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40 Exchange Place, Suite 1707  
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UNITED STATES

November 21, 2007

Mr. Robert Herz  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

**Re:** File Reference 1540-100, Invitation to Comment on the FASB Agenda Proposal:  
Accounting for Insurance Contracts by Insurers and Policyholders, Including the IASB  
Discussion Paper, *Preliminary Views on Insurance Contracts* ("ITC")

Dear Mr. Herz:

The Group of North American Insurance Enterprises ("GNAIE") appreciates the opportunity to comment on the Financial Accounting Standards Board's ("FASB") ITC concerning its agenda decision on whether to join the International Accounting Standards Board ("IASB") in the development of the Discussion Paper, *Accounting for Insurance Contracts* ("DP") into an international accounting standard for insurance and reinsurance contracts. GNAIE consists of the Chief Financial Officers of 16 leading insurance companies including life insurers, property and casualty ("non-life") insurers, and reinsurers. GNAIE members include companies that are among the largest global providers of life and non-life insurance and reinsurance products.

We support both the general goal of FASB and IASB convergence as well as efforts to develop a consistent set of international accounting standards for insurance and reinsurance contracts. Given the critical, multi-dimensional role insurers play in the global economy, we believe it is important that a consistent set of internationally recognized standards for the accounting and reporting of insurance and reinsurance contracts be developed and implemented. We believe the globalization of capital markets will be aided by the development of internationally recognized accounting and reporting standards that promote consistency and comparability in insurance and reinsurance accounting and reporting across international boundaries. Accordingly, we strongly urge the FASB to join with the IASB and make the IASB's Phase II Insurance Contracts Project a joint project ("JP").

As it relates specifically to insurance and reinsurance contracts, while we believe there are areas where current U.S. GAAP guidance could be enhanced, we do not consider the proposals in the DP as an appropriate starting point. This is more fully discussed in our response to Question 2, in the attached Appendix I, and throughout our comment letter to the IASB; a copy of which is provided at Appendix II.

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In contrast to the DP proposals, GNAIE believes the starting point for a reconsideration of insurance and reinsurance accounting and financial reporting should give greater consideration to elements of existing U.S. GAAP. This is especially true for non-life insurance contracts, where many financial statement users and preparers have voiced serious concerns with the measurement model proposed in the DP and have reiterated the belief that the existing measurement and reporting model used world-wide is “not broken”. Other fundamental concerns we have with the measurement model proposed in the IASB’s DP, as explained more fully at Appendix II, are as follows:

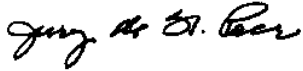
- We do not support current exit value as the measurement objective for insurance contracts.*
- We do not support the general subordination of entity-specific inputs (e.g., a reporting entity’s own cash flow estimates) to that which is market-based; or in the absence of market-based information, entity-specific information that is modified to incorporate the views of a hypothetical market participant.*
- We do not support the use of a single model for life and non-life insurance contracts, as proposed in the DP, which we believe is conceptually flawed.*
- We do not support the recognition of gains at inception for insurance contracts, before insurers are exposed to any risk, before any services are provided, and while the full amount of premium is fully refundable.*
- We do not support the introduction of explicit risk and service margins and discounting for non-life insurance contracts.*
- We do not support the discounting of non-life reserves except in situations where the payment pattern and ultimate cost are fixed and determinable on an individual claim basis.*
- We do not support the notion of “market consistent” cash flows, as required by the DP, as there are no observable “transfer” markets with which to calibrate such measurements; thus, they may be potentially misleading and open to potential manipulation.*
- We do not support placing artificial limitations on allowable cash flows included in measuring insurance contract liabilities, including the allowance for future premiums.*
- We do not support the discounting of life insurance cash flows at current risk-free interest rates that ignore best estimates of portfolio or asset-linked returns an insurer expects to earn.*
- We do not support either tacit unbundling or the consideration of own credit risk in measuring insurance liabilities.*

In light of the preceding, we have asked the IASB (in our letter attached as Appendix II) to reconsider key concepts in each of the three building blocks in its proposed approach for the measurement of life insurance contracts, and to reconsider the basic foundation of the proposed measurement approach for non-life insurance contracts.

Notwithstanding our specific concerns, we also have more general concerns such as the DP’s comprehensive rejection of the accumulated wisdom of the most widely used and understood insurance accounting and reporting standards throughout the world (i.e., U.S. GAAP) and the proposal to replace them with an experimental approach based on untested, and even more concerning, unverifiable theoretical constructs.

We thank you for the opportunity to share our comments with you on the DP and will make ourselves available to discuss our comments in more depth to the extent the Board would find that helpful. In addition, please advise us of how we might further assist the Boards as this Project develops. We are particularly interested in participating in any field testing exercises as well as any discussion forums. Please direct all communications to Douglas Wm. Barnert, GNAIE Executive Director, at [doug.barnert@gnaie.net](mailto:doug.barnert@gnaie.net).

Sincerely,



Jerry de St. Paer  
Senior Vice President, Finance, AIG  
Executive Chairman, GNAIE

**APPENDIX I****Question 1**

Is there a need for the FASB to comprehensively address accounting for insurance contracts? Why or why not?

Yes. As stated in our cover letter, we acknowledge the continuing globalization of capital markets as well as the pervasive role that insurance and insurers play in world capital markets. While we would not characterize existing U.S. GAAP for insurance and reinsurance contracts as being deficient, especially the accounting for non-life insurance contracts, we believe the model could be enhanced. Accordingly, given the globalization of capital markets, the existence of the IASB's Phase II Insurance Contracts Project, and the general belief that there are enhancements that could be made to existing U.S. GAAP for insurance and reinsurance contracts, we believe this would be an appropriate time for the FASB to comprehensively address the accounting for insurance contracts.

For purposes of clarity, our support for the FASB's comprehensive reconsideration of insurance and reinsurance accounting is principally related to our recognition of the continuing globalization of capital markets, the increasing use of International Financial Reporting Standards ("IFRS"), the Securities and Exchange Commission's ("SEC's") recent approval of a rule that immediately allows foreign private issuers to file financial reports with the SEC that use International Financial Reporting Standards ("IFRS"), as well as the FASB and IASB formal commitment to converge accounting standards. In addition, the SEC has disseminated a concept release that seeks feedback on the potential for providing U.S. registrants with an option to prepare their financial statements filed with the SEC to utilize IFRS as opposed to U.S. GAAP.

In light of the preceding, we believe there is value in the development of a *global* insurance accounting standard and believe the FASB should add the project to its agenda and make it a JP. We believe the FASB's direct involvement is critical given the pervasive importance of insurance and insurers to the world economy and financial markets and the impact the IASB proposals could have on U.S. based insurers and reinsurers.

a. What aspects of existing U.S. GAAP accounting for insurance contracts could be improved or simplified and how pervasive are these issues?

We believe there are areas of U.S. GAAP for insurance accounting that could be improved and/or simplified; however, we would not characterize any of these areas as critical. In general, our support of FASB making the IASB Phase II Insurance Contracts Project a JP is predicated on our belief that the development of an international set of accounting and financial reporting principles for insurance and reinsurance would be valuable, especially in light of the continued globalization of capital markets. Moreover, given the FASB/IASB commitment to convergence together with the fact that the IASB has a Phase II Insurance Contracts Project underway we believe the FASB has little choice but to participate with the IASB and make the Project a JP so as to ensure that the views and interests of its constituents are appropriately considered during the development of the new standard.

Although we support the FASB participating with the IASB and making the Project a JP, we would point out that GNAIE believes that for non-life insurance contracts, the accounting measurement and reporting model currently in place in U.S. GAAP is considered by most financial statement preparers and users to be both well understood and in no need of a significant overhaul. This is not to say that the accounting and reporting on non-life insurance contracts is incapable of being improved, but rather that the enhancements would be more focused on disclosures

as opposed to measurement principles. To this end, the IASB and FASB should work with non-life financial statement preparers and users to determine what enhancements to disclosures might be most useful for financial statement users.

For life insurance contracts, areas of current U.S. GAAP that should be considered for enhancement include existing rules-based standards (e.g., SOP 05-1 and SOP 03-1) that require a substantial effort by companies with very little benefit to the users of the financial statements. Additionally, there are multiple accounting models in use today (e.g., FAS 60 and FAS 97), resulting in different measurement and presentation of revenue.

b. How important is the development of a common, high-quality standard used in both the U.S. and IFRS jurisdictions?

We believe that as businesses become more global in scope, it is important that a common set of accounting and financial reporting principles exist to assist both financial statement preparers (i.e. from an efficiency perspective as they would not be required to follow different rules in different parts of the world) as well as financial statement users (i.e. they would be better able to compare the performance of companies that write similar types of business, albeit in different countries).

We believe internationally accepted accounting and financial reporting standards for insurance contracts should enable financial statement users to more efficiently and effectively compare the financial statements of entities with similar products across the world. At the same time, the adoption of consistent standards is not more important than the quality of the standards and as such we believe that any internationally accepted insurance accounting and reporting standard should faithfully reflect the economics of the underlying insurance contracts. GNAIE does not believe this can be accomplished with a single model for both life and non-life insurance contracts due to the unique economic attributes of life and non-life insurance contracts as discussed more fully in Appendix II.

## Question 2

Are the preliminary views expressed in the IASB's Discussion Paper a suitable starting point for a project to improve, simplify, and converge U.S. financial reporting for insurance contracts? If not, why not?

No, the preliminary views in the DP are not a suitable starting point for the following reasons, which are discussed more fully in Appendix II:

- We do not support current exit value as the measurement objective for insurance contracts.*
- We do not support the general subordination of entity-specific inputs (e.g., a reporting entity's own cash flow estimates) to that which is market-based; or in the absence of market-based information, entity-specific information that is modified to incorporate the views of a hypothetical market participant.*
- We do not support the use of a single model for life and non-life insurance contracts, as proposed in the DP, which we believe is conceptually flawed.*
- We do not support the recognition of gains at inception for insurance contracts, before insurers are exposed to any risk, before any services are provided, and while the full amount of premium is fully refundable.*

- We do not support the introduction of explicit risk and service margins and discounting for non-life insurance contracts.*
- We do not support the discounting of non-life reserves except in situations where the payment pattern and ultimate cost are fixed and determinable on an individual claim basis.*
- We do not support the notion of “market consistent” cash flows, as required by the DP, as there are no observable “transfer” markets with which to calibrate such measurements; thus, they may be potentially misleading and open to potential manipulation.*
- We do not support placing artificial limitations on allowable cash flows included in measuring insurance contract liabilities, including the allowance for future premiums.*
- We do not support the discounting of life insurance cash flows at current risk-free interest rates that ignore best estimates of portfolio or asset-linked returns an insurer expects to earn.*
- We do not support either tacit unbundling or the consideration of own credit risk in measuring insurance liabilities.*

While we do not believe that the DP provides a suitable starting point for an international insurance and reinsurance accounting standard, it does contain information that should prove to be useful to the FASB and IASB (assuming the Project is elevated to a JP) as they further deliberate the underlying issues associated with the proposed standard.

a. Do you believe the preliminary views would be feasible to implement? If not, what aspects of the preliminary views do you believe could be difficult to apply and why?

No. For instance, the use of the “three building blocks” to accomplish the measurement objective does not appear to be feasible to implement for U.S. non-life insurers for reasons explained more fully below:

### ***Building Block 1:***

We do not believe probability weighting all possible cash flows is either necessary or practical. More specifically, due to the uncertainty associated with many non-life insurance contracts, it is not typically possible to quantify and assign probability weights to “all” possible cash flows which would be a necessary exercise under the DP. In addition, even if it were theoretically possible to identify and probability weight all possible cash flow scenarios, it is highly unlikely that such an exercise could be performed on a quarterly basis, which is currently a necessary condition for most U.S. GAAP reporters.

In our opinion, there are many instances where less cumbersome and comparatively robust actuarial methodologies can produce valuations that are both relevant and reliable. Accordingly, we believe the requirements set out in the DP would not improve the valuation precision of insurance liabilities, and quite the opposite, may inappropriately convey to financial statement readers a sense of the attainment of a level of precision that in fact does not exist.

We are also concerned that the cash flows considered in the DP are in some instances artificially limited (e.g., dividends and future premiums) and as such would not reflect the actual cash flows expected to arise from an

insurance contract. Moreover, we are concerned that the guidance in the DP, as it relates to the estimation of future cash flows, would place greater weight on assumptions derived by reference to a hypothetical market as opposed to entity-specific data which we believe would be more relevant and reliable as it represents the reporting entity's actual expectations about net cash flows. This preliminary view in the DP is particularly problematic since, as the IASB acknowledges, companies typically retain insurance liabilities and do not transfer them to other market participants. If an insurer expects to achieve lower expenses than it estimates would be assumed by a typical market participant, and it reflects its own expense assumptions in its pricing, then other factors being equal, that insurer would recognize a loss at issue which would not relevantly or reliably reflect the results it expects to achieve. Conversely, if an insurer expects to incur higher expenses than it estimates would be assumed by a typical market participant, then other factors being equal, that insurer could recognize a gain at issue which would not relevantly or reliably reflect the results it expects to achieve.

### ***Building Block 2***

We do not support the introduction of discounting, where it does not already exist in U.S. GAAP, for non-life insurance contracts. This is due to the fact that we do not believe the amount and timing of periodic (quarterly) cash flows are sufficiently reliable as a foundation for discounting. In the case of life insurance contracts, we do support the practice of discounting (which also exists in existing U.S. GAAP) but have concerns about the estimation of the discount rate inasmuch as we believe the interest rate earned on a portfolio of assets supporting the liabilities provides a more relevant and appropriate discount rate as opposed to a risk free rate of interest. We believe that economic expectations for life insurance contracts would be obscured by "accounting mismatches" that would result from use of a discount rate for cash flows that is derived from a risk free rate of interest.

### ***Building Block 3***

We have concerns with both the risk and service margins proposed in the third building block. As it relates to non-life insurance contracts, we do not support the introduction of explicit risk and service margins; mainly because we do not believe they are reliably determinable on an on-going basis and as such question the relevance of the resulting information derived from these inputs.

In the case of life insurance liabilities, we support the calibration of margins to premiums to produce no gain at issue; but we do not support any separation of the total margin into the servicing and risk margin components. Additionally, similar to the issue for non-life insurance contracts, because we do not believe the margins are reliably determinable (or otherwise verifiable) on an on-going basis, we question the relevance of the resulting information derived from these inputs.

b. Are there other alternatives to improve or simplify U.S. financial reporting for insurance contracts that you would recommend? What would be the benefits of those alternatives to users of financial statements?

See our response to Question 1a.

**Question 3**

Is there a need to address accounting by policyholders in an insurance contracts project? Why? If yes, should accounting by policyholders be addressed at the same time as the accounting by insurers? Can or should that wait until after the accounting by insurers is completed?

We are not aware of significant issues with the accounting by policyholders for insurance contracts and therefore believe that addressing that project should be a lower priority. Additionally, the accounting used by policyholders, particularly commercial enterprises, should be evaluated in the context of the policyholders' accounting, not the insurers' accounting.

**Question 4**

How would you address the interaction between the accounting for insurance contracts and the FASB's other projects on the conceptual framework, revenue recognition, liabilities and equity, financial instruments, and financial statement presentation? Are certain projects precedential?

We believe the Boards should develop new insurance standards while giving due consideration to other significant projects on their active agendas (e.g., Conceptual Framework, Revenue Recognition, Liabilities and Equity, Financial Instruments, Financial Statement Presentation, etc.).

The Boards should make every effort to avoid establishing standards in this project only to have the standards (and all of the related study, data gathering, systems and analysis work) revised or reversed in response to conclusions reached in related projects. We are equally concerned that if some of the related projects are completed prior to a full deliberation of this Project, the Boards will not have had the full benefit of a greater understanding of insurance contracts.

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