

Date: December 9, 2011

To: Hans Hoogervorst, Chair International Accounting Standards Board
Leslie Seidman, Chair Financial Accounting Standards Board

Copy: Mr. Robert Glauber, IFRS Trustees
Mr. Jack Brennan, Financial Accounting Foundation

From: HUB Global Insurance Group (“HGIG”)

Subject: IASB/FASB Joint Meeting December 12 – 16 – Discussion of Accounting for Short Duration Insurance Contracts

The IASB and FASB recently issued a series of staff papers for discussion at its meetings on December 12th through December 16th. We have concerns with the staff papers that reference the accounting for short-duration insurance contracts, including the following:

- Insurance Contracts – Cover Note (provides project status information)
- Insurance Contracts – Onerous Contracts
- Insurance Contracts – Discounting the Liability for Incurred Claims

The HGIG was formed with the objective of facilitating the development of a high quality global accounting standard for insurance contracts. In fulfilling that objective as it relates to short-duration insurance contracts, the HGIG determined that two basic, but distinct, business models are applied globally. The business models differ in that in many parts of the world, an Undiscounted Continuous Risk Re-underwriting Business Model (“Undiscounted CRR-BM”) is utilized whereas in others, a discounted (typically with a risk margin) or “Discounted CRR-BM” is utilized.

The HGIG concluded that because the business model is entirely consistent with the concept of stewardship (as set forth in the IFRS Conceptual Framework), is a fact and not a choice (as set forth in BC 4.20 of IFRS 9), and aligning the accounting and reporting of short-duration insurance contracts with an insurer’s business model enhances investors’ ability to predict future cash flows (as set forth in BC 4.15 of IFRS 9), it could serve as the mechanism to determine whether insurers should apply the Undiscounted or Discounted CRR-BM to their short-duration insurance contracts.

Our concern with the staff papers is that they would effectively preclude application of the Undiscounted CRR-BM, as set forth in the HUB Technical Papers, based on assertions which we believe lack a historical factual basis. Moreover, the primary support for discounting referenced by staff is in part attributable to jurisdictions anticipating changes to solvency requirements and not based on existing global practices, which is predominantly an application of the Undiscounted CRR-BM. Accordingly, we believe the Boards, in pursuing the objective of a high quality global accounting standard for short-duration insurance contracts, must undertake a comprehensive evaluation of information produced by both the Undiscounted and Discounted CRR-BM against the critical criteria such as the needs of investors and whether the information is relevant, understandable, comparable and decision-useful.

We believe any decision to eliminate the Undiscounted CRR-BM as an accounting alternative for short-duration insurance contracts at the present time would be premature, inconsistent with the needs and desires of many investors, and not based on the type of formal, open, substantive discussion between the Boards and its constituents that should be required before any significant change to global accounting standards is implemented.

In support of our request to retain the Undiscounted CRR-BM until such time as the Boards can engage in a more comprehensive evaluation of the accounting for short-duration insurance contracts, the following should be considered:

- The Boards have yet to engage in an open, formal, substantive dialogue with insurers around the globe that apply the Undiscounted CRR-BM and their investors to fully understand the underlying mechanics and benefits to investors in terms of relevance, understandability, and decision-usefulness of the Undiscounted CRR-BM. Many preparers and investors around the globe are not convinced that discounting short-duration contracts produces decision-useful information and staff has not supported its assertions about the usefulness of discounted information with any empirical information specific to short-duration contracts.
- The International Actuarial Association (“IAA”) recently commissioned Milliman, Inc. to prepare a monograph on Issues Associated with the Determination of Discount Rates for Financial Reporting Purposes. We believe that the contents of this Monograph will be helpful in identifying potential issues and problems in implementing this proposal.
- There has been very limited field testing undertaken as it relates to discounting short-duration insurance contracts and for those companies that have engaged in field testing there has been no formal dialogue held with Boards in an open session to discuss the results.
- There has been no formal discussion of how to develop discount rates for short-duration insurance contracts. The focus of the discount rate discussions has been on long-duration contracts. We believe it would be premature to require the discounting of all short-duration insurance contracts before critical issues such as determination of discount rates is initiated.
- We note that the principal reasons the staffs are supporting a vote by the Boards to confirm a prior tentative decision to require discounting is based on (a) decisions coming from the Boards’ Axioms and Assumptions paper that was voted on without the benefit of any open discussion or deliberation with constituents, (b) premise that IASB’s proposals would result in relatively little changes for many non-life contracts (which is not accepted by us), and (c) other industries not being granted discounting exceptions (which is not the case for Banking – ***demand deposits***, and the Oil & Gas - Extractive Industries - ***reserves***)

Based upon the preceding we are concerned that the Boards’ current redeliberation plans may not provide for sufficient further discussion of critical issues raised about the accounting for short-duration insurance contracts in comment letters, at the IASB and FASB Roundtables, and subsequently. We recommend the Boards withdraw the staff papers (or portions of staff papers) related to the accounting for short-duration insurance contracts and allow the redeliberation process to evolve and substantively address all of the significant issues identified by constituents in a formal, open dialogue.

With nearly one trillion of annual earned premiums on a global basis, we believe the accounting for short-duration insurance contracts warrants a more substantive discussion between the Boards and constituents and a satisfactory resolution of outstanding issues before any final decisions on measurement and reporting, or significant components thereof, are rendered.