

Interpretation of the Emerging Accounting Issues (E) Working Group

INT 05-06: Earned But Uncollected Premium

ISSUE NULLIFIED BY SSAP NO. 53

INT 05-06 Dates Discussed

September 28, 2005; December 3, 2005

INT 05-06 References

SSAP No. 53—Property Casualty Contracts-Premiums (SSAP No. 53)

INT 05-06 Issue

1. Reporting entities may utilize a voluntary procedure whereby policies are not cancelled for non-payment of the premium until after an extended cancellation period (example 30 days), as opposed to the shorter statutory cancellation period. There are other instances when a reporting entity provides coverage for periods when the payment has not been received.
2. Prior to the cancellation of the policy the reporting entity acknowledges it is “at risk” and subject to “actual exposure” for a valid claim despite the fact that the reporting entity may not have received payment of the premium for this exposure.
3. The Accounting Issues are as follows:
 - a. Is the premium related to coverage provided during an extended cancellation period included in direct and assumed written premium?
 - b. For the premium referred to above, how should the reporting entity report this earned but uncollected premium in its financial statements?
4. SSAP No. 53 provides the following discussion on written premium:
 3. Except as provided for in paragraph 4, written premium is defined as the contractually determined amount charged by the reporting entity to the policyholder for the effective period of the contract based on the expectation of risk, policy benefits, and expenses associated with the coverage provided by the terms of the insurance contract. Frequently, insurance contracts are subject to audit by the reporting entity and the amount of premium charged is subject to adjustment based on the actual exposure. Premium adjustments are discussed in paragraphs 10-13 of this statement.
 4. For workers' compensation contracts, which have a premium that may periodically vary based upon changes in the activities of the insured, written premiums may be recorded on an installment basis to match the billing to the policyholder. Under this type of arrangement, the premium is determined and billed according to the frequency stated in the contract, and written premium is recorded on the basis of that frequency.
 9. Additional premiums charged to policyholders for endorsements and changes in coverage under the contract shall be recorded on the effective date of the endorsement and accounted for in a manner consistent with the methods discussed in paragraphs 4-7. This is done so that, at any point in time, a liability is accrued for unearned premium related to the unexpired portion of the policy endorsement.

INT 05-06 Discussion

5. SSAP No. 53, paragraph 3 supports the inclusion of earned but uncollected premium as direct and assumed written premium since the reporting entity is “at risk” and subject to “actual

exposure” for the extended period of time when the policy is still in force and effective. The Working Group reached a consensus the reporting entity is required by SSAP No. 53, paragraph 3, to include this extended coverage as part of the direct and assumed written premiums to include the effective period of the contract whether or not the reporting entity collects a premium for this time period.

6. In addition, according to existing Property and Casualty Annual Statement Instructions, earned but uncollected premium would be charged to the expense line, “net gain or (loss) from agents or premium balances charged off” when it is determined to be uncollectible. The Working Group reached a consensus the policy is in force and effective during this extended period of time and the reporting entity is “at risk” and subject to “actual exposure” for a covered claim. The reporting entity must include this extended period of time as part of the direct and assumed written premiums.

INT 05-06 Status

7. No further discussion is planned.