

Property and Casualty Contracts

SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for property and casualty insurance contracts. Topics not covered by this statement shall comply with the more general statutory accounting guidance.
2. Topics specific to title insurance, mortgage guaranty insurance, and financial guaranty insurance are not within the scope of this statement. These topics are addressed in *SSAP No. 57—Title Insurance*, *SSAP No. 58—Mortgage Guaranty Insurance*, and *SSAP No. 60—Financial Guaranty Insurance*.

SUMMARY CONCLUSION

3. Property and casualty insurance contracts can be written to cover insured events on the following reporting bases:
 - a. Occurrence—These policies cover insured events that occur within the effective dates of the policy regardless of when they are reported to the reporting entity. Liabilities for losses on these policies shall be recorded when the insured event occurs;
 - b. Claims-made—These policies cover insured events that are reported (as defined in the policy) within the effective dates of the policy, subject to retroactive dates when applicable. Liabilities for losses on these policies shall be recorded when the event is reported to the reporting entity; and
 - c. Extended reporting—Endorsements to claims-made policies covering insured events reported after the termination of a claims-made contract but subject to the same retroactive dates where applicable. See paragraphs 7 and 8 for guidance for when premium shall be earned and losses shall be recorded.

Claims-Made Policies

4. Normally, when claims-made coverage is obtained, existing coverage is being replaced. The existing coverage may have been a claims-made policy or an occurrence policy. In either case, in an effort to reduce premium costs, the insured may request that the claims-made coverage cover only claims reported within the effective dates of the policy that occur after a specified date. This specified date is referred to as the retroactive date of the claims-made policy and eliminates duplicate coverage when converting from occurrence coverage to claims-made coverage.
5. The liability for an insured event shall be determined in accordance with *SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses* (SSAP No. 55).
6. Extended reporting endorsements, commonly referred to as tail coverage, allow extended reporting of insured events after the termination of a claims-made contract. Extended reporting endorsements modify the exposure period of the underlying contract and can be for a defined period (e.g., six months, one year, five years) or can be for an indefinite period.
7. When a reporting entity issues an extended reporting endorsement or contract and the preceding claims-made policy terminates, the reporting entity assumes liability for unreported claims and expense. This extended reporting coverage can be issued for an indefinite period or a fixed period. For indefinite reporting periods, premium shall be fully earned and loss and expense liability associated with unreported claims shall be recognized immediately. For coverage for a fixed period, premium shall be earned over the term of the fixed period, the reporting entity shall establish an unearned premium reserve for the unexpired portion of the premium and shall record losses as reported.

8. Some claims-made policies provide extended reporting coverage at no additional charge in the event of death, disability, or retirement of a natural person insured. In such instance, a policy reserve is required to assure that premiums are not earned prematurely. The amount of the reserve should be adequate to pay for all future claims arising from these coverage features, after recognition of future premiums to be paid by current insureds for these benefits. The reserve, entitled “extended reporting endorsement policy reserve” shall be classified as a component part of the unearned premium reserve considered to run more than one year from the date of the policy.

9. When the anticipated losses, loss adjustment expenses, and maintenance costs anticipated to be reported during the extended reporting period exceed the recorded unearned premium reserve for a claims-made policy, a premium deficiency reserve shall be recognized in accordance with *SSAP No. 53—Property Casualty Contracts—Premiums*.

Discounting

10. With the exception of fixed and reasonably determinable payments such as those emanating from workers’ compensation tabular indemnity reserves and long-term disability claims, property and casualty loss reserves shall not be discounted. No loss adjustment expense reserves shall be discounted.

11. Tabular reserves are indemnity reserves that are calculated using discounts determined with reference to actuarial tables which incorporate interest and contingencies such as mortality, remarriage, inflation, or recovery from disability applied to a reasonably determinable payment stream. Tabular reserves shall not include medical loss reserves or loss adjustment expense reserves.

12. Due to several instances in which states have prescribed or permitted practices to allow discounting on a non-tabular basis, recommended guidelines for discounting non-tabular unpaid loss and LAE are provided within Exhibit A. If a state has a prescribed or permitted practice allowing the use of discounts, or if discounting is utilized in accordance with this SSAP, financial statement disclosures are required in accordance with paragraphs 13-16.

13. In accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors* (SSAP No. 3), a change in the discount rate used in discounting loss reserves shall be accounted for as a change in estimate. SSAP No. 3 requires changes in estimates to be included in the statement of income in the period the change becomes known.

14. The financial statements shall disclose whether or not any of the liabilities for unpaid losses or unpaid loss adjustment expenses are discounted, including liabilities for workers’ compensation. The following disclosures, for each line of business, shall be made separately:

- a. Table(s) used;
- b. Rate(s) used;
- c. The amount of discounted liability reported in the financial statement;
- d. The amount of tabular discount, by the line of business and reserve category (i.e., case and Incurred But Not Reported (IBNR));
- e. The amount of interest accretion recognized in the statement of income; and
- f. The line item(s) in the statement of income in which the interest accretion is classified.

15. If the rate(s) used to discount prior accident years' liabilities have changed from the previous financial statement or if there have been changes in other key discount assumptions such as payout patterns, the financial statements shall disclose:

- a. Amount of discounted current liabilities at current rate(s) and assumption(s) (exclude the current accident year);
- b. Amount of discounted current liabilities at previous rate(s) and assumption(s) (exclude the current accident year);
- c. Change in discounted liability due to change in interest rate(s) and assumption(s); and
- d. Amount of non-tabular discount, by line of business and reserve category (i.e., case, defense and cost containment, adjusting and other).

16. Refer to the Preamble for further discussion regarding disclosure requirements.

Structured Settlements

17. Structured settlements are periodic fixed payments to a claimant for a determinable period, or for life, for the settlement of a claim. Frequently a reporting entity will purchase an annuity to fund the future payments. Reporting entities may purchase an annuity in which the entity is the owner and payee, or an annuity in which the claimant is the payee. When annuities are purchased to fund periodic fixed payments, they shall be accounted for as follows:

- a. When the reporting entity is the owner and payee, no reduction shall be made to loss reserves. The annuity shall be recorded at its present value and reported as an other-than-invested asset. Income from the annuities shall be recorded as miscellaneous income. The present value of the annuity and the related amortization schedule shall be obtained from the issuing life insurance company at the time the annuity is purchased; and
- b. When the claimant is the payee, loss reserves shall be reduced to the extent that the annuity provides for funding of future payments. The cost of the annuities shall be recorded as paid losses.

18. Statutory accounting and Generally Accepted Accounting Principles (GAAP) are consistent for the accounting of structured settlement annuities where the reporting entity is the owner and payee, and where the claimant is the owner and payee and the reporting entity has been released from its obligation. GAAP distinguishes structured settlement annuities where the owner is the claimant and a legally enforceable release from the reporting entity's liability is obtained from those where the claimant is the owner and payee but the reporting entity has not been released from its obligation. GAAP requires the deferral of any gain resulting from the purchase of a structured settlement annuity where the claimant is the owner and payee yet the reporting entity has not been released from its obligation. Statutory accounting treats these settlements as completed transactions and considers the earnings process complete, thereby allowing for immediate gain recognition.

19. The following information regarding structured settlements shall be disclosed in the financial statements:

- a. The amount of reserves no longer carried by the reporting entity because it has purchased annuities with the claimant as payee, and the extent to which the reporting entity is contingently liable for such amounts should the issuers of the annuities fail to perform under the terms of the annuities; and

- b. The name, location, and aggregate statement value of annuities due from any life insurer to the extent that the aggregate value of those annuities equal or exceed 1% of policyholders' surplus. This disclosure shall only include those annuities for which the reporting entity has not obtained a release of liability from the claimant as a result of the purchase of an annuity. The reporting entity shall also disclose whether the life insurers are licensed in the reporting entity's state of domicile.

20. Refer to the Preamble for further discussion regarding disclosure requirements.

Policies with Coverage Periods Equal to or in Excess of Thirteen Months

21. Some property and casualty insurance contracts are written for coverage periods that equal or exceed thirteen months. These contracts may be single premium or fixed premium policies, and generally are not subject to cancellation or premium modification by the reporting entity. The most common policies with such coverage periods are home warranty and mechanical breakdown policies. Accordingly, this guidance is primarily focused on home warranty and mechanical breakdown policies and does not apply to multiple-year contracts comprised of single-year policies, each of which have separate premiums and annual aggregate deductibles.

22. Revenues are generally not received in proportion to the level of exposure or period of exposure. In order to recognize the economic results of the contract over the contract period, a liability shall be established for the estimated future policy benefits while taking into account estimated future premiums to be received. Unearned premiums shall be recorded in accordance with paragraphs 23-33 of this statement.

23. Paragraphs 24-33 shall apply to all direct and assumed contracts or policies ("contracts"), excluding financial guaranty contracts, mortgage guaranty contracts, and surety contracts, that fulfill both of the following conditions:

- a. The policy or contract term is greater than or equal to 13 months; and
- b. The reporting entity can neither cancel the contract, nor increase the premium during the policy or contract term.

24. At any reporting date prior to the expiration of the contracts, the reporting entity is required to establish an adequate unearned premium reserve, to be reported as the unearned premium reserve. For each of the three most recent policy years, the gross (i.e., direct plus assumed) unearned premium reserve shall be no less than the largest result of the three tests described in paragraphs 27-29. For years prior to the three most recent policy years, the gross unearned premium reserve shall be no less than the larger of the aggregate result of Test 1 or the aggregate result of Test 2 or the aggregate result of Test 3 taken over all of those policy years.

25. Any reserve credit applicable for reinsurance ceded shall be appropriately reflected in the financial statements with the resulting net unearned premium reserve being established by the reporting entity.

26. The projected losses and expenses may be reduced for expected salvage and subrogation recoveries, but may not be reduced for anticipated deductible recoveries, unless the deductibles are secured by a letter of credit (LOC) or like security. Projected salvage and subrogation recoveries (net of associated expenses) shall be established based on reporting entity experience, if credible; otherwise, based on industry experience.

27. Test 1 is management's best estimate of the amounts refundable to the contractholders at the reporting date.

28. Test 2 is the gross premium multiplied by the ratio of paragraph 28.a. to paragraph 28.b.:
- a. Projected future gross losses and expenses to be incurred during the unexpired term of the contracts; and
 - b. Projected total gross losses and expenses under the contracts.
29. Test 3 is the projected future gross losses and expenses to be incurred during the unexpired term of the contracts as adjusted below, reduced by the present value of the future guaranteed gross premiums, if any.
- a. A provision for investment income is permitted in the unearned premium reserve only with respect to the projected future losses and expenses used to determine the unearned premium reserve, and not with respect to incurred but unpaid losses and expenses;
 - b. A provision for investment income on projected future losses and expenses may be calculated to the expected date the loss or expense is incurred, not from the expected date of payment;
 - c. The rate of interest used to calculate the provision for investment income shall be reviewed and changed as necessary at each reporting date and shall not exceed the lesser of the following two standards:
 - i. The reporting entity's future net yield to maturity on statutory invested assets as shown in Schedule D, less a 1.5% actuarial provision for adverse deviations; or
 - ii. The current yield to maturity on a United States Treasury debt instrument maturing in five (5) years as of the reporting date.
 - d. The reporting entity's statutory invested assets shall be reduced by the loss and loss adjustment expense reserves on unpaid losses and expenses to calculate "available invested assets." If the available invested assets are less than the result of Test 3, as calculated above, an "invested asset shortfall" exists. In this event, the Test 3 reserve shall be recalculated with the provision for investment income based on the restricted amount of available invested assets.
30. For the purposes of Tests 2 and 3 of paragraphs 28 and 29, "expenses" shall include all incurred and anticipated expenses related to the issuance and maintenance of the policy, including loss adjustment expenses, policy issuance and maintenance expenses, commissions, and premium taxes.
31. The projected future losses and expenses are to be re-estimated for each reporting date, and the most recent estimate of these projected losses and expenses is to be used in these Tests. If a range is selected and no single point in the range is identified as being the most likely, then the midpoint of management's estimate of the range shall be used. For purposes of this statement, it is assumed that management can quantify the high end of the range. If management determines that the high end of the range cannot be quantified, then a range does not exist, and management's best estimate shall be accrued.
32. The reporting entity shall provide an Actuarial Opinion and Report in conformity with the NAIC *Annual Statement Instructions for Property and Casualty Insurers*. Exhibit A of the actuarial opinion shall include the following three items: 1) the Reserve for Direct and Assumed Unearned Premiums; 2) the Reserve for Net Unearned Premiums; and 3) any other premium reserve items on which an opinion is being expressed. If any of these three items are material, the material item(s) must also be covered in the opinion and relevant comments of the actuarial opinion.

33. The actuarial report shall include a description of the manner in which the adequacy of the amount of security for deductibles and self-insured retentions is determined. The actuarial report need not assess the credit-worthiness of the specific securities (e.g. LOC's), but the actuarial opinion must report collectibility problems if known to the actuary.

High Deductible Policies

34. Certain policies, particularly workers' compensation coverage, are available under high deductible plans. High deductible plans differ from self insurance coupled with an excess of loss policy because state laws generally require the reporting entity to fund the deductible and to periodically review the financial viability of the insured and make an assessment of the suitability of the deductible plan to the insured.

35. The liability for loss reserves shall be determined in accordance with SSAP No. 55. Because the risk of loss is present from the inception date, the reporting entity shall reserve losses throughout the policy period, not over the period after the deductible has been reached. Reserves for claims arising under high deductible plans shall be established net of the deductible, however, no reserve credit shall be permitted for any claim where any amount due from the insured has been determined to be uncollectible.

36. If the policy form requires the reporting entity to fund all claims including those under the deductible limit, the reporting entity is subject to credit risk, not underwriting risk. Reimbursement of the deductible shall be accrued and recorded as a reduction of paid losses simultaneously with the recording of the paid loss by the reporting entity.

37. If the reporting entity does not hold specific collateral for the policy, amounts accrued for reimbursement of the deductible shall be billed in accordance with the provisions of the policy or the contractual agreement and shall be aged according to the contractual due date. In the absence of a contractual due date, billing date shall be utilized for the aging requirement. Deductible recoverables that are greater than ninety days old shall be nonadmitted. However, if the reporting entity holds specific collateral for the high deductible policy, ten percent of deductible recoverable in excess of collateral specifically held and identifiable on a per policy basis, shall be reported as a nonadmitted asset in lieu of applying the aging requirement; however, to the extent that amounts in excess of the 10% are not anticipated to be collected they shall also be nonadmitted. The collateral requirements of this paragraph may be satisfied when an insured provides one collateral instrument to secure amounts owed under multiple policies, provided that the reporting entity has the contractual right to apply the collateral to the high deductible policy. Collateral obtained at a group level that is not supported by an existing pooling agreement requires a written allocation agreement among all collateral beneficiaries. The terms of such agreement must be fair and equitable. Documentation supporting any allocation of collateral among reporting entities must be maintained to allow proper calculation of the nonadmitted amounts and prohibit double counting of collateral.

38. The financial statements shall disclose the following related to high deductible policies:

- a. Gross (of high deductible) amount of loss reserves, unpaid by line of business.
- b. The amount of reserve credit that has been recorded for high deductibles on unpaid claims and the amounts that have been billed and are recoverable on paid claims, by line of business and the total of these two numbers.
- c. Related to the amounts that have been billed and are recoverable on paid claims,
 - i. paid recoverable amounts that are over 90 days overdue, and
 - ii. the amounts nonadmitted (per paragraph 37).

- d. Total collateral pledged to the reporting entity related to deductible and paid recoverables:
 - i. the amount of collateral on balance sheet, and
 - ii. the amount of collateral off balance sheet.
- e. The total amount of unsecured high deductible amounts related to unpaid claims and for paid recoverables and the total percentage that is unsecured.
- f. Highest ten unsecured high deductible amounts by counterparty ranking. Note that the counterparty does not have to be named, just amount by counterparty 1, counterparty 2, etc. For this purpose, a group of entities under common control shall be regarded as a single customer.

39. Unsecured High Deductible Recoverables: If the individual obligor is part of a group under the same management or control, such as a professional employer organization (PEO), list the individual obligors, each of its related group members, and the total unsecured aggregate recoverables on high deductible policies for the entire group, which are greater than 1% of capital and surplus. For this purpose, a group of entities under common control shall be regarded as a single customer.

40. Refer to the Preamble for further discussion regarding disclosure requirements.

Asbestos and Environmental Exposures

41. Asbestos exposures are defined as any loss or potential loss (including both first party and third party claims) related directly or indirectly to the manufacture, distribution, installation, use, and abatement of asbestos-containing material, excluding policies specifically written to cover these exposures. Environmental exposures are defined as any loss or potential loss, including third party claims, related directly or indirectly to the remediation of a site arising from past operations or waste disposal. Examples of environmental exposures include but are not limited to chemical waste, hazardous waste treatment, storage and disposal facilities, industrial waste disposal facilities, landfills, superfund sites, toxic waste pits, and underground storage tanks.

42. Reporting entities that are potentially exposed to asbestos and/or environmental claims shall record reserves consistently with SSAP No. 55.

43. The financial statements shall disclose the following if the reporting entity is potentially exposed to asbestos and/or environmental claims:

- a. The reserving methodology for both case and IBNR reserves;
- b. The amount paid and reserved for losses and loss adjustment expenses for asbestos and/or environmental claims, on a direct, assumed and net of reinsurance basis. Each company should report only its share of a group amount (after applying its respective pooling percentage) if the company is a member of an intercompany pooling agreement;
- c. Description of the lines of business written for which there is potential exposure of a liability due to asbestos and/or environmental claims, and the nature of the exposure(s);

- d. The following for each of the five most current calendar years¹ on both a gross and net of reinsurance basis, separately for asbestos and environmental losses (including coverage dispute costs):

Beginning reserves	\$ _____
Incurred losses and loss adjustment expenses	_____
Calendar year payments for losses and loss adjustment expenses	_____
Ending reserves	\$ _____

44. Refer to the Preamble for further discussion regarding disclosure requirements.

Excess Statutory Reserve

45. This statement eliminates the requirement to record excess statutory reserves. Excess statutory reserves do not meet the definition of a liability established in *SSAP No. 5R—Liabilities, Contingencies and Impairments of Assets*.

Policyholder Dividends

46. Dividends to policyholders immediately become liabilities of the reporting entity when they are declared by the board of directors and shall be recorded as a liability. Incurred policyholder dividends are reported in the statement of income.

47. The financial statements shall disclose the terms of dividend restrictions, if any. Refer to the Preamble for further discussion regarding disclosure requirements.

Relevant Literature

48. Structured settlements are addressed in *FASB Statement No. 113, Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts* (FAS 113). FAS 113 is addressed in *SSAP No. 62R—Property and Casualty Reinsurance*. This statement rejects the *AICPA Audit and Accounting Guide—Audits of Property and Liability Insurance Companies*.

Effective Date and Transition

49. This statement is effective for years beginning January 1, 2001. To the extent that the requirements of paragraphs 23-33 produce a higher reserve than the reporting entity would have established through the use of their previous methodology, the reporting entity may phase in the additional reserve over a period not to exceed three years. Such a phase in period shall only be permitted if the reporting entity is able to demonstrate that it would not be operating in a hazardous financial condition and that there is not adverse risk to its insureds. The phase in shall be at least 60% of the difference between the reserve required by this statement and the reserve determined by the previous methodology during the first year, 80% in the second year, and 100% in the third year. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with SSAP No. 3. The guidance in the footnote of paragraph 43.d. was originally contained

¹ The requirement for five years of data is only applicable to the annual statement blank. The audited statutory financial report is only required to report two years. Additionally, the audited statutory financial statement shall include items not included in the notes to the annual statement blank where the blank’s schedules and exhibits satisfy disclosure requirements that are not included in the audited statutory financial statement (i.e., Since the audited financial statements do not include Schedule P, all of the SSAP No. 55 disclosures shall be included in the audited notes to financial statements).

within *INT 02-10: Statutory Audit Report Notes and the Reporting Requirements Related to Disclosures Containing Multiple Year Information* and was effective June 9, 2002.

REFERENCES

Other

- *Actuarial Standard of Practice No. 20, Discounting of Property and Casualty Loss and Loss Adjustment Expense*
- *NAIC Annual Statement Instructions for Property and Casualty Insurers*

Relevant Issue Papers

- *Issue Paper No. 65—Property and Casualty Contracts*

EXHIBIT A – GUIDELINES FOR STATES WHO PRESCRIBE OR PERMIT DISCOUNTING ON A NON-TABULAR BASIS

As discussed in paragraph 10 of this statement, with the exception of fixed and reasonably determinable payments such as those emanating from workers' compensation tabular indemnity reserves and long-term disability claims, property and casualty loss reserves shall not be discounted. However, one of the most common prescribed or permitted state practices is to allow discounting of unpaid losses and unpaid loss adjustment expenses on a non-tabular basis. The recommendations in this exhibit are not requirements and therefore should only be viewed as a recommendation to those states that prescribe or permit non-tabular discounting.

Recommended Prescribed or Permitted Practice Guidelines

The state of XYZ office will permit [insert domestic companies if prescribed or insert insurance company name if prescribed] to discount its December 20XX unpaid loss (i.e., reported losses and incurred but not reported losses) and unpaid loss adjustment expense (LAE) reserves on a non-tabular basis subject to the following conditions:

1. The unpaid loss and LAE reserves shall be determined in accordance with *Actuarial Standard of Practice No. 20, Discounting of Property and Casualty Loss and Loss Adjustment Expense* (and as agreed to by an actuary) but in no event shall the rate used exceed the lesser of the following two standards:
 - a. If the reporting entity's statutory invested assets are at least equal to the total of all policyholder reserves, the reporting entity's net rate of return on statutory invested assets, less 1.5%, otherwise, the reporting entity's average net portfolio yield rate less 1.5% as indicated by dividing the net investment income earned by the average of the reporting entity's current and prior year total assets; or
 - b. The current yield to maturity on a United States Treasury debt instrument with maturities consistent with the expected payout of the liabilities.
2. Disclosure of the [insert either prescribed or permitted practice] in compliance with the requirements of the NAIC *Accounting Practices and Procedures Manual* and the *NAIC Annual Statement Instructions – Property and Casualty*, including but not limited to:

Note 1 – Summary of Significant Accounting Policies

- A. Disclosure of permitted practice
 - a. Disclose that the reporting entity employs a prescribed or permitted accounting practice that departs from the *Accounting Practices and Procedures Manual*; and
 - b. Disclose the monetary effect on net income and statutory surplus of using the practice of discounting on a non-tabular basis rather than the NAIC statutory accounting practice of discounting fixed and reasonably determinable payments such as those emanating from workers' compensation tabular indemnity reserves and long-term disability claims.

Note 32 – Discounting of Liabilities for Unpaid Losses or Unpaid Loss Adjustment Expenses

XX. Non-tabular discounting

- a. Disclosure of whether the reporting entity is applying non-tabular discounting based upon a state prescribed or permitted practice. If permitted, provide further

disclosure as to the date domiciliary state issued permitted practice and the expiration date of such practice;

- b. Rate(s) used and the basis for the rate(s) used;
- c. Amount of non-tabular discount disclosed by line of business and reserve category (i.e., unpaid loss, incurred but not reported, defense and cost containment expense, and adjusting and other expense); and
- d. The amount of non-tabular discount reported in the statement.

Non-tabular discounting illustration:

	(1) Case	(2) IBNR	(3) Defense & Cost Containment Expense	(4) Adjusting & Other Expense
1. Homeowners/Farmowners				
2. Private Passenger Auto Liability/Medical				
3. Commercial Auto/Truck Liability/Medical				
4. Workers' Compensation				
5. Commercial Multiple Peril				
6. Medical Malpractice – Occurrence				
7. Medical Malpractice – Claims-Made				
8. Special Liability				
9. Other Liability – Occurrence				
10. Other Liability – Claims-Made				
11. Special Property				
12. Auto Physical Damage				
13. Fidelity, Surety				
14. Other (including Credit, Accident & Health)				
15. International				
16. Reinsurance Nonproportional Assumed Property				
17. Reinsurance Nonproportional Assumed Liability				
18. Reinsurance Nonproportional Assumed Financial Lines				
19. Products Liability – Occurrence				
20. Products Liability – Claims-Made				
21. Financial Guaranty/Mortgage Guaranty				
22. Total				

The rates used to discount Medical Malpractice unpaid losses at December 31, 20X2 have changed from the rates used at December 31, 20X1. At December 31, 20X2, the amount of discounted Medical Malpractice unpaid losses, excluding the current accident year, is \$ _____. Had these unpaid losses been discounted at the rates used at December 31, 20X1 the amount of discounted liabilities would be \$ _____. The reduction in the discounted liability due to the change in rates is \$ _____.

This illustration neither regulates, permits, nor prohibits the practice of discounting liabilities for unpaid losses or unpaid loss adjustment expenses.