

Statement of Statutory Accounting Principles No. 75

Reinsurance Deposit Accounting—An Amendment to SSAP No. 62R— Property and Casualty Reinsurance

STATUS

Type of Issue:	Property and Casualty
Issued:	Finalized December 4, 2000
Effective Date:	January 1, 2001
Affects:	Supersedes paragraph 35 of SSAP No. 62R
Affected by:	Superseded with guidance included in SSAP No. 62R
Interpreted by:	No other pronouncements

STATUS	1
SCOPE OF STATEMENT	3
SUMMARY CONCLUSION	3
Disclosures	4
Relevant Literature	4
Effective Date and Transition.....	4
AUTHORITATIVE LITERATURE	4
Generally Accepted Accounting Principles.....	4
RELEVANT ISSUE PAPER	4
SSAP NO. 75 – EXHIBIT A	5

SSAP NO. 75 – EXHIBIT A**Illustration of a Reinsurance Contract That Is Accounted for as a Deposit using the Interest Method**

Assumptions:

Premium = \$1,000 (assumes no commissions or allowances)

Coverage Period = 1 year

Initial expected recoveries = \$225 per year (at end of year) for five years

Initial Implicit rate = 4 percent*

*present value of \$225 per year for five years at 4 percent = \$1,000

At the end of Year 2, the timing of anticipated recoveries under the reinsurance contract changes. A reevaluation of the implicit interest rate produces a rate of 3.63 percent and an asset of \$640 at the end of the year.

<u>Description</u>	<u>Interest Income</u>	<u>Cash Recoveries</u>	<u>Deposit Balance</u>
Initial payment			\$1,000
Year 1 (4%)	\$ 40		\$1,040
End of Year 1		\$ (225)	\$ 815
Year 2 (4 %)	\$ 33		\$ 848
End of Year 2		\$ (200)	\$ 648
Yield adjustment	\$ (8)		\$ 640
Year 3 (3.63 %)	\$ 23		

