Superseded SSAPs and Nullified Interpretations

Interpretation of the Emerging Accounting Issues Working Group

INT 99-27: Nonadmitting Installment Receivables

ISSUE NULLIFIED BY SSAP NO. 6

INT 99-27 Dates Discussed

October 4, 1999; December 6, 1999

INT 99-27 References

SSAP No. 6—Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due From Agents and Brokers (SSAP No. 6)

INT 99-27 Issue

1. SSAP No. 6 includes the following guidance:

   9. Nonadmitted amounts are determined as follows:
      a. Uncollected Premium – To the extent that there is no related unearned premium, any uncollected premium balances, which are over ninety days due, shall be nonadmitted. If an installment premium is over ninety days due, the amount over ninety days due plus all future installments that have been recorded on that policy shall be nonadmitted;

2. The NAIC staff has received several inquiries as to the practical application of the above. The staff’s interpretation of the accounting guidance is depicted in the following series of journal entries.

   Workers’ compensation policy written on 1/1/X1 for $120,000 billed on installment basis at the end of each month.

   Required Journal Entries:

   1/1/X1  
   Installments booked but deferred and not yet due 120,000
   Written premium 120,000
   Change in unearned premium reserve 120,000
   Unearned premium reserve 120,000

   Initial journal entry written on effective date of policy

   1/30/X1  
   Premiums in course of collection 10,000
   Installsments booked but deferred and not yet due 10,000
   Unearned premium reserve 10,000
   Change in unearned premium reserve 10,000

   Monthly journal entry to record installments
Balance of accounts on 4/30/X1:

- Installments booked but deferred and not yet due: 80,000
- Unearned Premium Reserve: 80,000
- Premiums in course of collection: 40,000
- Written premium: 120,000
- Change in unearned premium reserve: 80,000
- Earned premium: 40,000

If no collections have been made as of 4/30/X1 then paragraph 9.a. would stipulate that the entire balance of $40,000 residing in the premiums in course of collection account would be nonadmitted. As the installments receivable and unearned premium reserve offset one another, no further amounts would be deemed nonadmitted at this point. In fact, as long as any of the premiums in course of collection account are 90 days past the contractual due date of the installment, then all subsequent installment billings would automatically be nonadmitted (i.e., May, June, July receivables of $10,000).

3. Is the staff’s interpretation of SSAP No. 6, paragraph 9.a., as depicted in the above illustrative journal entries consistent with the intent of the SSAP as drafted?

INT 99-27 Discussion

4. The working group reached a consensus that the staff’s interpretation as depicted in the above illustrative journal entities is consistent with the intent of the SSAP.

INT 99-27 Status

5. No further discussion is planned.