

MIA BULLETIN NO. 00-16

To: President, All Domestic Insurance Companies, HMOs, Non-Profits, Dental Plans, MCOs, etc.

From: Steven B. Larsen, Insurance Commissioner

Date: June 25, 2000

Subject: NAIC Codification of Statutory Accounting Principles

CC: Chief Financial Officer, All Domestic Insurance Companies, HMOs, Non-Profits, Dental Plans, MCOs, etc.

This notice is to advise you of the NAIC Codification of Statutory Accounting Principles, herein referred to as the NAIC Codification, and the intention of the Maryland Insurance Administration to adopt the NAIC Codification.

The Codification of Statutory Accounting Principles is the direct result of one of the initiatives of the 1991 NAIC Solvency Agenda, to evaluate existing statutory accounting principles presently outlined in the Accounting Practices and Procedures Manual for purposes of further developments, expansion and codification. The purpose of the NAIC Codification is to establish a comprehensive basis of accounting for insurance departments, insurers, and auditors that is recognized and adhered to in the absence of conflict with, or silence of, state statutes and/or regulations. In this regard, statutory accounting principles, as they existed prior to codification, did not always provide a consistent and comprehensive basis of accounting and reporting.

The existing (1998) version of the NAIC Accounting Practices and Procedures Manual will be maintained until December 31, 2000. Subsequent to that date, effective January 1, 2001, Codification of Statutory Accounting Procedures will be renamed the Accounting Practices and Procedures Manual. According to Code of Maryland Regulations 31.04.01.04 "A person who is required under Insurance Article, Annotated Code of Maryland or Health-General Article, Annotated Code of Maryland, to file an annual financial statement, interim financial statement, audited financial report, or annual actuarial opinion shall prepare the documents in accordance with the Annual Statement Instructions and the Accounting Practices and Procedures Manual adopted by the National Association of Insurance Commissioners." Since the NAIC Codification is being named the NAIC Accounting Practices and Procedures Manual, current Maryland laws and regulations do not need to be amended for the State of Maryland to adopt the NAIC Codification.

Effective Date:

- The NAIC Codification becomes effective January 1, 2001.
- Quarterly and annual statements required to be filed for periods beginning January 1, 2001 and subsequent must be in compliance with the NAIC Codification.

Impact On Regulated Entities:

- Many companies may see **major impacts** as a result of adopting the NAIC Codification.
- **We can not stress enough the importance of assessing the impact of the adoption of the NAIC codification on your entity.**
- The general treatment of accounting changes adopted to conform with Statutory Accounting Principles is to report them as adjustments to unassigned funds (surplus) in the period of the change in accounting principle. Therefore, the adoption of the NAIC Codification **may have a major impact on your entity's reported surplus.**
- In addition, the NAIC Codification requires additional disclosures in various areas. Therefore, your entity will have to develop means for capturing the required disclosure requirements. **This may require significant system changes.**
- **The assessment** of the impact of the NAIC Codification on your regulated entity **should start immediately**, and not be left to the last minute.
- The current reconciliation between GAAP and SAP, as part of your annual audited financial statements, will continue to be required.

Differences Between the NAIC Codification and Maryland Laws and Regulations:

- In accordance with the statutory hierarchy provided by the NAIC Codification, state legislative and regulatory authority is not preempted by NAIC Codification. Therefore, in instances where specific Maryland laws and regulations on a given accounting treatment exist, your entity will be required to follow the specific Maryland laws and regulations.
- In those instances where Maryland laws and regulations are silent, your entity will be required to follow the NAIC Codification.
- NAIC Codification Appendix #205 requires regulated entities to include, as part of their independent audited financial statements, a reconciliation between state laws and regulations and the NAIC Codification. This reconciliation identifies the differences between net income per the state's permitted practices and net income per Statutory Accounting Principles (NAIC Codification).
- We have established a working group of industry representatives and internal staff to compare and devise a list of the differences between the NAIC Codification and the Maryland laws and regulations. For the aforementioned differences, the working group will determine if the laws and regulations should be amended to conform to the NAIC Codification or if the laws and regulations should remain as a continual conflict with the NAIC Codification. The working group will also draft related amendments to Maryland laws and regulations as deemed necessary.

- If you have any comment or concerns that you would like the working group to consider, please forward them in writing to the attention of Lester C. Schott, Associate Commissioner, Examination and Auditing Unit.

Impact on Permitted Practices:

- Annually, regulated entities are required to submit their permitted practices to the Administration for review and approval.
- However, the Administration will more closely scrutinize permitted practices to determine if they are in accordance with NAIC Codification, and if not, whether the permitted practice should continue.

If you have any questions regarding these two matters, please contact Lester C. Schott, Associate Commissioner at (410) 468-2119.