AMERICAN ACADEMY *of* ACTUARIES

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February 3, 2016

Dale Bruggeman, Chair
Statutory Accounting Principles Working Group
National Association of Insurance Commissioners

Dear Mr. Bruggeman:

The Committee on Property and Liability Financial Reporting (COPLFR) of the American Academy of Actuaries[1] appreciates the opportunity to respond to the Statutory Accounting Principles (E) Working Group's (SAPWG) request for comments on the proposed *Clarification of Accounting Treatment for Fees Incurred for Salvage/Subrogation Recoveries* (Ref. #2015-21).

While we are not offering comments on specific items in the proposal, we have the following observations:

- The coding of S&S Expenses is not material to the evaluation of the solvency of a particular insurer. The assessment of a single company's solvency is largely a function of the financial statement data schedules reported for that company, and not the categorization of a specific expense, particularly an expense that is likely to be immaterial related to total losses.

- The coding of S&S Expenses may be material to the net financial results of an individual insurer. Under risk sharing and risk transfer mechanisms such as large-deductible policies, retrospectively rated policies, and ceded reinsurance, S&S recoveries are shared as well as the gross losses subject to risk sharing. Determining how much of the recovery is shared with others may be easier under certain coding rules for S&S Expenses than for others.

[1] The American Academy of Actuaries is an 18,500+ member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

- In a competitive analysis among insurers, the specific coding of the S&S expense, while not material for solvency purposes, may lead to different conclusions by external parties of the relative profitability of insurers for a particular line of business.

- The coding of S&S Expenses may impact the S&S reserves reported for federal income tax purposes. As such, this issue may affect the calculation of "current" income taxes, although the impact would likely be relatively minor, and any tax impact would be only temporary (i.e., a timing issue only).

COPLFR appreciates this opportunity to provide input to the SAPWG. We hope these observations are helpful, and we welcome any further discussion or review that may be helpful to this process. If you have any questions about our comments, please contact Marc Rosenberg, senior policy analyst, at rosenberg@actuary.org or 202-223-8196.

Sincerely,

Lisa Slotznick, MAAA, FCAS
Chairperson
COPLFR
American Academy of
Actuaries