

May 4, 1982

SUBJECT: INSURANCE

CIRCULAR LETTER NO. 8 (1982)

DATED: May 4, 1982

TO: ALL DOMESTIC PROPERTY AND CASUALTY INSURERS

RE: ALLOWANCE AS ADMITTED ASSETS OF ACCRUED RETROSPECTIVE DEBITS DEVELOPED UNDER INSURANCE CONTRACTS

Circular Letter No. 14(1979), dated June 15, 1979, sets forth the determination of the Department that accrued retrospective debits developed under the terms of reinsurance agreements, may under certain conditions be allowed as admitted assets pursuant to the provisions of Section 70(11) of the New York Insurance Law.

Further review of the matter of accrued retrospective debits, leads to the conclusion that consideration should be given to such accruals when generated by direct writing insurers. It is therefore the conclusion of the Department that the following types of accrued retrospective debits developed under the terms of insurance contracts, may be allowed as admitted assets pursuant to the provisions of Section 70(11) of the New York Insurance Law:

1. Retrospective debits applicable to policies not yet expired.
2. Retrospective debits applicable to expired policies on which the initial accounting has not yet been made.
3. Retrospective debits applicable to expired policies on which the initial accounting or the initial and subsequent accountings have been made but the experience under the policies has changed since the last accounting date, with consequent change in the accrued retrospective debits.

These allowances are subject to the following conditions:

- A. The accrued debits may be calculated on an individual policy basis, or if there is a credible experience base, on an aggregate basis by the use of appropriate factors applied to the pertinent elements of all retrospectively rated risks, by line of business. Either calculation should provide for a method of estimating accrued retrospective credits, which must be reported as part of the reserve for unearned premiums.
- B. Reserves for unpaid losses and loss expenses, inclusive of provision for incurred but not reported losses, used in the calculation, must be consistent with those reported in the financial statement of the insurer.
- C. Appropriate provision must be made for applicable liabilities, such as unpaid premium taxes, commissions and reinsurance premiums.
- D. When original, deposit, installment or audit premiums on the same or prior policy are overdue in

accordance with Department rules, dated November 29, 1978, there shall be no allowance of accrued retrospective debits.

Records setting forth the calculation of accrued retrospective debits shown as admitted assets in financial statements, shall be maintained by insurers until the final accountings have been made under the respective retrospective policies and such records have been reviewed by examiners of this Department.

Acknowledgement of receipt of this letter should be made to:

Mr. George L. Gould, Chief  
Examinations Bureau  
New York State Insurance Department  
Two World Trade Center  
New York NY 10047

Very truly yours,

[SIGNATURE]

ALBERT B. LEWIS

Superintendent of Insurance