INT 23-01 Net Negative (Disallowed) Interest Maintenance Reserve

Definition of a bond update

Who this impacts:
U.S. NAIC interest maintenance reserve filers (life)

Timeline:
Approved temporarily until December 2025

Description:
The interest maintenance reserve (IMR) is a balance sheet reserve put in place to defer the recognition of realized capital gains and losses resulting from changes in the general level of interest rates. These deferred gains and losses are then amortized into investment income over time. A positive IMR is generated by net realized interest gains and results in the recognition of a liability. A negative IMR is generated by net realized interest losses and results in the recognition of an asset, which, prior to adoption of this interpretation, was required to be non-admitted.

With the temporary adoption of negative IMR as an allowable asset, insurers can act in the best interest of the policyholders and improve investment portfolio income.

Investment implication:
We believe insurers should be actively looking for opportunistic trades to improve portfolio health and focus less on potential capital loss resulting from a negative IMR.

Key observations

- To qualify, an insurer must have risk-based capital that is greater than 300% authorized control level (ACL) and the amount admitted is limited to 10% of general account capital and surplus.

- To account for negative IMR, there should be a balance sheet asset titled "Admitted Disallowed IMR", included as an aggregate write-in, as well as a separate capital and surplus account titled "Admitted Disallowed IMR," included as an aggregate write-in for separate surplus that offset each other.

- By executing trades that realize losses, an insurer can add significant investment income, which over time will add to total capital and surplus through enhanced portfolio growth.

- As of 9/30/2023, 113 U.S. life insurers had a net negative IMR position on their balance.

- Temporary adoption runs until 2025; however, permanent adoption may benefit policyholders in the long run – the original goal of IMR.

Source: National Association of Insurance Commissioners, 2024.

Improving fixed income portfolio quality and enhancing yield can add to an insurer's financial strength, which can benefit policyholders over the long term.