STATUTORY ACCOUNTING PRINCIPLES

https://content.naic.org/cipr-topics/statutory-accounting-principles

NAIC, Last Updated 5/31/2023

SAP Background

Most insurers authorized to do business in the United States and its territories are required to prepare statutory financial statements in accordance with statutory accounting principles (SAP). SAP are detailed within the NAIC Accounting Practices and Procedures Manual (AP&P Manual). However, the AP&P Manual does not preempt state legislative and regulatory authority, therefore state variations may occur in accordance with prescribed or permitted practices:

- Prescribed Accounting Practices: Accounting practices that are incorporated directly or by reference to state laws, regulations and general administrative rules applicable to all insurance enterprises domiciled in a particular state.
- Permitted Accounting Practices: Accounting practices specifically requested by an insurer that depart from NAIC SAP and state prescribed accounting practices and have received approval from the insurer’s domiciliary state regulatory authority.

SAP Objective

Statutory Accounting Principles are designed to

1. ensure consistent reporting among insurers, and
2. assist state insurance departments in the regulation of insurance companies.

The ultimate objective for regulators is to ensure an insurer is solvent as this is critical to ensure that policyholders, contract holders and other legal obligations are met when they come due and that companies maintain capital and surplus at all times and in such forms as required by statute to provide an adequate margin of safety. The cornerstone of solvency measurement is financial reporting. Therefore, the regulator’s ability to effectively determine relative financial condition using financial statements is of paramount importance to the protection of policyholders. Although SAP utilizes the framework established under U.S. GAAP (Generally Accepted Accounting Principles), the SAP and GAAP accounting standards have distinct differences. In contrast to the SAP focus on the balance sheet and solvency, GAAP is typically more focused on providing decision-useful information to investors (e.g., income statement).

SAP Framework

SAP is developed in accordance with the concepts of consistency, recognition and conservatism:

- Conservatism: Conservative valuation procedures provide protection to policyholders against adverse fluctuations in financial condition or operating results. Statutory accounting should be reasonably conservative over the span of economic cycles, and in recognition of the primary responsibility to regulate for financial solvency.
- Recognition: The ability to meet policyholder obligations is predicated on the existence of readily marketable assets available when both current and future obligations are due. Assets having

economic value other than those which can be used to fulfill policyholder obligations, or those assets which are unavailable due to encumbrances or other third party interests should not be recognized on the balance sheet but rather should be charged against surplus when acquired or when availability otherwise becomes questionable.
- Consistency: The regulators' need for meaningful, comparable financial information to determine an insurer's financial condition requires consistency in the development and application of statutory accounting principles.

SAP vs GAAP

All authoritative GAAP is reviewed and considered by the Statutory Accounting Principles (E) Working Group for statutory accounting. The GAAP guidance can be

1. adopted;
2. adopted with modification; or
3. rejected for statutory accounting.

Information regarding the decision for GAAP guidance can be found in the various SSAPs (Statements of Statutory Accounting Principles) and collectively in Appendix D – GAAP Cross-Reference to SAP.