

STATE OF OKLAHOMA  
OFFICE OF MANAGEMENT AND ENTERPRISE SERVICES  
GAAP CONVERSION MANUAL

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K. INSURANCE CLAIMS LIABILITY CONVERSION PACKAGE

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June 2021

I. PURPOSE AND OBJECTIVES

The ACFR presents a liability for actual and estimated future costs of insurance claims paid by the state to other parties as a result of events that occurred on or before June 30. Further, the state will disclose events that may affect future claim costs.

This conversion package will gather information from state agencies to identify all insurance claims liabilities that may affect the state's financial statements and notes to the financial statements. For the purposes of this conversion package, an insurance claim is an application for payment that a party files with a state claim-paying program. Insurance claim-paying programs accept risks instead of paying insurance companies to accept these risks. See the key terms in Part III for a complete description of insurance claim-paying programs.

NOTE: Only insurance claim-paying programs are to be included in this conversion package. This conversion package does not apply to situations where the state pays insurance premiums to private insurers.

If a subsequent event arises that will materially change future insurance claims costs as provided by an agency, the previously submitted future insurance claim costs will be adjusted to reflect the updated amounts. The subsequent event period is from July 1 through date of the audited financial statements.

II. AGENCY ACTION REQUIRED

- A. Carefully read the key terms in Part III.
- B. The Insurance Claims Liability Summary form (summary) should reflect amounts as of close of business on June 30.
- C. Round all dollar amounts to the nearest whole dollar.
- D. All working papers are subject to audit by the State Auditor & Inspector (SA&I). The agency is required to keep a copy of the completed summary form and all associated working papers for three years after the completion of the SA&I audit.
- E. The person who completes and signs the summary form should keep a copy. A financial reporting analyst will contact this person if there are any questions.
- F. If needed, call your agency's financial reporting analyst for guidance.
- G. Return the completed summary form to your OMES financial reporting analyst by e-mail **no later than the due date shown on the form**. **If you can return it earlier, please do so.**
- H. If the summary form does not apply to your agency, check the box in the upper left portion of the summary, complete item (2) and return it to OMES.

### III. KEY TERMS

- A. Liability - A liability is an obligation resulting from past transactions (or occurrences) that will (or is likely to) result in future payments and/or reductions in revenue.
- B. Incurred But Not Reported (IBNR) - Insurance claims incurred but not reported are referred to by actuaries and accountants as IBNR. The cost of IBNR must be estimated for covered events that:
- \* Occurred on or before June 30,
  - \* Will result in valid insurance claims against the state, and
  - \* Are not known to the state at June 30, such as when the covered party has not yet filed a claim.
- C. Known But Not Paid - These are insurance claims that satisfy both of the following conditions:
- \* The state is aware that a covered event occurred on or before June 30, such as when a covered party filed an insurance claim on or before June 30.
  - \* As of June 30, your agency either has made no payment or made only partial payment on the insurance claim.
- The amount for insurance claims known but not paid includes both:
- \* The known amount that the state must pay in the future for insurance claims settled on or before June 30.
  - \* An estimate of amounts the state will pay in the future for insurance claims in process at June 30. To be included in this estimate, the claim in process must meet both of the following:
    - \* a cost to the state is probable, and
    - \* it is practical to estimate the amount of the cost.
- D. Insurance Claim-Paying Program - The state's insurance claim-paying programs accept risks instead of paying insurance companies to accept these risks. Insurance claim paying programs do one or both of the following:
- \* Pay insurance claims directly, and/or
  - \* Contract with private insurance carriers to process and/or pay insurance claims (not the transfer of the state's risk).
- E. Probable - A future event is probable if the event is likely to occur.
- F. Subsequent Event - Subsequent events are events or transactions that must be reported when they:
- \* Occur after June 30 but before the state issues its audited financial statements, and
  - \* Have a material effect on the financial statements and/or the auditor's report.

A material effect may arise from either:

- \* A material change in the number of valid insurance claims or
- \* A material change in the dollar amount per valid insurance claim.

Examples of such events include:

- \* New legislation
- \* New agency policies
- \* External events such as natural or man-made disasters, epidemics, etc.

#### IV. SPECIFIC INSTRUCTIONS

##### REMEMBER:

1. Subsequent events require completion of an updated Insurance Claims Liability Summary form. If an updated summary form is required, submit it to OMES at any time during the subsequent period but as soon as possible after the event occurs.
2. Use a separate Insurance Claims Liability Summary form for each separate insurance claim-paying program. Make as many copies of the summary form as may be necessary.

##### A. Preparation of the Data

##### 1. Known But Not Paid

Agencies may estimate the liabilities for insurance claims known but not paid through:

- a. A case-by-case review of all insurance claims.
- b. The application of historical experience to the outstanding insurance claims.
- c. A combination of both of the above.

Where agencies use historical experience, they should stratify the outstanding insurance claims by amounts and type of insurance claim. Agencies should refine these strata enough to assure that the estimation is reasonable.

For insurance claims in process at June 30 there are many ways to estimate the amount the state will pay in future years. Two examples are:

- a. The agency may divide a typical previous year's total cost from filed insurance claims by that year's number of filed claims to arrive at the average cost per filed insurance claim for that typical year. This average of filed insurance claims for that typical year may then be multiplied by the number of filed insurance claims in process at June 30 for the current year.
- b. The agency may compute the average cost per valid insurance claim over a recent period of time and multiply this average of valid insurance claims by the number of claims in process at June 30 that are estimated to be valid.

The exact computation will depend on the data available to the agency when it completes the summary form. However, the method must be consistent with generally accepted accounting principles and must withstand audit standards.

After gathering the necessary details and computing both the known and estimated amounts for insurance claims known but not paid, total the amounts to arrive at the total of insurance claims known but not paid.

2. Insurance claims incurred but not reported is entirely an estimated amount. The computation of IBNR will depend on the data available and is usually very complex. The state prefers to use estimates of IBNR prepared by independent consulting actuaries. If this is not practical, the agency must estimate IBNR using the best method available to the agency. Keep in mind that these amounts are subject to audit by the State Auditor and Inspector.
3. After gathering the above data, transfer the required information to a summary form as explained in (B) below. Complete a separate summary form for each insurance claim-paying program and submit to OMES.

##### B. Completing the Insurance Claims Liability Summary Form

1. Enter the agency ACFR code, name, and funds/accounts to be included on the summary.

2. Provide the name, title, phone number and date for each person who completes and approves this summary form. The finance officer or executive director should approve and sign the form before sending it to OMES. Keep a copy of the form. When submitting the form via email it should come from the address of the approving officer. This will act as an implicit electronic signature verifying the form has been reviewed for validity, accuracy, and completeness.
3. Enter the name of the insurance claim-paying program.
4.
  - a. Check one box to indicate whether this form provides "year-end" or "subsequent event" data. For "subsequent event" data, enter the date that the situation arose.
  - b. Describe the subsequent event that will change the state's future insurance claims costs. Attach copies of new laws, policies, or other relevant documentation if applicable. If possible, estimate the dollar effect of the event on the state's future insurance claims costs.
5. Briefly explain how you computed the estimated portion of the liability for known but not paid insurance claims in process at June 30.
6. Briefly explain how you estimated the liability for insurance claims IBNR. If an actuary computes the IBNR figure for you, attach a copy of the actuary's report.
7. Enter the amount your agency paid or will pay for insurance claims liabilities known but not paid at June 30 from expendable available financial resources. For most situations this is the amount that was paid in the month of July from the prior fiscal year money.
8. Enter the estimated amount your agency paid or will pay for insurance claims liabilities known but not paid at June 30 from future financial resources. For most situations this is the amount that was paid or will be paid after the month of July but was a liability (or estimated liability) of the state at June 30.
9. Total the amounts on lines 7 and 8.
10. Enter the total of the estimated insurance claims liability for IBNR claims at June 30, regardless of when these amounts are or will be paid.
11. Total the amounts on lines 9 and 10.  
Also, enter the total for the following:
  - a. dollar amount of current year claims received plus changes in estimates
  - b. actual dollar amount of claims paid during the current year.
  - c. calculates the total claims liability ending balance.
12. Provide comments or explanations as needed for any unusual items or circumstances.

C. Working Papers

The agency should keep any documents that support data on the summary. For example:

- \* Actuarial reports.
- \* Schedules with computations supporting estimates with full descriptions of:
  1. Any assumptions made.
  2. Mathematical, actuarial, and/or statistical methods used.
  3. Each component figure in the computation and any supporting source documents (such as claim forms).