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September 15, 2008

Mr. Peter Cooke  
Principal Administrator  
International Association of Insurance Supervisors  
c/o BIS, Centralbahnplatz 2  
4002 Basel Switzerland

Re: Boundaries of a contract – Outline of potential IAIS comments

Dear Peter:

We are pleased to provide comments to you on the August 6, 2008 draft outline of potential IAIS comments to the International Accounting Standards Board on the boundaries of an insurance contract. We believe the points in the outline are generally consistent with our position on “boundaries of a contract”.

- 1) We agree that the solutions to the “boundaries of a contract” should be principles-based, and should support financial reporting that reflects the true economics of insurance contracts.
- 2) The outline expresses a view that in theory, an entity should recognize obligations under an insurance contract in its financial statements when the entity becomes a party to the contractual provisions. But the outline then indicates that in practice, other than for an onerous contract, the IAIS supports continuing the present prevailing practice of beginning to recognize such obligations when the insurance coverage starts (which may differ significantly from the date on which the insurer becomes a party to the contract). The outline also indicates that the IAIS is not convinced that a contract would meet the accounting definition of an insurance contract prior to commencement of the insurance risk. We agree with the conclusion in the outline (i.e., that the obligations should first be recognized at the time the insurance coverage begins); but we think it would be incorrect to cite a theory to the contrary, especially since the contract may not meet the accounting definition of an insurance contract prior to that time.
- 3) As indicated in the outline, there is great difficulty in determining conclusively that no further claims can arise against certain types of long-tailed, non-life insurance contracts. For some such contracts, additional claims may arise many years after the insurer’s best estimate indicated that any further claims would be unlikely (but not impossible). Therefore, the concept of “derecognition” is not meaningful for such contracts. However, for other types of insurance contracts (particularly for life insurance), as noted in the outline, it will be evident when a liability has been extinguished and when the contract can be removed as a financial liability of the insurer.

**GNAIE**

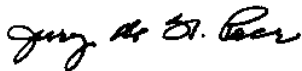
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- 4) We agree with the measurement principle suggested in the outline. However, following the statement of the principle, the outline goes on to describe the conditions that would be required to measure a ten year contract in the same way as a one year contract that provides for nine years of renewals. It appears to us that the conditions listed in the outline are more stringent than the stated principle would require. For the two cases to be measured in the same way, we don't think it's necessary that the premium be "guaranteed" or that "no re-underwriting would be contractually allowed". Rather, we think the suggested principle only requires that there be limits on the insurer's contractual ability to change premiums or to re-underwrite, to the extent that the insurer can neither renegotiate the terms nor cancel the contract in order to avoid the expectation of future net losses from the contract. We think that the less onerous and less artificial conditions described above would meet the suggested measurement principle and do occur in reality (e.g., commonly for one year renewable term life insurance).
- 5) The IASB's Discussion Paper on an accounting standard for insurance contracts raises particular issues about which future premiums and which non-guaranteed participation features should be included in cash flow estimates. We believe that the measurement principle suggested in the IAIS August 6 outline, coupled with a principle that the measurement should be based on a best estimate of expected cash flows, should appropriately resolve such issues. However, we think it would be helpful if the outline were to include statements that expected future premiums and non-guaranteed elements should be included in the measurement on the basis of these principles.
- 6) The outline indicates that the estimate of future cash flows should be on the basis of a probability-weighting of the different possible outcomes; although the outline notes that the IAIS does not underestimate the practical difficulties of this estimation process. In view of these practical difficulties, the measurement should allow for simplifications that would result in reasonable estimates, in order to keep the cost of producing the estimates reasonable in relationship to the benefits of the information. For many kinds of insurance contracts, it is not possible to identify all possible outcomes, or to reasonably describe the distribution of possible outcomes. Depending on the costs, benefits, and available resources (including calendar constraints for timely reporting), a simplified probability approach or even a single best estimate may be appropriate as a basis for measurement.

We hope these comments are helpful, and we would be pleased to provide additional information or to clarify any of the points in this letter.

Sincerely,

A handwritten signature in black ink, appearing to read "Jay D. Bear". The signature is written in a cursive, slightly slanted style.

Senior Vice President, Finance, AIG  
Executive Chairman, GNAIE

JdSP:KK:c11