NAMIC
NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES

September 16, 2019

Mr. Shayne Kuhaneck
Acting Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Proposed Accounting Standard Update, Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815) and Leases (Topic 842): Effective Dates

Dear Mr. Kuhaneck

The following comments are submitted on behalf of the members of the National Association of Mutual Insurance Companies[1] regarding the proposed accounting standard update (ASU) to delay the effective dates of several financial instrument standards, including ASU 2016-13, Financial Instruments – Credit Losses, issued by the Financial Accounting Standards Board in June 2016.

NAMIC strongly supports the Board's proposal to defer the effective date for private entities and smaller reporting companies that are Securities and Exchange Commission filers. As we have stated in previous letters to FASB, the new credit loss standard presents some major challenges to property and casualty insurance companies for many reasons, but particularly as it applies to reinsurance receivables, an asset class unique to the insurance industry. The ASU replaces the existing incurred loss methodology for estimating allowances with a current expected credit loss methodology (CECL). For insurance companies that do not file GAAP financial statements, the National Association of Insurance Commissioners (NAIC) – who promulgates statutory accounting rules for insurance companies – proposed in March 2018 that certain aspects of the FASB's ASU be incorporated into Statutory Accounting Principles (SAP); however, action has been deferred until existing implementation issues associated with applying CECL have been resolved. Our members are still concerned with how the new standard will be applied for statutory accounting purposes.

[1] NAMIC is the largest property/casualty insurance trade association in the country, with more than 1,400-member companies representing 39 percent of the total market. NAMIC supports regional and local mutual insurance companies on main streets across America and many of the country's largest national insurers. NAMIC member companies serve more than 170 million policyholders and write more than $230 billion in annual premiums. Our members account for 54 percent of homeowners, 43 percent of automobile, and 32 percent of the business insurance markets. Through our advocacy programs we promote public policy solutions that benefit NAMIC member companies and the policyholders they serve and foster greater understanding and recognition of the unique alignment of interests between management and policyholders of mutual companies.

The new credit losses standard changes the accounting for credit losses for certain instruments, including reinsurance receivables. The introduction of CECL in U.S. GAAP reporting, and potentially SAP reporting, substantially increases the amount of management judgment involved in estimating credit losses and could potentially lead to volatile swings in estimates from quarter to quarter. Under GAAP and SAP reporting, there are various types of programs classified as reinsurance receivables/recoverables. For example, there are: industry pools and facilities (voluntary and involuntary), regulator-approved reinsurance arrangements, shared markets, catastrophe pools, and excess of loss facilities. The insurance industry is concerned because applying the CECL standard – a one-size-fits-all model – would be unsuitable for certain types of programs classified as reinsurance receivables. The appropriateness of applying a blanket model to reinsurance receivables was not field-tested by FASB nor was there a comprehensive cost-benefit analysis done prior to issuing the standard.

Reinsurance receivables are unique to the insurance industry; therefore, insurers are in the best position to evaluate the collectability of reinsurance receivables, including disputed, litigated and defaulted claims. A lifetime loss model for reinsurance receivables is not likely to produce a reliable output. A ceding company does not incur an economic loss on the day a reinsurance contract is executed. Under the existing incurred loss model, an event must occur prior to recognizing a credit loss. That event must be subject to independent substantiation to support a reliable estimate of loss. Contrast that to the CECL model which requires no specific event or the breaching of any threshold before an allowance is recognized.

Insurers typically manage their reinsurance counterparties individually and rely on historical experience to develop a reliable estimate of credit losses. The industry has adequate credit specific financial information from which to develop a reliable estimate. Moving away from an incurred loss model introduces a significant amount of management judgement in measuring credit impairment and forces insurers to disregard decades of loss experience data from their reinsurance counterparties. This would not improve the reliability of estimates of credit loss exposure attributable to reinsurance receivables. From a small company perspective this means more resources must be dedicated to calculating these estimates and explaining them to management and external parties.

CECL is a critical and challenging issue to the insurance industry that should have been field tested before it was issued, and it still should be field-tested today. Given that FASB has responded to concerns related to the implementation of standards and that these standards have been delayed for private companies and certain SEC filers, now is the opportunity to field-test the credit loss standard and to conduct a cost/benefit analysis. On many occasions prior to the standard being issued, the insurance industry made attempts to engage FASB regarding the characteristics of reinsurance receivables and the issues with applying CECL concepts to reinsurance programs. The complications and drawbacks of including reinsurance receivables in the scope of the standard should have been considered prior to standard issuance.

It is important that FASB work with the insurance industry to get an understanding of the implications related to the application of the standard to reinsurance receivables. The insurance industry has not been given the opportunity to provide information to FASB about a significant asset class reported as reinsurance receivables, and which exist only in the insurance industry. The FASB should take the time to work with the insurance industry before the new credit loss standard goes live for private companies and certain SEC filers.

Thank you for your attention to this important matter.

Sincerely,

Jonathan Rodgers

Jonathan Rodgers
Director of Financial and Tax Policy
National Association of Mutual Insurance Companies