



BUREAU OF INSURANCE

October 19, 1999

**ADMINISTRATIVE LETTER 1999-12**

**TO: All insurers and other insurance enterprises licensed in accordance with provisions of Chapter 10 of Title 38.2 of the Code of Virginia to transact the business of insurance in Virginia or filing annual statements and financial reports of insurance enterprises subject to regulation and the reporting of financial condition pursuant to Chapters 10, 13, 41, 42, 43, 44, 45, 48, 49 or 51 of Title 38.2.**

**RE: NAIC Accounting Practices and Procedures Manual, 2001**

Recently, the currently effective NAIC accounting practices and procedures manuals were revised with substantial restructuring that has resulted in a "new" Accounting Practices and Procedures Manual that will become effective January 1, 2001. The purpose of this letter is to answer questions concerning the new manual, particularly what these recent revisions and restructuring mean for the insurance enterprises licensed through the State Corporation Commission's Bureau of Insurance.

The revision process is the culmination of an effort by regulators, accountants, and industry representatives to identify a hierarchy of statutory accounting practices that will provide a comprehensive basis of accounting that can be applied consistently to all insurance enterprises. Its goal is to make the financial and related analysis techniques of state insurance regulators more meaningful and effective. It is intended to establish a comprehensive basis of accounting that will be recognized and adhered to in the absence of conflict with, or silence of, state statutes and regulations.

The roots of the revision process can be traced to the late 1980's when the National Association of Insurance Commissioners (NAIC) adopted a "solvency agenda" designed to enhance the ability of state regulators to protect insurance consumers from the financial trauma of insurer insolvency. The recognition of enhancement of solvency regulation as an ongoing process led the NAIC to undertake the evaluation of existing statutory accounting principles for purposes of further development, expansion, and documentation. After years of study, close interaction with

the American Institute of Certified Public Accountants, and hours of public hearings, a task force of regulators produced 72 new statements of statutory accounting principles (SSAPs). In March, 1998, the membership of the NAIC voted to adopt the SSAPs and related documents as its accounting practices and procedures manual and as the recognized basis of statutory accounting principles applicable for the insurance industry.

Seventy-three SSAPs have now been compiled in one manual, along with supporting appendices and background issue papers, and published by the NAIC as its "Accounting Practices and Procedures Manual, effective January 1, 2001, version 1999." The guidance of the 1999 version will be expanded to include new SSAPs as appropriate as well as interpretative guidance developed by regulators through the NAIC's Emerging Accounting Issues Working Group. These ongoing efforts are designed to keep the accounting practices and procedures manual current and relevant. An updated version is planned to be published each year.

The Bureau of Insurance has followed closely and participated actively in the development of the individual SSAPs and their transformation into a comprehensive system of accounting for those engaging in the business of insurance. We believe the 1999 version of the NAIC's accounting practices and procedures manual provides valuable and comprehensive guidance that is consistent with and supportive of Title 38.2. The concepts of conservatism, recognition, and consistency in the preparation and disclosure of financial and operational information summarize the framework of the SSAPs and other materials that comprise the new manual. These concepts are central also to the provisions of the Code of Virginia pertaining to the financial monitoring and solvency oversight of the insurance industry in Virginia. Recognition focuses solvency determinations primarily on the analysis of the balance sheet with secondary focus on the income statement. Conservatism in valuation procedures provides protection to policyholders against adverse fluctuations in financial condition or operating results. Consistency in the application of accounting principles produces financial information that is meaningful and comparable.

#### Impact in Virginia of the NAIC's New Manual

Section 38.2-1300 of Title 38.2 of the Code of Virginia requires each insurer licensed in Virginia to file an annual statement showing its financial condition and to prepare such statement in accordance with the appropriate annual statement instructions and the accounting practices and procedures manuals adopted by the NAIC. The 1998 versions of the NAIC's accounting practices and procedures manuals will be maintained and published until December 31, 2000. Effective January 1, 2001, the NAIC will replace those volumes with its "Accounting Practices and Procedures Manual, version effective January 1, 2001." Accordingly on that same date, pursuant to § 38.2-1300 of the Code of Virginia, this revised and restructured manual will become effective in Virginia as the primary guidance for valuing, admitting, recognizing, recording, and reporting the assets, liabilities and operations of an insurance enterprise. All insurance entities subject to § 38.2-1300, and also those health maintenance organizations and services plans subject to similarly worded provisions in Chapter 42, 43, 44 or 45, shall be required to adhere to the guidance set forth in the NAIC's accounting practices and procedures manual, version effective January 1, 2001, when preparing and filing the annual statements for

year ended December 31, 2001, and also all quarterly statements filed in 2001. Except as otherwise specified by statute or the Commission, the guidance provided by this new manual and in subsequently issued versions shall be applicable also for all other reports of financial condition required to be filed with the Commission, or requested by the Bureau, on or after January 1, 2001, pursuant to provisions in Title 38.2 of the Code of Virginia. The primacy of state laws is not questioned, and specific state prescribed or permitted practices founded in law will supercede guidance founded in the SSAPs and other materials comprising the NAIC accounting practices and procedures manual.<sup>1</sup>

A question has been raised whether the investment statutes in Chapter 14 of Title 38.2, through the application of § 38.2-1403 or § 38.2-1407, may conflict with guidance set forth in either the "Accounting Practices and Procedures Manual, effective January 1, 2001, version 1999," or the projected "version effective January 1, 2001." We see no conflict. An insurer may acquire, hold or invest in investments or engage in investment practices as set forth in the laws of its domiciliary state. "Appendix A-001" was developed for the 1999 version to recognize that an insurer's investment practices and state investment laws may differ and also that the difference may impact the value of admitted assets as reported in the annual statement.

#### Contact Persons and Availability of Manuals

The revised and restructured accounting practices and procedures manual most recently adopted by the NAIC is available through the NAIC's website at [www.naic.org](http://www.naic.org). A hardcopy of the NAIC Accounting Practices and Procedures Manual, version 1999, may be ordered directly from the NAIC. All NAIC publications will be consistent as of January 1, 2001, with the principles set forth in the SSAPs and other materials comprising the NAIC's accounting practices and procedures manuals.

Questions regarding this letter may be directed to Douglas C. Stolte, Deputy Commissioner, Financial Regulation Division of the Bureau of Insurance at (804) 371-9869.

Sincerely,

Alfred W. Gross  
Commissioner of Insurance

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<sup>1</sup> "Appendix A-205" was developed for the 1999 version to illustrate the disclosure of any differences between NAIC statutory accounting procedures and accounting practices prescribed or permitted by regulators in an insurer's state of domicile.