

Interpretation of the Emerging Accounting Issues Working Group

INT 01-24: Application of SSAP No. 46 and 48 to Certain Noninsurance Subsidiary, Controlled or Affiliated Entities

ISSUE NULLIFIED BY SSAP NO. 88

INT 01-24 Dates Discussed

May 3, 2001; June 11, 2001; October 16, 2001

INT 01-24 References

SSAP No. 46—Investments in Subsidiary, Controlled, and Affiliated Entities (SSAP No. 46)

SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies (SSAP No. 48)

INT 01-24 Issue

1. SSAP No. 46 and SSAP No. 48 provide guidance as to the valuation of noninsurance subsidiary, controlled and affiliated (SCA) entities. SSAP No. 46 prescribes the use of either the Statutory Equity Method (as described in paragraph 7.b.ii) or the GAAP Equity Method (as described in paragraph 7.b.iii.) for the valuation of noninsurance SCA investments. SSAP No. 48 directs users to one of the equity methods in SSAP No. 46 for investments in joint ventures, partnerships and limited liability companies, except for limited partnerships with a minor ownership interest. In order to provide further guidance as to the application of SSAP No. 46 and SSAP No. 48, the working group was asked to interpret several specific SCA arrangements.

2. The accounting issue is whether the following SCA arrangements should be valued under the Statutory Equity Method or the GAAP Equity Method?

Issue 1 - Insurance Company A owns 100% of a third party administrator, TPA1. TPA1 processes claims for noninsurance companies and for Medicare and Medicaid programs. TPA1 does not process claims for Insurance Company A.

Issue 2 - Insurance Company A owns 100% of a company that processes insurance claims, TPA2. TPA2 processes claims for Insurance Company A, Insurance Company B, Insurance Company C and Insurance Company D. TPA2 owns the EDP equipment and software necessary to provide administrative services to its customers. Insurance Companies B, C and D are not affiliates of Insurance Company A. The processing of claims for Insurance Company A constitutes 20% of the business (revenues) of TPA2.

Issue 3 - Insurance Companies A, B, C and D each own 25% of a company, TPA3, that provides administrative services, including all EDP processing, to Insurance Companies A, B, C and D. TPA3 owns the EDP equipment and software and furniture, fixtures and equipment necessary to provide administrative services to its customers. TPA3 does not provide administrative services to any other entities. Insurance Companies A, B, C and D are not part of the same insurance holding company system. The processing that TPA3 does for each of Insurance Companies A, B, C and D constitutes 25% of its business and revenues.

- Issue 4 - Insurance Company A owns 100% of a company, TPA4, that provides administrative services, including EDP processing, to Insurance Company A, Insurance Company B, Bank C and Manufacturing Company D. TPA4 owns the EDP equipment and software necessary to provide administrative services to its customers. Insurance Company A, Insurance Company B, Bank C and Manufacturing Company D are not affiliates, i.e. none of the four companies are related to one another. The processing that TPA4 does for Insurance Company A represents 40% of TPA4's business and revenues.
- Issue 5 - Insurance Company A owns 100% of a company, TPA5, that provides claims administration services, including EDP processing, to Insurance Company A, Insurance Company B, numerous self-insured companies and Medicare. TPA5 owns the EDP equipment and software necessary to provide administrative services to its customers. Insurance Company A, Insurance Company B and the self-insured companies are not affiliates, i.e. they are not related to one another. Insurance Companies A and B may provide stop-loss coverage to some of the self-insured companies for whom TPA5 provides claims administration services. The processing that TPA5 does for Insurance Company A represents 51% of TPA5's business and revenues.
- Issue 6 - Insurance Company A holds a 18.77% Partnership Interest in LP A. This fund was organized for the primary purpose of investing in investment vehicles and commodity pools as a "fund of funds" investment manager. The insurer is a limited partner. The general partner is not affiliated with the insurer. Quoting from the limited partnership agreement Section 3.1 – "The general partner shall be vested with the complete control of the business of the fund. The limited partners shall have no responsibility for the management of the fund and shall have no authority or right to act on behalf of the fund or to bind the fund in connection with any matter." The largest holding on their 12/31/99 audited GAAP financials was \$293.6 million of "Investments in limited partnerships and investment funds, at fair value." Beyond that they have \$28.0 million of cash and cash equivalents and \$90k of dividends and interest receivable.
- Issue 7 - Insurance Company A holds a 25% Partnership Interest in LP B. Similar to the LP A above, LP B is another limited partnership investment where the insurer owns greater than a 10% interest. The LP fund was organized primarily for the purpose of making investments in media businesses. The fund's general partner is not affiliated with the insurer. The general partner manages all of the affairs of the Fund, i.e., controls the business activities of the fund. The largest holding on their 12/31/99 unaudited GAAP financials (assume for this example that audited statements are not and will not be prepared) was \$194.0 million of "Portfolio investments at fair value". This was made up of a combination of partnership and stock investments. Total assets were \$200.8 million at 12/31/99.
- Issue 8 - Insurance Company A holds a 25% Partnership Interest in LLP C. LLP C is a real estate development limited partnership in which the insurer holds a 25% interest as a limited partner. The LLP's general partner is not affiliated with the insurer. The general partner manages the affairs of partnership including decisions on properties to acquire and/or develop. Assets of the partnership include real estate properties, both residential and commercial. Total assets of the partnership are \$1 billion and total liabilities \$500 million, primarily outside debt. LLP C prepares annual audited GAAP financial statements,

however, they are not completed prior to the insurer filing its annual financial statements.

INT 01-24 Discussion

3. The working group reached the following:

Issue 1 - The working group reached a consensus that Insurance Company A would value its investment in TPA1 under the GAAP Equity Method.

Issue 2 - The working group was unable to reach a consensus on this issue.

Issue 3 - The working group reached a consensus that Insurance Companies A, B, C and D would value their respective investment in TPA3 under the Statutory Equity Method.

Issue 4 - The working group was unable to reach a consensus on this issue.

Issue 5 - The working group reached a consensus that Insurance Company A would value its investment in TPA5 under the Statutory Equity Method.

Issue 6 - The working group reached a consensus that Insurance Company A would value its investment in LP A under the GAAP Equity Method.

Issue 7 - The working group reached a consensus that Insurance Company A would value its investment in LP B under the GAAP Equity Method. The working group also reached a consensus that Insurance Company A would nonadmit the assets as audited GAAP financials are not available¹.

Issue 8 - The working group reached a consensus that Insurance Company A would value its investment in LLP C under the GAAP Equity Method. INT 01-22 speaks to the timing of the GAAP audits.

INT 01-24 Status

4. No further discussion planned.

¹ The Statutory Accounting Principles (E) Working Group adopted a nonsubstantive modification to SSAP No. 48 to incorporate a grandfathering provision for investments made prior to January 1, 2001 on December 10, 2001.