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To: Director - FASB
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Subject: EITF 09-G Agenda 20100916
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Russ -

In reviewing the most recent draft of EITF 09-G, the following issue was raised. As you probably noticed, most of the comments had come from life insurance companies. However, and we apologize in advance for the late notice, this issue was just noticed by the property/casualty insurance industry.

We recommend that the EITF adopt our suggestion or issue an Exposure Draft with this important new guidance in order to allow interested parties, FASB staff, and the EITF adequate time to analyze this issue.

Thank you for your consideration of this issue.

GROUP OF NORTH AMERICAN INSURANCE ENTERPRISES
NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES
PROPERTY CASUALTY INSURANCE ASSOCIATION OF AMERICA
REINSURANCE ASSOCIATION OF AMERICA

Issue

The current draft of EITF 09-G requires that direct-response advertising costs (DRA) be accounted for as deferred acquisition costs (DAC) for classification, subsequent measurement and premium deficiency purposes. This would be a significant change for property and casualty (P&C) insurers who issue short duration contracts but utilize DRA campaigns to create long term relationships with clients.

Currently, DRA costs are to be amortized over the period of future probable net revenues (typically many years). The EITF proposal would shorten the amortization period to be the term of the in-force policy (typically one year or less). This would dramatically accelerate the amortization and impose DRA accounting on insurers that is divergent from all other industries.

Further, in instances where an insurance policy term is one month, as is typical in certain accident insurance policies, the insurer would effectively be forced to write off DRA costs immediately. Creating divergent accounting practices is contrary to the EITF's stated goal of converging the accounting between industries.

Background

This view was proposed by the EITF in order to create a single impairment and premium deficiency model for insurers. However, the change to the amortization period would be an unintended consequence of this proposal.

Proposal

The subsequent measurement and potential impairment of capitalized DRA costs for insurers should continue to apply the guidance in ASC 340-20 (not the DAC model).

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