provision for Overdue Reinsurance (Col. 4416 plus Col. 4418)</th>
<th>Total Provision for Reinsurance Ceded to Unauthorized Reinsurers (Col. 4419 plus Col. 4418 but not in Excess of Col. 46)</th>
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**Totals**: XXX

1. Amounts in dispute totaling $_______________ are included in Column 46.
2. Amounts in dispute totaling $_______________ are excluded from Column 4413.

**Notes**:

(a) **Issuing or Confirming Bank Reference Number**

(b) **Letters of Credit**

(c) **American Bankers Association (ABA) Routing Number**

(d) **Issuing or Confirming Bank Name**

(e) **Letter of Credit Amount**

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### SUPPLEMENTAL SCHEDULE FOR REINSURANCE COUNTERPARTY REPORTING EXCEPTION – ASBESTOS AND POLLUTION CONTRACTS

For The Year Ended December 31, 2020 (000 Omitted)  
(To Be Filed by March 1)

| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 |
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| 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 | 31 | 32 | 33 | 34 | 35 | 36 | 37 | 38 | 39 | 40 | 41 |
| 42 | 43 | 44 | 45 | 46 | 47 | 48 | 49 | 50 | 51 | 52 | 53 | 54 | 55 | 56 | 57 | 58 | 59 | 60 | 61 | 62 |
| 63 | 64 | 65 | 66 | 67 | 68 | 69 | 70 | 71 | 72 | 73 | 74 | 75 | 76 | 77 | 78 | 79 | 80 | 81 | 82 | 83 |
| 84 | 85 | 86 | 87 | 88 | 89 | 90 | 91 | 92 | 93 | 94 | 95 | 96 | 97 | 98 | 99 | 100 | 101 | 102 | 103 | 104 |
| 105 | 106 | 107 | 108 | 109 | 110 | 111 | 112 | 113 | 114 | 115 | 116 | 117 | 118 | 119 | 120 | 121 | 122 | 123 | 124 | 125 |

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April 30, 2015

Mr. Dale Bruggeman, Chair
Statutory Accounting Principles Working Group
National Association of Insurance Commissioner
2301 McGee, Suite 800
Kansas City, MO 64108-2604

Re: Agenda Item 2014-28, Asbestos and Pollution Reinsurance Reporting Exception

Dear Mr. Bruggeman,

Thank you for the opportunity to provide comments on the latest exposure of the Statutory Accounting Principles Working Group ("SAPWG") Agenda Item 2014-28, Asbestos and Pollution Reinsurance Reporting Exception. We acknowledge and appreciate the time and effort expended by both regulators and NAIC Staff on this issue and believe a final resolution is near. There was a considerable amount of discussion on this agenda item at the spring 2015 NAIC national meeting in Phoenix which resulted in the exposure of proposed changes to SSAP No. 62R that would result in different presentation on Schedule F of paid losses impacted by retroactive reinsurance agreements as compared to the presentation of unpaid losses.

We appreciate this opportunity to not only reiterate why the AIG and CNA proposed reporting provides a far more transparent view of how the transaction impacts the solvency position of a reporting entity, but to also provide a more detailed example demonstrating this superior transparency.

Background

Amendments to SSAP 62R effective in 2014 provided that reinsurance recoverables on paid losses under original reinsurance arrangements could be aggregated and reported reflecting the retroactive reinsurance counterparty in certain cases. This agenda item seeks to codify the treatment of
reinsurance recoverables on unpaid losses from original reinsurers in those same cases – where the retroactive reinsurance agreement provides substantially duplicate coverage as prior reinsurance agreements on A&P exposures. A number of criteria must be met in order to qualify for this exception reporting, one of which being that the credit risk associated with the collection of the original third party reinsurers is transferred to the retroactive reinsurer. Previous exposure drafts described two options for the reporting of the impacted reinsurance recoverables on unpaid losses which can be summarized as follows:

- "Option 1" - Reinsurance recoverables on unpaid losses would be reported as owing from the original reinsurer in Schedule F and pursuant to commissioner approval, an amount would be entered as an "Other Allowed Offset" to negate any resulting Provision for Reinsurance.

- "Option 2" - Pursuant to commissioner approval and consistent with the previously adopted guidance relating to reinsurance recoverables on paid losses, reinsurance recoverables on unpaid losses would be aggregated into one line item in Schedule F reflecting the counterparty under the retroactive reinsurance agreement for purposes of determining the Provision for Reinsurance.

In a 6 to 5 vote during the Spring 2015 NAIC national meeting, the consensus of SAPWG was to expose revised language in SSAP No. 62R requiring an "Option 1" reporting approach for the recoverables on unpaid losses, thus resulting in different treatments for recoverables on paid versus unpaid losses.

**Option 2 Provides Clearer and More Useful Information**

We continue to advocate and recommend for adoption an "Option 2" approach to reporting impacted recoverables on unpaid losses for the following reasons:

- Presenting recoverables on paid and unpaid losses in a consistent manner, aggregated to reflect the balances as subject to the retroactive reinsurance counterparty's credit risk provides a clear view of the reporting entity's true economic exposure while still providing complete underlying third party reinsurer detail in the proposed supplemental schedule. This allows Schedule F to accurately reflect the associated credit risk while the supplemental schedule provides full detail as to the underlying contractual relationships with the original reinsurers.

- Under the proposed "Option 1" reporting, Schedule F would not provide the information necessary for a reader to distinguish the amount of recoverables on unpaid losses that are subject to the underlying reinsurer's credit risk (i.e. non – A&P) and those for which the retroactive reinsurer has assumed the credit risk. The supplemental schedule will only provide the underlying reinsurer detail for the recoverables on paid losses that have been aggregated on Schedule F which represents only one small piece of the retroactive reinsurance transaction.

- Inconsistent treatment of recoverables on paid and unpaid losses is inappropriate as it would appear that the exposure to such loss shifts from one reinsurer to another once the loss has been paid. In addition, while the collateral received from the original reinsurers will need to be
allocated between that supporting A&P recoverables versus that supporting the non-A&P balances under either reporting approach, "Option 1" reporting would require the A&P collateral to be further split between that supporting recoverables on paid versus unpaid losses.

The attached example demonstrates the superior transparency of "Option 2 by comparing Schedule F presentation (inclusive of the supplemental schedule) under a realistic example where each original reinsurer has both A&P and non-A&P exposures. As you will note, the "Option 2" presentation clearly distinguishes and quantifies the A&P exposures that are subject to the retroactive reinsurance agreement, reflecting the economic exposures, while "Option 1" does not.

Proposed Option 1 Language

While we continue to urge SAPWG to move forward with an "Option 2" approach, should the currently exposed language be chosen as the path forward, we offer the following minor suggested edits:

- We would suggest the heading reading “Asbestos and Pollution Contracts – Counterparty Reporting Exception for Unpaid Amounts” be added back in before paragraph 67
- The reference to paragraph 67 in the first sentence of paragraph 68 should be removed as aggregate reporting is only allowed under paragraph 66.

Proposed Option 2 Language

Should SAPWG collectively recognize the merits of "Option 2" and opt to proceed with that proposed reporting, we would like to respectfully submit the following proposed language revisions which would achieve that goal. These proposed revisions are consistent with those provided in our comment letter dated January 16, 2015.

67. With the approval of the reporting entity’s domestic state commissioner insurance department, may also choose to grant a prescribed or permitted practice that allows the retroactive contract as an acceptable form of security related to the original insurers pursuant to the applicable provisions of the state’s credit for reinsurance law regarding the use of other forms of collateral acceptable to the commissioner. 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. If so, the state may permit the reporting entity to shall present reflect the other acceptable security provided under the retroactive reinsurance agreement as an "Other Allowed Offset Item" with respect to the amount recoverable for unpaid losses and loss adjustment expenses under the original reinsurance contracts. With this permission, for amounts approved as an "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.
68. The reporting entity will continue to detail the reporting of original reinsurers that were aggregated for one line reporting per paragraph 66-67 as provided in the Annual Statement Instructions. The aggregation reporting in Schedule F applies only to the extent that inuring balances currently receivable under 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 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-705. 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 the 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.

We again urge SAPWG to reconsider its current course of proceeding with an "Option 1" approach for the reporting of impacted A&P reinsurance recoverables on unpaid losses and instead move forward with the option that provides the greatest level of transparency by letting Schedule F reflect what it is intended to capture, credit risk, while still providing all underlying detail as if the recoverables had been reported with the underlying third party reinsurer. This option is "Option 2". All of our comments and proposed alternatives have been included in prior exposure documents and therefore we do not believe adopting our recommendations should require further exposure.

Sincerely,

[Signatures]

Jeffery C. Alton  
Vice President, Financial Regulation  
CNA

Lawrence Moloney  
North America Controller  
AIG Property Casualty

cc: Robin Marcotte, NAIC  
Joe DeMauro, AIG
### Reporting Option: Age-Eligible Receivables on Paid and Unpaid Losses

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