



May 25, 2007

Ms. Katy Martin
Project Manager, Technical Projects
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Dear Ms. Martin:

The American Council of Life Insurers (ACLI) and the Group of North American Insurance Enterprises (GNAIE) appreciate the opportunity to offer our views on the Exposure Draft-*Measurement of Liabilities for Insurance Contracts: Current Estimates and Risk Margins* (ED). ACLI is the principal trade association of life insurers, representing 373 members that account for, in the aggregate, 93 percent of the total assets, 91 percent of the life insurance premiums, and 95 percent of annuity considerations in the United States. Our members operating in international markets represent virtually all North American life insurance, life reinsurance and retirement security providers with a global presence. GNAIE consists of Chief Financial Officers of leading insurance companies including life insurers, property and casualty insurers, and reinsurers. GNAIE members include companies who are the largest global providers of insurance and substantial multi-national corporations.

Our comments, representing the views of the life insurance industry, are presented below in the following sections: General Comments; Responses to Overall and Specific Questions; and Summary.

General Comments

This ED is a critical and integral document in the development of a comprehensive model for the measurement of insurance contract liabilities. We believe the ED must be developed within the context of the recently released International Accounting Standards Board (IASB) Discussion Paper-*Preliminary Views on Insurance Contracts* (DP). To the extent that the International Association of Insurance Supervisors (IAIS) has expressed differing views on the measurement of insurance liabilities, those views should also be addressed in the final document. Our immediate concern is that the exposure period is too short to provide substantive comments on the ED. A three-month exposure period that began in February when the industry's primary focus was on the preparation of year-end financial statements, did not allow adequate time for any detailed analysis. Consequently, our comments represent our initial observations. We strongly encourage the IAA along with the IAIS not to

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rush to any early decisions. Rather, it is essential that deliberations move in a manner consistent with the IASB Insurance Contracts Project.

The DP presents the preliminary views of the IASB with respect to the measurement of insurance contract liabilities centered on three key building blocks:

- (a) Explicit, unbiased, market-consistent, probability-weighted and current estimates of the contractual cash flows.
- (b) Current market discount rates that adjust the estimated future cash flows for the time value of money.
- (c) An explicit and unbiased estimate of the margin that market participants require for bearing risk (a risk margin) and for providing other services, if any (a service margin).

These building blocks also serve as the cornerstones of the ED and it is likely that the IASB will depend upon the actuarial profession to provide the detailed guidance in the measurement of insurance contract liabilities, i.e., current estimate of the liabilities and risk margins.

Within the ED three basic risk margin methods are identified: 1. Explicit Assumption, 2. Quantile, and 3. Cost of Capital. While the IAA notes that the Cost of Capital may be the “theoretically sound method”, it is premature to pick a single method. Our concern is that a method cannot be selected, nor can it be determined if any method provides results consistent with the aforementioned building blocks until sufficient work is completed, including testing all three methods (and possibly more) for a wide range of products. The appropriate method, if any, is the one providing a relevant and faithful representation of the risk margin for the insurance industry and their products. Another concern is the significant cost and effort that will be needed to implement and sustain any method chosen.

Because the views expressed in the DP and the ED represent significant departures from current US GAAP, we also recommend that consideration be given to field test the various options and methods for the measurement of the current estimate of the liabilities and risk margins taking into account the following factors, while understanding that the resulting value is only an **estimate of the obligation**:

- ◆ Costs to implement and operate (noted in Appendix F, F3.(f) of the DP)
- ◆ Faithful representation and relevance of the outputs
- ◆ Ability to audit the results

The ED also develops a measurement approach of the current estimate of the insurance obligation consistent with the DP preliminary views of a “current exit value”, which is defined as the amount the insurer would expect to pay at the reporting date to transfer its remaining contractual rights and obligations immediately to another entity. Numerous presentations have been made to the IASB as well as the IAIS expressing concerns about this exit value approach. Paragraphs 95-115 of the DP list alternative measurement attributes, which we believe should not be ignored. For example, a settlement approach, value in settlement with the policyholder, has been suggested that would measure the obligation with the view of the amount needed to settle the contractual obligations with the policyholder. The IAIS has

indicated an interest in this approach as they have deliberated this issue in their Valuation of Technical Provisions document under development. We would encourage the IAA to expand upon their work effort to include a section on alternative measurement attributes. We offer our assistance to work with you in evaluating possible alternatives such as the settlement approach, which we believe would better reflect the economic reality rather than a hypothetical exit value measurement that may never be realized, especially where there is no active market.

Responses to Selected Overall Questions

Question 2. Are the important issues related to the measurement of the liability for insurance contracts within the scope of the Exposure Draft addressed? Should any additional issues be discussed or issues that are included be deleted in the final paper?

The IAA should not rush toward a final paper. Alternative measurement bases should be carefully deliberated with no decision on a single basis until the comment period for the DP has ended, the submitted comments thoroughly discussed, and a clear direction about the measurement basis is known.

Question 4. Are there other areas for which additional educational guidance related to the issues addressed need to be provided? To what extent is the guidance included inappropriate or unnecessary? Please be as specific as possible.

Critical to the measurement of insurance liabilities is the unit of account. The DP recognizes that the measurement should reflect the cash flows generated by the liability using a portfolio-specific approach. Since a portfolio is the relevant unit of account, we recommend expanding the discussion of portfolio in Section 5 to include guidance about the size and characteristics of a portfolio.

Responses to Selected Specific Questions

Question 1. With respect to Current Estimates, are the considerations given in Chapter 5 the most important ones? Do you disagree with any of them or do you have additional ones that should be reflected in the final paper?

We recommend that the paper should develop and include a section on alternative measurement attributes such as the settlement approach to the measurement of insurance liabilities as an alternative to the exit value approach proposed by the DP.

Question 2. Three specific risk margin methods are described in chapter 6, with a focus on the quantile and cost of capital methods. Are they described in an appropriate level of detail and in an objective manner? Are there any other methods either in current use or that should be considered or treated in greater depth? If so, please provide a description of them and the reasons that they should be considered.

We believe the risk margin methods contained in the ED are worthy of consideration, but that no single method be selected as the preferred method without detailed testing. A decision should be made only after thorough analysis and review.

Summary

Because the final paper will be integral to providing actuarial guidance in the measurement of insurance contract liabilities, the IAA must not rush to completion. A thorough testing and analysis of the various risk margin methods is necessary before final selection. Alternative measurement attributes, such as the settlement approach to the measurement of insurance liabilities, should be explored with industry participation. Only upon completion of these tasks and in conjunction with a review of responses to the IASB on the DP should a final paper be issued.

If you have any questions regarding the contents of this letter, please contact Paul Graham at 202-624-2164. Thank you in advance for your consideration in this matter.

Sincerely,



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