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With regards to statutory financial statement reporting for protected cells, SSAP 74 already prescribes the Disclosures required in paragraph 18 and 19 of the SSAP.<sup>21</sup> ProTucket contemplates that its disclosures will be even more robust and plans to file complete annual and quarterly financial statements for its protected cells.<sup>22</sup> If complete financial statements are required for protected cells, other regulatory requirements, such as RBC for protected cell companies and protected cells, can be considered and imposed if regulators ultimately decide that additional financial and solvency requirements are necessary.

The proposed provisions for the permitted accounting practice for ProTucket's general account and protected cells are as follows:

### **Accounting for Protected Cell Companies and Protected Cells**

#### General Account

1. Activities such as sales, underwriting, contract administration, premium collection, payment of taxes, due diligence before transactions, and claims processing not attributable to a protected cell are activities of the insurance company which are distinct from the protected cell and shall be accounted for as transactions of the general account. Expenses attributable solely to a protected cell, including but not limited to, losses, loss adjustment expenses, and insurance and reinsurance contract administration shall not be accounted for as transactions of the general account but rather as required by paragraph 6 below.

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<sup>20</sup> This will be similar to the standard applied for UK Part VII transfers, which in general requires sufficient financial support to pay out losses at the 99.5% confidence level over a one-year time horizon.

<sup>21</sup> SSAP 74:

#### General Account

18. The general account shall reflect all activities with its protected cells on the designated lines within its statutory balance sheet and income statement. The general account shall also disclose in its notes to the financial statements the types and amounts of exposures/risks attributed to each of its protected cells.

#### Protected Cells

19. Each protected cell of a protected cell company shall prepare and submit to all states where the protected cell company is licensed and the NAIC the following supplemental financial information:

- a. Balance Sheet
- b. Income Statement
- c. Statement of Cash Flows
- d. Investment Schedules as typically required for a property/casualty insurer
- e. Schedule P

<sup>22</sup> ProTucket believes that the RI Department may well require more complete financial statements for each protected cell, and supports that requirement.

2. Amounts paid to the protected cell for underwriting risks shall be reported separately as a reduction of written and earned premiums in the current period general account's statement of income. This premium is earned by the general account in accordance with *SSAP No. 53—Property Casualty Contracts—Premiums* (SSAP No. 53).
3. Insurance claim liabilities arising from past insurable events shall be accounted for as retroactive reinsurance or as the transfer of property and casualty run-off agreements as prescribed in SSAP No. 62R—Property and Casualty Reinsurance based upon the facts and circumstances of the specific reinsurance businesses acquired. The same accounting treatment shall be required for the protected cell for insurance claim liabilities attributed to the protected cell account from the general account.
4. General account recoverables from the protected cell shall be recognized separately as a reduction of gross losses and loss expenses incurred in the current period general account's statement of income. General account recoverables from the protected cell on unpaid reported and incurred but not reported losses and loss adjustment expenses shall be netted against the liability for gross losses and loss adjustment expenses on the general account's balance sheet. General account recoverables from the protected cell for other expenses incurred on behalf of the protected cell shall be recognized as reductions of such other expenses. Recoverables from the protected cell shall not exceed the assets carried at fair value in the protected cell.
5. The general account shall include aggregate amounts on the designated lines in the balance sheet and income statement for any protected cell which it maintains, including transfers due or accrued, of any protected cell business which it maintains and, therefore, the surplus, if any, of its protected cell business. Transfers to the general account due or accrued shall be reported on a net basis so that the asset and the liability totals of the general account are not overstated. Changes in the surplus of the protected cell business of an insurer, except for changes resulting from the net gain from operations of the protected cell, shall be charged or credited directly to the unassigned funds (surplus) of the general account.

#### Protected Cell Reporting

6. The protected cell annual statement is concerned with the insurance business and investment activities, and policyholder, claimant and other obligations attributed to that protected cell. As a result, the protected cell statement shall report only the financial activities of the protected cell and shall not include general account expenses related to insurance activities which are recorded in the general account. Accounting and reporting shall be, unless otherwise specified in this guidance, in accordance with the requirements of the NAIC Accounting Practice and Procedures Manual.
7. The protected cell shall record premium income for transactions attributed to it as income reported in the protected cell's statement of income. This premium attribution is earned by the protected cell in accordance with SSAP No. 53.
8. All protected cell assets shall be accounted for, reported and valued in accordance with the requirements of the NAIC Accounting Practice and Procedures Manual. Net investment income and realized capital gains and losses relating to the investment operations of the protected cell



are recorded as net investment income. Payables to the general account shall not exceed the assets carried at fair value in the protected cell.

9. Changes in the admitted value of the protected cell invested assets shall be reported as an unrealized gain/loss in the equity section of the protected cell balance sheet.

## **Disclosure**

### General Account

10. The general account shall reflect all activities with its protected cells on the designated lines within its statutory balance sheet, income statement, and cash flow statement. The general account shall also disclose in its notes to the financial statements the types and amounts of exposures/risks attributed to each of its protected cells.

### Protected Cells

11. Each protected cell of a protected cell company shall prepare and submit to all states where the protected cell company is licensed and to the NAIC the same, complete financial information that is required for an entity's general account (i.e., complete annual and quarterly statements using the prescribed filing blanks and following the instructions for completing those blanks).