Insurance Contracts Public Roundtable Meeting
December 2, 2013
1:00 p.m. – 4:00 p.m.

Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut

AGENDA

Welcome and Introduction

We have arranged this roundtable meeting to listen to your views and to further develop our understanding of the issues you raise or alternatives you propose in your comment letters pertaining to the Premium Allocation Approach as defined in the proposed FASB Accounting Standards Update, *Insurance Contracts (Topic 834).*

We expect to cover the following topics:

- Topic 1: Determining the Measurement Approach
- Topic 2: Liability for Incurred Claims and Discounting
- Topic 3: Insurance Contract Revenue
- Topic 4: Definition of a Portfolio and Contract Boundary
- Topic 5: Onerous Contracts
- Topic 6: Disclosure

We plan to spend 30–45 minutes per topic (depending on interest) and will then allow some time for all participants to raise any additional issues they would like to discuss at the end of the session.

Topic 1: Determining the Measurement Approach

1. The guidance in the proposed Update would require that an entity apply the Premium Allocation Approach (PAA) if either of the following characteristics are present:
   a. The coverage period of the insurance contract (determined in accordance with the boundary of the contract) is one year or less.
   b. At contract inception, it is unlikely that during the period before a claim is incurred there will be significant variability in the expected value of the net cash flows required to fulfill the contract.
2. All of the following are indicators that an entity would consider in assessing whether at contract inception significant variability in the expected fulfillment cash flows is likely during the period before a claim is incurred:
   a. The existence of minimum guarantees of benefits or options may indicate significant variability in expected net cash flows.
   b. An entity expects at contract inception that during the contract's coverage period it will significantly change premium pricing for future contracts written with similar or identical risks. That may indicate significant variability in net cash flows for the existing contract.
   c. The longer the coverage period of a contract, the more likely it is that there will be a significant change in the expected net cash flows before a claim is incurred.
   d. Some cash flow changes are likely but will not significantly contribute to expected variability in those cash flows at contract inception. Other circumstances could cause expected cash flows to change significantly but may not be likely at contract inception. In both of those circumstances, an entity is likely to conclude that there is not significant variability in net cash flows at contract inception.

Determining the Measurement Approach—Discussion Questions
1. Do you agree that entities should be required to apply the PAA if the coverage period of the insurance contract, considering the contract boundary guidance, is one year or less? 2. Do you agree that entities should be required to apply the PAA if, at contract inception, it is unlikely that during the period before a claim is incurred there will be significant variability in the expected value of the net cash flows required to fulfill the contract?

Topic 2: Liability for Incurred Claims and Discounting

3. The guidance in the proposed Update would require that upon the occurrence of insured events, an entity should recognize the liability for incurred claims, measured on the basis of the explicit, unbiased, probability-weighted estimate (that is, the mean) of the present value of future cash flows to settle the claims and related expenses.

4. The discount rates used to measure the liability for incurred claims would reflect the characteristics of the liability. The discount rates used to recognize the corresponding expense would be the discount rates determined at initial recognition of the portfolio of contracts. As a practical expedient, an entity need not discount a portfolio or portfolios of incurred claims when the effects of discounting are immaterial to the portfolio(s) or when the incurred claims are expected to be paid within one year of the insured event.

5. An entity would update the measurement of the liability for incurred claims at the end of each reporting period with any changes in the measurement recognized in net income (other than changes due to changes in the discount rates, which would be recognized in other comprehensive income).

6. A reporting entity may use a "top-down" approach that starts with the yield curve for the actual portfolio of assets held (or reference portfolio of assets) adjusted to remove factors not relevant to the insurance contract liability, or a "bottom-up" approach that begins with a risk-free yield curve that has the same duration as the liability and is adjusted for risk characteristics such as liquidity.

7. These discount rates would be updated to reflect all available information at the end of the reporting period, including the changes in the characteristics of the portfolio of insurance contracts.

Liability for Incurred Claims and Discounting—Discussion Questions

1. Do you agree that the liability for incurred claims should be based on an explicit, unbiased, and probability-weighted estimate (that is, the mean) of the future cash flows, as of the reporting date, expected to arise as the entity fulfills the contract?

2. Do you agree that an entity should discount the liability for incurred claims? Do you agree that an entity should be allowed to elect not to discount portfolios when the incurred claims are expected to be paid within one year of the insured event?

3. Do you agree that the method for calculating the discount rates should not be prescribed?

4. Do you agree that the discount rates used to reflect the time value of money should be updated periodically to reflect all available information at that time?

5. Do you agree that an entity should segregate the effects of underwriting performance from the effects of changes in discount rates by recognizing changes in the present value of the fulfillment cash flows due to changes in the discount rates in other comprehensive income?

Topic 3: Insurance Contract Revenue

8. The guidance in the proposed Update would require that an entity reduce the measurement of the liability for remaining coverage, gross of the qualifying acquisition costs incurred, and recognize a corresponding amount of revenue, in proportion to the value of coverage that the insurer has provided. That amount of revenue would be based on the passage of time or on the expected timing of incurred claims and benefits if that pattern differs significantly from the passage of time.

9. If a feature of an insurance contract requires an entity to pay amounts to policyholders or their beneficiaries regardless of whether an insured event occurs (estimated returnable amount), an entity would exclude both of the following:

   a. From revenue, the amounts that have been received from the policyholder, plus accretion of interest on those amounts, for such repayments

   b. From expenses for claims and benefits, the amounts related to the insurance contract premium excluded from revenue in (a).

10. The guidance in the proposed Update also would require that an entity consider the portion of cash flows that are contingent on claims or benefits experience (that is, loss sensitive features) as part of claims and benefits cash flows.

Insurance Contract Revenue—Discussion Questions
1. Do you agree with the proposed method(s) of recognizing the liability for remaining coverage in net income (that is, in proportion to the amount of coverage provided in that reporting period)?
2. Do you agree that, for all contracts, (a) revenue should exclude any amounts received that an entity is obligated to repay to policyholders or their beneficiaries regardless of whether an insured event occurs and (b) expenses should exclude the corresponding repayment of those amounts?
3. Do you agree that the resulting cash flows from contract features that are contingent on claims or benefits experience should be included as part of the claims and benefits cash flows?

Topic 4: Definition of a Portfolio and Contract Boundary

11. The guidance in the proposed Update would define a portfolio of insurance contracts as a group of insurance contracts that both:
    a. Are subject to similar risks and priced similarly relative to the risks taken on
    b. Have similar duration and similar expected patterns of release from risk, that is, reduction in variability of cash flows.
12. The contract boundary would be the point at which the entity no longer has a substantive obligation to provide the policyholder with coverage, which occurs when either of the following takes place:
    a. For an individual contract, the entity is no longer required to provide coverage or has the right or the practical ability to reassess the risk of the particular individual policyholder and, as a result, can set a price or level of benefits that reflects that risk.
    b. For a portfolio of contracts, if both of the following criteria are satisfied:
        (1) The entity has the right or the practical ability to reassess the risk of the portfolio that contains the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio.
        (2) The pricing of the insurance contract premiums for coverage up to the date that the risks of the portfolio are reassessed does not take into account risks relating to future periods.
13. An entity would determine the boundary of an insurance contract considering all substantive rights held by the policyholder, whether arising from contract, law, or regulation. An entity would reassess its determination of the boundary of an insurance contract at each reporting period to the extent that there are changes in contractual features.

Definition of a Portfolio and Contract Boundary—Discussion Questions
1. Do you agree with the definition of a portfolio of insurance contracts as included in the proposed Update?
2. Do you agree with the requirements included in the proposed Update on contract boundary (that is, the requirements that establish how to identify the future cash flows that will arise as the insurer fulfills its obligations)?

Topic 5: Onerous Contracts

14. The guidance in the proposed Update would require that when facts and circumstances indicate that the sum of the expected cash outflows of a portfolio of insurance contracts associated with claims to be incurred during the unexpired portion of coverage and the expected qualifying acquisition costs will exceed the carrying amount of the liability related to the unexpired portion of coverage (that is, the liability for remaining coverage), an entity would perform an onerous contract test.
15. If the test results in determining a portfolio is onerous, the entity would recognize an additional onerous contract liability and a corresponding expense for the excess of the fulfillment cash flows relating to future claims and expenses expected to be incurred that are within the boundaries of existing contracts in the portfolio and the expected qualifying acquisition costs over the liability for remaining coverage (that is, the premiums not yet recognized), net of acquisition costs.
16. An entity would reevaluate whether a portfolio of contracts is onerous and update the measurement of any additional onerous contract liability at the end of each reporting period and reverse it to the extent that the portfolio is no longer onerous.
17. All of the following are examples of changes in variables that may indicate a contract is onerous:
    a. If the probability of a hurricane or similar catastrophe suddenly increases
    b. If a demand surge after a major hurricane inflates the prices of building materials
    c. If there is an unexpected increase in medical costs that affect specific health insurance contracts.
18. Entities would need to consider infrequent, high-severity events, such as hurricanes, as of the reporting date when determining whether or not a portfolio of contracts is onerous.

Onerous Contracts—Discussion Questions
1. Do you agree with the proposed requirement that an entity should perform an onerous contract test when facts and circumstances indicate that the sum of the expected cash outflows of a portfolio of insurance contracts associated with claims to be incurred during the unexpired portion of coverage and the expected qualifying acquisition costs will exceed the carrying amount of the liability related to the unexpired portion of coverage? 2. Do you agree that an entity should consider infrequent, high-severity events, such as hurricanes, as of the reporting date when determining whether or not a portfolio of contracts is onerous?

Topic 6: Disclosure

19. The guidance in the proposed Update would require an entity to disclose qualitative and quantitative information about all of the following:
    a. The amounts recognized in its financial statements arising from insurance contracts
    b. The significant judgments and changes in judgments made in applying the guidance in Topic 834
    c. The nature and extent of the risks arising from insurance contracts.
20. The guidance in the proposed Update would require an entity to disclose reconciliations from the opening to the closing balances of both of the following:
    a. Liability for incurred claims
    b. Reinsurance assets or liabilities arising from reinsurance contracts held by the ceding entity (cedant).
21. For reconciliations required by the guidance in the proposed Update, an entity would provide information that depicts new contracts, cash flows, changes in assumptions, and derecognition of contracts.
22. An entity would aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics.
23. An entity would disclose a narrative description of the sensitivity of the insurance balances to changes in inputs used in the measurement of those balances if a change in those inputs to a different amount might result in a significantly higher or lower measurement in those balances. If there are interrelationships between those inputs, a reporting entity also would provide a description of those interrelationships and how they might magnify or mitigate the effect of changes in the inputs on the measurement of insurance balances (that is, an entity would consider correlation between inputs). For purposes of this disclosure, an entity would not take into account inputs that are associated with remote scenarios.

Disclosure—Discussion Questions
1. Do you agree with the disclosure requirements included in this proposed Update? If not, which would you change, add, or remove and why? 2. Do you agree that the disclosure requirements in this proposed Update would provide decision-useful information to users?

FASB FINANCIAL ACCOUNTING STANDARDS BOARD

Insurance Contracts Roundtable Meeting
December 2, 2013
1:00 p.m. – 4:00 p.m. EST
Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut

Participants	**Organization**
D. Keith Bell	The Travelers Companies, Inc.
Jeffrey Bernstein	Cutwater Asset Management
Darryl Briley	KPMG LLP
Al Copersino	Columbia Management Investment Advisors, LLC
Donald Doran	PricewaterhouseCoopers LLP
John Doyle	Liberty Mutual Group
R. Scott Frost	Bank of America, Merrill Lynch
Trevor Harris	Columbia Business School - CEASA
Gale Kelly	Canadian Accounting Standards Board
Gareth Kennedy	American Academy of Actuaries
Charles Kingsbury	American Insurance Association
Richard Lynch	Ernst & Young LLP
Jay Matalon	American International Group, Inc.
Michael Nannizzi	Goldman Sachs
George Ohsiek	ACE Limited
Joseph Roesler	Allied World Assurance Company Holdings, AG
Richard Sojkowski	Deloitte & Touche LLP
Kevin Spataro	Allstate Insurance Company
Roger VanCleave	Unum Group

Insurance Contracts Roundtable Meeting
December 2, 2013
1:00 p.m. – 4:00 p.m. EST
Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut

FASB and IASB Participants

Russ Golden	FASB Chairman
Jim Kroeker	FASB Vice Chairman
Daryl Buck	FASB Board Member
Tom Linsmeier	FASB Board Member
Hal Schroeder	FASB Board Member
Larry Smith	FASB Board Member
Marc Siegel	FASB Board Member
Sue Cosper	FASB Technical Director
Peter Proestakes	FASB Assistant Director
Meredith Brown	FASB Practice Fellow (Project Manager)
Jeremie Richer	FASB Assistant Project Manager
Jay Shah	FASB Project Research Associate
Andrea Laos	FASB Postgraduate Technical Assistant
Jeff Pooley	FASB Postgraduate Technical Assistant
Patrick Finnegan	IASB Board Member