Statutory Issue Paper No. 21

Bills Receivable For Premiums

STATUS
Finalized March 16, 1998

Original SSAP and Current Authoritative Guidance: SSAP No. 6

Type of Issue:
Common Area

SUMMARY OF ISSUE

1. Bills receivable, which are generally interest bearing, are used by reporting entities as methods of financing premiums. The Accounting Practices and Procedures Manual for Property and Casualty Insurance Companies provides guidance on the accounting for bills receivable taken for premiums. However, the guidance for bills receivable in the Accounting Practices and Procedures Manual for Life and Accident and Health Insurance Companies relates to non-premium loans (which will be addressed in a separate issue paper). This issue paper establishes statutory accounting for bills receivable for premiums that is consistent with the Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy (Statement of Concepts).

SUMMARY CONCLUSION

2. Bills receivable for premiums meet the definition of assets as set forth in *Issue Paper No. 4—Definition of Assets and Nonadmitted Assets*. First, an evaluation shall be made to determine nonadmitted amounts. Next, an evaluation shall be made of such assets in accordance with *Issue Paper No. 5—Definition of Liabilities, Loss Contingencies and Impairments of Assets* (Issue Paper No. 5) to determine whether there is an impairment. This two step process is set forth below:

1. Bills receivable shall be accounted for as a nonadmitted asset if either of the following conditions are present:

   a. Past due installment: If any installment is past due, the entire bills receivable balance from that policy is nonadmitted; or

   b. Aggregate bills receivable balance due in excess of the unearned premium on the policy for which the note was accepted: If the aggregate bills receivable balance due exceeds the policy's unearned premium, the amount in excess of the unearned premium is nonadmitted.

3. Amounts determined to be uncollectible shall be written off: If, in accordance with Issue Paper No. 5, it is probable a portion of the bills receivable is uncollectible, any uncollectible bills receivable shall be written off against operations in the period such determination is made. If it is reasonably possible a portion of the balance is uncollectible, disclosure requirements outlined in Issue Paper No. 5 shall be followed.

9. Chapter 9, *Nonadmitted Assets*, of the Accounting Practices and Procedures Manual for Property and Casualty Insurance Companies discusses bills receivable as follows:

> 6. Bills Receivable, Taken for Premiums: Bills or notes receivable are used as methods of financing premiums usually in states where installment premiums are not permitted or customary. If any portion of a bill or note receivable is unpaid past the due date of an installment, the entire bill or note is classified as nonadmitted. Also, on bills or notes not past due, the excess of the balance due over the unearned premium on the underlying policy or policies is classified as a nonadmitted asset. To the extent bills receivable are taken for premium for retrospectively rated policies, such bills must meet the same criteria required of accrued retrospective premiums to be reported as an admitted asset.

Generally Accepted Accounting Principles

10. GAAP addresses collectibility issues related to bills receivable in FASB Statement No. 5,

---

11. The FAS 5 criteria above is used in interpreting information such as historical trending and general information about the financial condition of the insureds in an effort to evaluate the collectibility of a receivable balance. Accounting for contingencies is discussed in more detail in Issue Paper No. 5.

RELEVANT LITERATURE

Statutory Accounting

- Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy
- Accounting Practices and Procedures Manual for Property and Casualty Insurance Companies, Chapters 8 and 9
- *Issue Paper No. 4—Definition of Assets and Nonadmitted Assets*
- *Issue Paper No. 5—Definition of Liabilities, Loss Contingencies and Impairments of Assets*

Generally Accepted Accounting Principles

- *FASB Statement No. 5, Accounting for Contingencies*

State Regulations

- No additional guidance obtained from state statutes or regulations.

