

Interpretation of the Emerging Accounting Issues Working Group

INT 02-02: SSAP No. 6 and Billing of Premium Before Effective Date

ISSUE NULLIFIED BY SSAP NO. 6

INT 02-02 Dates Discussed

December 10, 2001; March 18, 2002

INT 02-02 References

SSAP No. 4—Assets and Nonadmitted Assets (SSAP No. 4)

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

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

SSAP No. 54—Individual and Group Accident and Health Contracts (SSAP No. 54)

INT 02-02 Issue

1. Oftentimes, insurance coverages under certain property/casualty and health contracts are effective for one-month periods, and the related premiums are billed in advance of the effective date of coverage.
2. The accounting issue is whether premiums billed prior to the effective date of coverage can be reported as an asset and if a liability for advance premiums is necessary.

INT 02-02 Discussion

3. The working group reached a consensus that a premium billing in advance of the effective date does not meet the third requirement of SSAP No. 4, paragraph 2 regarding the occurrence of the transaction or event giving rise to the entity's right to or control of the benefit. Therefore, an asset/receivable should not be recognized on the financial statements until the effective date of the underlying policy/contract (i.e. the effective date of the contract gives rise to the entity's right). The mailing of a premium billing has no determination in the reporting of such premiums as an asset.

4. Further, the mailing of a premium billing prior to the effective date does not result in the recognition of a liability for advance premiums. Advance premiums are only recognized when the reporting entity receives cash payment for premiums prior to the effective date of the contract. In the event that the reporting entity bills and receives payment for premiums prior to the effective date, the reporting entity will recognize the receipt of cash with a corresponding credit to advance premiums (in this case a receivable is not recognized as the payment is received prior to the effective date).

INT 02-02 Status

5. No further discussion is planned.