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Technical Director – File Reference No. 2016-240
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
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Via E-mail:
Attn: director@fasb.org
File Reference No. 2016-240

Re: Proposed Accounting Standards Update on Technical Corrections and
Improvements to Update No. 2014-09, *Revenue from Contracts with Customers*
(*Topic 606*)

Dear Sir or Madam:

The Travelers Companies, Inc. (Travelers) appreciates the opportunity to comment on the Financial Accounting Standards Board's (the FASB or the Board) *Proposed Accounting Standards Update on Technical Corrections and Improvements to Update No. 2014-09, Revenue from Contracts with Customers (Topic 606)*. Travelers is a leading provider of property and casualty (P&C) insurance products and services to a wide variety of businesses and organizations as well as individuals. Our products are distributed primarily through independent insurance agents and brokers throughout the United States and in selected international markets.

We support the Board's ongoing project to provide technical corrections and improvements to clarify the *FASB's Accounting Standards Codification*. As part of the implementation process for Topic 606, questions about the scope and the application of the guidance have been deliberated. While the Scope and Scope Exceptions clearly define Topics that are excluded (e.g., Topic 840, *Leases*; Topic 944, *Financial Services – Insurance*) there may be questions regarding the applicability of the scope exception to certain products or services offered by a reporting entity. The proposed amendments are

helpful to further clarify the intent of the scope exclusions of Topic 606. The comments included in this letter are related to *Issue 5: Scope of Topic 606* and to Question 4: The proposed amendments are intended to improve the clarity of the scope of Topic 606 for contracts within the scope of Topic 944, *Financial Services – Insurance*, and fixed-odds wagering contracts for an entity within the scope of Topic 924, *Entertainment – Casinos*.

As included in the scope exclusion, insurance contracts within the scope of Topic 944, *Financial Services – Insurance*, are excluded from Topic 606.

As currently worded, this scope exception provides uncertainty whether the exclusion includes insurance contracts only, or is applied to other contracts insurers may have with insureds or customers that provide insurance-related services such as claim services for high deductible policies or claim and risk management services including claim administration, investigation and preparation, claim adjustment, negotiation and settlement, and the litigation assistance for self-insured commercial risks, primarily workers compensation. The accounting for insurance-related servicing components (e.g., claims adjudication, administration and payment, etc.) of a high deductible insurance contract is addressed in Topic 944. It is also noted that for certain lines of business (i.e., workers' compensation), the insurer is legally obligated to pay the high deductible portion of a claim in the event the insured does not reimburse the insurer. Topic 944 also addresses the unique accounting for the servicing component of an insurance contract, and provides specific guidance for the revenue recognition as well.

The proposed clarification which removes “insurance” from 606-10-15-2 (b) to apply the exclusion to all contracts within the scope of Topic 944 is helpful in clarifying that such contracts are not in the scope of Topic 606. However, the example provided in paragraph BC11 should be further clarified or modified, as it is likely to cause confusion when read in connection with paragraph BC12 as currently drafted and could result in diversity in practice.

As currently drafted, BC11 states the following:

“Contracts within the scope of Topic 944 are excluded from the scope of Topic 606. That scope exception applies to *contracts* within the scope of Topic 944 and does not apply to all contracts of insurance *entities*. An insurance entity might need to consider whether a contract with a customer for goods and services that are not within the scope of Topic 944. For example, the Board understands that a contract for administrative services (such as claims processing) without any insurance element is at present accounted for as a revenue arrangement within the scope of Topic 605. The Board expects that those type of service arrangements would be accounted for under topic 606 in the future.”

As currently drafted, BC 12 states the following:

“The Board has received questions about the interaction of the guidance in paragraph 606-10-15-2 with the guidance in paragraph 606-10-15-4. Some stakeholders have questioned whether the guidance in paragraph 606-10-15-4 requires an insurance entity to bifurcate contracts (within the scope of Topic 944) into elements within the scope of Topic 944 and elements within the scope of Topic 606. The guidance in paragraph 606-10-15-4 is applied *after* applying the guidance in paragraph 606-10-15-2. For example, if an entity reaches an appropriate conclusion that it has a contract entirely within the scope of Topic 944, then the entity would not apply the guidance in paragraph 606-10-15-4. This is because there are no elements of the contract within the scope of Topic 606 based on the entity’s conclusion that the entire contract is included within the scope of Topic 944. This assessment is similar to how an insurance entity determines whether contracts are within the scope of Topic 944 or Topic 605 currently. There could be other activities in the contract, such as insurance risk mitigation or cost containment activities that relate to costs to fulfill the contract within the scope of Topic 944. Those fulfillment activities would not be within the scope of Topic 606 but, instead, similar to current practice, would be considered part of the contract within the scope of Topic 944. This assessment is similar to how an insurance entity determines whether a contract is within the scope of Topic 944 or Topic 605 today.”

The current wording in the example provided in paragraph BC11 may lead to the conclusion that all claims administration services should be within the scope of Topic 606 and not within the scope of Topic 944. While the example does emphasize that only an arrangement **without any insurance element** would be included within Topic 606, the concern is that an incorrect conclusion could be reached that all administrative services (such as claims processing services) are within the scope of Topic 606, and the example would overshadow the need for an in-depth analysis of the underlying service agreement.

Many claims services arrangements provide for essentially the same service to a customer as an insurance contract and do in fact contain an insurance element. The only difference is that some or all of the underlying insurance risk may be retained by the customer. However, insurance elements, such as claim investigation, claim adjudication, cost containment services and risk mitigation (as provided in BC12) are performed by the insurance entity.

We recommend that the example provided in BC11 further clarify that a claims processing service may be within the scope of Topic 944 or Topic 606, depending upon the underlying facts and circumstances of the service agreement. An alternative approach would be to modify the reference to claims processing in paragraph BC11 so that it reads as follows:

Proposed ASU: Technical Corrections and Improvements to Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*
Page 4

“...the Board understands that a contract for administrative services (~~such as~~for example, claims check processing) without any claim investigation or adjudication (i.e., an insurance element) is at present accounted for as a revenue arrangement within the scope of Topic 605”.

Thank you for the opportunity to comment on the Proposed Update No. 2014-09, *Revenue from Contracts with Customers*. Please feel free to call me at (860) 277-0537 if you have any questions.

Regards,

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

D. Keith Bell