



**Chair**

Richard J. Carbone  
CFO  
Prudential Financial, Inc.

**Vice Chair**

Jerry M. de St. Paer  
CFO  
XL Capital, Ltd.

Philip Bancroft  
CFO  
ACE Ltd.

Steven J. Bensinger  
CFO  
AIG, Inc.

Danny L. Hale  
CFO  
The Allstate Corporation

William G. Gasdaska  
CFO  
General Reinsurance  
Corporation

Victor C. Moses  
CFO  
Genworth Financial, Inc.

Robert Price  
Controller  
The Hartford

Joseph J. Prochaska, Jr.  
CAO  
Metropolitan Life  
Insurance Company

Michael E. Sproule  
CFO  
New York Life Insurance  
Company

---

**Douglas Wm. Barnert**  
Executive Director

October 20, 2006

Mr. Robert Herz, Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, Connecticut 06856-5116

***Sent by email***

Copies to FASB Board Members and Mr. Mark Trench, Project Manager, FASB

**Financial Guarantee Insurance Project**

Dear Chairman Herz:

The Group of North American Insurance Enterprises (“GNAIE”) has observed the tentative conclusions of the Financial Accounting Standards Board (“FASB” or “Board”) on accounting for financial guarantee contract claims, premiums, and acquisition costs. We note that the FASB’s tentative conclusions on financial guarantee insurance contracts differ significantly from the International Accounting Standards Board’s (“IASB”) tentative conclusions on accounting for insurance contracts as part of the Modified Joint Project, *Insurance Contracts Phase II* (“MJP”). Under the MJP, the insurance accounting model could change again in the near future. Because of the associated cost and disruption, as well as confusion to users of financial statements, we strongly urge the FASB to change fundamental accounting models infrequently and never in circumstances when another known project may subsequently change that decision. Accordingly, we recommend the Board make this project part of the MJP.

If the financial guarantee project proceeds, we understand that the FASB also plans to examine the appropriate accounting model for other insurance products that the Board believes may have similar characteristics, including mortgage guarantee contracts and credit insurance, and offer these comments if you commence this portion of the project.

**GNAIE**

Group of North American Insurance Enterprises  
40 Exchange Place, Suite 1707  
New York, NY 10005  
UNITED STATES

++1-212-480-0808  
info@insuranceaccounting.org  
www.insuranceaccounting.org

We suggest the Board clearly define credit insurance that is potentially within the project's scope. Credit and payment protection insurance that does not cover default risk is explicitly addressed within Financial Accounting Standard No. 60, *Accounting and Reporting by Insurance Enterprises* ("FAS 60"), and should not be part of this undertaking by the FASB. Credit insurance (Life and Disability) is a purely voluntary coverage elected by the borrower to protect themselves from defaulting on a loan solely due to specific insurable events (such as death, illness, disability, or unemployment). A credit insurer will not pay a claim for general default, unless a specified insurable event occurs. Financial guarantee and mortgage guarantee insurance, on the other hand, is primarily in place to protect the lender/investor from default of the borrower for any reason.

Mortgage guarantee insurance is different from bond financial guarantee insurance and generally accounted for consistently by insurers. We urge the Board to perform a careful review before applying the tentative conclusions on financial guarantee insurance to mortgage guarantee insurance. Some of these differences include:

- Default event. Financial guarantee defaults typically relate to a shortfall in cash flows from operations (bonds) or cash flows from assets (asset-backed notes). Mortgage guarantee contracts default from unemployment, death or illness, divorce or rising interest rates on adjustable rate mortgages, and other factors
- Ability to Monitor Defaults. Underlying mortgage loans are almost always issued and administered by 3<sup>rd</sup> party financial institutions. As a result, mortgage guarantee insurers do not have information available, or access to information, to monitor individual loan default events. In most cases, even the 3<sup>rd</sup> party financial institutions have little, or no, information, about individual borrowers after the initial underwriting stage. Financial guarantee insurers are able to obtain information to monitor the insured company's financial strength and asset values and therefore estimate default probabilities. As well, rating agencies continue to provide "shadow ratings" in most cases, periodically indicating the rating the bonds or notes would have absent insurance.
- Home collateral. Home price appreciation and property values play a large role in whether a mortgage guarantee contract will result in a claim and, if so, the amount of that claim. As a result of home collateral, the exposure for mortgage guarantee insurance is not solely debt service.



The "release from risk" premium recognition model for financial guarantee insurance can not be applied to mortgage guarantee insurance as partial prepayments and fluctuating underlying property values result in an unpredictable and non-contractual amount at risk during each reporting period. Mortgage guarantee insurers would conceivably need to capture estimates of future home values in order to properly recognize revenue under the proposed financial guarantee model.

We hope these brief comments will be of assistance to the Board in their upcoming discussions. Moreover, we would be happy to make ourselves available to discuss our comments and recommendations in more detail.

GNAIE consists of the Chief Financial Officers of the leading North American insurance companies including life insurers, property and casualty insurers, and reinsurers. GNAIE members are the largest global providers of insurance and substantial multi-national corporations. All are major participants in the United States markets.

The goals of GNAIE are to influence accounting standards to ensure that they result in high quality accounting standards for insurance companies, and, to that end, to increase communication between insurers doing business in North America and accounting standard setters. GNAIE works to meet its goals through modeling of proposed accounting standards, analysis, comment, and coordination with various end users of financial reports.

Respectfully submitted,  
The Group of North American Insurance Enterprises,

A handwritten signature in black ink that reads "Douglas Wm. Barnert". The signature is written in a cursive, flowing style.

Douglas Wm. Barnert  
Executive Director

DWB:MDF:dk