DOMESTIC/FOREIGN INSURERS BULLETIN NO. 29

TO: ALL DELAWARE DOMESTIC LIFE INSURERS

RE: ACCOUNTING FOR FEDERAL HOME LOAN BANK FUNDING AGREEMENTS

DATED: March 26, 2008

The Federal Home Loan Bank (FHLB) has asked the Delaware Department of Insurance (the “Department”) for accounting guidance when life insurers domiciled in Delaware enter into funding agreements with the FHLB. When this type of borrowing is used to enhance investment yields, it may be viewed as operating leverage. When used in this way, the FHLB suggests that the funding agreements should be treated as deposit-type contracts and should be reported on page 3, line 3, of the statutory annual statement if the proceeds are used in this manner. If the proceeds are used for any other purpose, the amount should be reported on page 3, line 22 as borrowed money.

The Department recognizes that funding agreements do not subject the life insurance company to risks arising from policyholder mortality or morbidity and share many of the same characteristics as deposit-type contracts such as guaranteed interest contracts. Therefore, funding agreements with the FHLB (as described above) may be reported as deposit-type contracts in accordance with SSAP No. 52. In addition, companies reporting funding agreements with the FHLB shall provide in footnote 21 to the annual statement an explanation of the insurer’s relationship with the FHLB, including any pledge of collateral to secure the funding agreement. The proceeds from all FHLB borrowing remain subject to Delaware Insurance Code Section 1302(d) with respect to the computation of investment limitations.

The Department will require that any insurer that reports a funding agreement make certain additional disclosures to the Department in order to ensure that the transaction meets the characteristics described above and qualifies for deposit-type contract accounting. The company will make a confidential filing with the Department at the time of the transaction. The filing shall describe the terms of the agreement,
collateral requirements, the composition of pledged assets, and the insurer’s proposed use of the funds, including the investment program. An indication should be given regarding the overall projected profitability of this yield-enhancement strategy.

Matthew Denn
Insurance Commissioner