May 13, 2011

Ms. Leslie Seidman
Chair
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856

Ms. Seidman:

We are writing to you, your fellow Board members and staff to provide reactions to the April 27th joint meeting with the International Accounting Standards Board ("IASB") concerning *Short-Duration Insurance Contracts and the Modified Approach* ("SD-MA") as described in the IASB's *Insurance Contracts Exposure Draft* ("ED").

We were very encouraged by the Financial Accounting Standards Board's ability to focus on the critical issues that will form the basis for determining whether the IASB's combined SD-MA and post-claim proposal is an improvement to existing U.S. and Global GAAP for SD non-life insurance contracts.

During the discussion of the SD-MA, a number of questions were raised about existing practices and the operationality of various alternatives. As a well diversified insurance industry trade group with members that include some of the largest non-life insurers in North America and the world, we are well qualified and willing to advise the FASB and staff about the implications of the various alternatives.

Focus on Investors

We acknowledge that the IASB is in a different situation in that it does not have a *formally codified* standard for SD non-life insurance contracts, unlike the FASB, which has one that has been operating effectively and meeting the needs of investors, analysts, preparers, and other stakeholders for nearly three decades. Moreover, the predominate practice around the world for measuring and reporting SD non-life contracts is very closely aligned with U.S. GAAP. In addition, the overwhelming feedback that we have received from investors and analysts (both buy and sell side) is that the existing Unearned Premium Reserve approach and incurred loss model applied throughout most of the world to pre- and post claim reserves is consistent with the predominate business model for SD non-life contracts. It is also transparent, understandable, and comparable between insurers and across geographic jurisdictions and should form the basis of any accounting standard to be applied to SD non-life contracts.

A Different Model for Non-life Contracts

We agree with the FASB's prevailing view that SD non-life contracts are ***fundamentally different*** than long-duration ("LD") life insurance contracts in terms of the underlying exposures, how they are priced, managed, and how investors evaluate their performance. As such they require a separate measurement and reporting model.

We remain very concerned with IASB's ED approach to accounting for SD non-life contracts that separates contracts into a "pre-claim" and "post-claim" period. More specifically, the uniform

insurance liability measurement model developed by the IASB would apply to SD non-life contracts a measurement model specifically designed for LD life insurance contracts and as such focuses primarily on the long pre-claim period and comparatively little attention to the relatively short settlement period.

To apply the life-centric building block model ("BBM") to SD non-life contracts, the SD-MA was developed. The SD-MA attempts to reconcile the pre-claim period for life and non-life contracts by eliminating key components of the BBM such as risk margins and discounting (in most situations) and is then described as a "proxy" for the amount that would be derived using the BBM – which we do not believe is, or should be, the case as the pre-claim and post-claim periods for SD non-life contracts are fundamentally different from LD life contracts both in terms of length and risk:

- ***The pre-claim period for SD non-life contracts*** is very short and the principal risk is underwriting risk (i.e., whether frequency and severity assumptions were accurate and whether the premium charged is adequate to cover incurred claims, claims expense, and other expense). In contrast, for LD life contracts in the long pre-claim period, the principal risk, other than mortality, is investment risk (i.e., whether investment results over time will generate assets sufficient to pay claims as they come due);

- ***The post-claim period for SD non-life contracts*** is comparatively longer than that for LD life contracts as it typically takes more time for losses on SD non-life contracts to fully emerge (e.g., costs associated with home rebuilding or costs associated with treating or rehabilitating bodily injuries). It also may take longer to evaluate claims against policy coverages and come to an agreement with the insured on a final settlement amount. Historically, SD claim and claim expense reserves are measured on an incurred basis and tracked in the post-claim period using a variety of widely accepted actuarial estimation practices that have been in place and operating effectively for many years. In contrast, for LD life contracts, the post-claim period is relatively short and typically involves no unique measurement issues.

Deferred Acquisition Costs

We support the FASB's stated views on deferred acquisition costs. More specifically, we believe separate presentation is essential to both provide transparency into the amounts deferred and to avoid impairing key revenue and performance metrics.

Time Value of Money

As it relates to the time value of money, we believe it is essential to have a separate discussion solely about SD non-life claim reserves and the suitability of introducing discounting and risk adjustments and whether they enhance decision usefulness, transparency, comparability, and understandability as opposed to narrow discussions about the theoretical constructs underlying the time value of money and risk margins.

Investor reaction on this specific point has been clear. That is, investors do not want SD non-life claim reserves adjusted for discounting or risk margins. Specifically, they want a "pure" claims number that reflects the amount management believes it will pay to settle the claim. Any other judgmental (i.e., timing of payment), theoretical (i.e., risk margins), or purely random (i.e., level of risk free interest rates) adjustment impairs their ability to assess the performance of

management at estimating claims which is by far the most critical estimate in the financial statements of non-life insurers. This fact is substantiated by a recent A.M. Best study of 2010 insolvencies wherein they indicate that 55% were caused by deficient reserves or inadequate pricing; situations best revealed by the existing metrics and tools that are unencumbered by discounting and risk margins.

Allocation of Premiums

The question of whether to allocate premiums across the coverage period in a manner other than pro-rata will require discussion with primary carriers. It is typically the case with multi-peril insurance policies (e.g., homeowner policies that cover both liability and property perils – wind, fire, theft, etc.) that there is no defined seasonality for a typical diversified insurer. Accordingly, if there is an assumption that premiums would be allocated in a manner inconsistent with existing and past practice, more outreach needs to be conducted between the FASB staff and industry.

Onerous Contracts

We also agree with the FASB about the onerous contract test in that it should primarily be a qualitative analysis as it is typically not known (or determinable) during the short coverage period that a contract (or group of contracts) is onerous.

Again, we are very encouraged by the nature and quality of the discussion and would like to work more closely and effectively with the FASB and its staff as a technical resource to bring clarity to the multitude of underlying issues about SD non-life contracts.

Sincerely,

Group of North American Insurance Enterprises
National Association of Mutual Insurance Companies
Property Casualty Insurers Association of America
American International Group

cc: Insurance Working Group Members and Observers