

Accounting for Claims Management SaaS Costs

Overview

Effectively controlling claim adjustment expenses can reduce an Insurer's costs significantly. VIP Software, a national provider of integrated software solutions to P&C insurance companies, helps carriers manage their external adjuster expense by offering a product which is an expense reconciliation and reserve management solution. This web-based application, BAP™, is an end-to-end, automated solution, from vendor invoice creation; invoice review and reconciliation; to approval for payment, pending payment or rejected payment, based on preconfigured adjuster fee schedules within the software.

BAP ensures accuracy of billing and payment for independent adjuster services, while eliminating the need for additional manual or human resources. The automation is made possible through integration with leading property estimating software, Xactware® and Symbility. The analytical tool within the BAP provides holistic, real-time insight into the detail of independent adjuster and vendor expenses and operations at a moment's request.

Carriers purchase a subscription to the software as a service (SaaS), paying only for the software as it is used – with no licensing agreements or long-term software contracts. Software costs are generated concurrently with the creation of a vendor invoice, which means the cost is directly related to a covered loss and billed only upon the claim or the work assignment being closed.

Accounting & Financial Reporting

In addition to cost savings and operational efficiencies, it is important to understand the accounting and reporting requirements for SaaS contracts. From an insurer's perspective there are several matters to consider with respect to how the cost of SaaS used in the claim adjustment process are presented in their financial statement

Accounting for implementation and recurring SaaS costs.

There is no implementation cost for the service contract and the recurring costs are incurred as part of the claim settlement process. Since you do not own or control other's access to the software, all associated costs are expensed when incurred for both Generally Accepted Accounting Principles (GAAP) and Statutory Accounting Principles (SAP). (1) (2)

Expense and reserve classification for recurring SaaS costs.

The expense associated with usage of the software is tracked and identified within the Insurer's claim settlement process and invoiced and coded to a specific claim. Because the cost occurs in connection with the adjustment and recording of losses, which arises only when a covered or insured event occurs, it meets the definition of loss adjustment expense (LAE); sometimes referred to in the industry as allocated loss adjustment expense (ALAE), and should be classified on line 3 of the Statement of Income in the Annual Statement. In addition, the cost of utilizing the software is a fee associated with adjusting and settling of claims and therefore meets the definition of Adjusting & Other Payments ("A&O"). (3) (4)

Authoritative Accounting Literature

- (1) *Accounting Standards Update 2015-05, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*
- (2) *Statements of Statutory Accounting Principles No. 4, Assets and Nonadmitted Assets & Statements of Statutory Accounting Principles No. 16, Electronic Data Processing Equipment & Software*
- (3) *Statements of Statutory Accounting Principles No. 55, Unpaid Claims, Losses and Loss Adjustment Expenses*
- (4) *ASC 944-40, Claim Cost & Liabilities for Future Policy Benefits*

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