RISK & REGULATION

NAIC continues to defer discussion on CECL for statutory accounting

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Market Intelligence

The National Association of Insurance Commissioners elected at its summer meeting to continue deferring discussion around adopting some form of the expected credit loss standard for statutory accounting.

For companies reporting under Generally Accepted Accounting Principles the current expected credit loss standard will substantially alter the way credit losses are accounted for, by requiring companies to set aside reserves for future losses at the point of origination, instead of as they occur. Large SEC filers across financial institutions will need to comply with the standard as of the start of 2020.

The Financial Accounting Standards Board, which governs GAAP, recently voted to create a proposal to delay the effective dates for private and small public companies, to allow these entities to better understand how the large public companies were implementing it. Insurance companies are still trying to parse out what the impact of CECL might be, and have released limited public information on the topic.

As of now, the standard will only be applied to insurers' GAAP statements, although the NAIC has been considering adopting some form of expected loss criteria for some time. Even though the insurance industry is largely opposed to this, some experts have said the implementation of some form of the standard within statutory accounting is likely.

At this time there has been no formal proposal to adopt a credit loss standard, but the NAIC has released a preliminary discussion draft and NAIC staff recommendations.

Julie Gann, a senior manager with the NAIC, works closely with the Statutory Accounting Principles Working Group, an NAIC body that studies changes to GAAP and determines whether they would make sense to implement on the statutory side.

During a working group meeting at the summer conference, Gann said NAIC staff continue to defer discussion on the standard but added that they were "open to pick it up back up," if the industry felt it needed to be addressed "sooner versus later." She also noted the recent FASB proposal on an extension for some companies, saying CECL remains something that FASB is "still kind of working on."

"The FASB's continued discussion is a key element for deferral," Gann said in an emailed statement. "The FASB proposal to defer for a variety of entities is just evidence of these continued discussions."

FASB said it has not been in communication with the NAIC working group about the credit loss standard specifically and has no plans to delay the CECL effective date for large SEC filers, according to a spokesperson.

Mike Monahan, the director for accounting policy at the American Council of Life Insurers, said during the meeting that 11 ACLI companies had extended offers for FASB board members to visit prior to the standard setter's decision to propose delaying some of the effective dates. Monahan said all board members went to at least two companies and were able to observe how hard the industry was working on the "transformative process" of complying with CECL.

Gann said the SAPWG "will continue to monitor FASB discussions and assess industry comments, particularly for SEC filers, in determining when to resume discussions." Dale Bruggeman, the chair of the accounting principles working group, declined to give an on-the-record comment.

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