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Technical Director – File Reference No. EITF090G
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Via E-mail:
Attn: director@fasb.org
File Reference No. EITF090G

Re: Proposed Accounting Standards Update, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*

Dear Sir or Madam:

The Travelers Companies, Inc. (Travelers) appreciates the opportunity to comment on the proposed Accounting Standards Update (the “proposed Update”) that was developed by the Emerging Issues Task Force of the Financial Accounting Standards Board (the FASB or the “Board”) regarding *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*.

Travelers is a leading provider of property and casualty insurance products and services to a wide variety of businesses and organizations as well as to individuals. Our products are distributed primarily through independent insurance agents and brokers throughout the United States and in selected international markets. As a provider of property and casualty contracts, our comments will focus on the accounting treatment for acquisition costs for these types of contracts and not on life and health insurance contracts. As background for our comments, it is important to note that the products written by Travelers primarily cover a period of 6 to 12 months and the resulting deferred acquisition costs are expensed over a period of a year or less.

Travelers understands that the project was initiated to resolve the inconsistent treatment of advertising costs among some insurers. We believe that the proposed wording in ASC 944-

30-25-1B, which refers the reader to the current guidance in Subtopic 720-35 and Subtopic 340-20, accomplishes this objective. However, because the scope of the project was expanded to address other types of costs, some insurers, including Travelers, would be required to defer *additional* costs as discussed below even though the Board has tentatively concluded that all acquisition costs should be expensed as incurred as part of its deliberations in the Insurance Contracts project with the International Accounting Standards Board.

The proposed guidance regarding employee costs for time spent for certain acquisition activities appears to require insurers to develop systems to track employee costs on an individual contract basis as described below and would result in different accounting for identical activities depending on whether the activities were performed by an insurer's employees or a third party vendor. While we are supportive of improvements to financial reporting, we do not believe that it would be an efficient use of insurers' resources to develop systems that comply with the proposed Update but quickly become obsolete when the final standard from the Insurance Contracts project becomes effective.

Additional Deferred Acquisition Costs

While the intent of the proposed Update was to reduce the types of costs that can be included in deferred acquisition costs, we believe that it would have the opposite effect for many insurers. Some property and casualty insurers have interpreted the phrase "vary with and primarily related to" in the current guidance as limiting deferred acquisition costs to those costs that would not have been incurred if the contracts had not been written. This interpretation would generally limit deferred acquisition costs to commissions, premium related taxes, and few other incremental costs.

Under the proposed guidance, these insurers would now be required to develop new systems to identify the amount of employee compensation that is directly related to time spent performing certain policy acquisition tasks for contracts that have been acquired. This undertaking would provide limited informational value to users of the financial statements considering that the amortization period for these costs is one year or less. Additionally, based on current deliberations in the Insurance Contracts project, the new systems that would be required to capture these costs would become obsolete when the final standard from that project becomes effective.

In light of the short amortization period of acquisition costs for property and casualty contracts, a better solution would be to allow, but not require, companies to defer the costs directly related to time spent performing any of the activities identified in item "b" of ASC 944-30-25-1. This can be accomplished by changing the proposed wording in ASC 944-30-25-1 to require that the costs described in item "a" be capitalized and to allow, but not require, the costs for the activities described in item "b" (underwriting, policy issuance and processing, medical and inspection, and contract selling) to be capitalized.

Employee Costs for Time Spent on Certain Acquisition Activities

The proposed language in item “b” of ASC 944-30-25-1 appears to require companies to track employee costs on an individual contract basis. Although we agree in concept that deferred costs should relate to successfully acquired contracts, we believe that the proposed wording would require companies to implement cost accounting systems that could involve substantial time and resources for contracts that primarily cover a period of 6 to 12 months. Consistent with current practice, we believe that a better approach would be to allow companies to utilize cost studies that identify the costs incurred for policy acquisition tasks over an identified time period and track the number of contracts acquired as well as the total number quoted during that period. This information would be used to identify the proportion of the costs for policy acquisition tasks related to acquired contracts. These cost studies would then be updated annually or more frequently if there were significant changes in a company’s acquisition activities.

An additional concern that we have with the proposed Update is that the costs for the acquisition activities discussed in item “b” of ASC 944-30-25-1 would be accounted for differently depending on whether the activities are performed by an insurer’s employees or an outside vendor. As currently drafted, only the costs associated with employees performing these activities would be included in deferred acquisition costs. Companies using a third party vendor would be required to expense as incurred the costs associated with identical acquisition activities. This problem can be addressed by amending item “b” to allow the costs for the identified activities to be included in deferred acquisition costs regardless of whether the activities are performed by an insurer’s employees or a third party vendor.

Summary

In summary, we support the goal of clarifying the costs that meet the criteria of deferred acquisition costs. However, we are concerned that the proposed Update would have the unintended effect of requiring additional costs to be deferred for some insurers when compared to current guidance and would require many insurers to incur systems costs for an accounting treatment that has already been rejected by the Board in its deliberations on the Insurance Contracts project. Additionally, we believe that the proposed Update would result in different accounting for acquisition activities depending on whether the activities are performed by an insurer’s employees or a third party vendor.

We recommend that the final guidance require insurers to include incremental direct costs of contract acquisition in deferred acquisition costs and allow, but not require, insurers to include costs for the acquisition activities identified in item “b” of ASC 944-30-25-1. Additionally, we recommend that insurers be allowed to use costs studies to identify the portion of the costs for acquisition activities that may be deferred and that such costs should be accounted for consistently regardless of whether the activities are performed by an

insurer's employees or a third party vendor. This approach would improve consistency in reporting among insurers without requiring insurers to develop systems that, based on current deliberations on the Insurance Contracts project, will become obsolete when the final standard from that project becomes effective.

Thank you for the opportunity to comment on the proposed Update. As always, we would be pleased to answer any questions you may have or to assist in any way we can. Please do not hesitate to call me at (860) 277-0537.

Regards,

A handwritten signature in black ink that reads "D. Keith Bell". The signature is written in a cursive, flowing style.

D. Keith Bell
Senior Vice President, Accounting Policy

cc: Jay S. Benet, Vice Chairman and Chief Financial Officer