



Date: May 12, 2010
To: Director Christina Urias, Chair Solvency Modernization Initiative (EX) Task Force
From: Kevin A. Spataro, Chairman Accounting Convergence Committee
Subject: NAIC Positions on “Expected” IFRS Phase II, Insurance Contracts Project

Let me start by thanking you and your Solvency Modernization Initiatives (“SMI”) colleagues for allowing me, on behalf of the Group of North American Insurance Enterprises (“GNAIE”) and other interested parties (“IPs”) to participate in the constructive dialogue that took place on April 29, 2010. The importance of that dialogue to the IPs cannot be overestimated as it marked the first time where the IPs had the opportunity to interact with a wide group of NAIC regulators on a number of the underlying issues. The dialog confirmed that the IP’s concerns with the content and direction of the IASB’s Phase II Insurance Contracts Project are shared concerns.

In light of the preceding, we are concerned with your memorandum of May 6, 2010, seeking input from both the Casualty Actuary Task Force (“CATF”) and the Life & Health Actuarial Task Force (“LHATF”) on NAIC positions to be provided to the IAIS and the IASB (and FASB) in connection with the finalization of an Exposure Draft (“ED”) for the Phase II Insurance Contracts Project. Our concern is similar to that which we raised before the April 29th meeting in a letter to Mel Anderson and which we articulated in person at the meeting. We believe the NAIC and IPs, including GNAIE, have a responsibility to strongly advocate for what we believe is the best, most decision-useful measurement model for life and non-life insurance, regardless of the project timeline and progress to date and to pursue that goal with a mindset of “failure not being an option”. In that respect, we strongly believe the use of a single accounting model for both life and non-life contracts is a flawed proposal that should be rejected. Similarly, the application of discounting and risk margins to non-life claim reserves will not produce decision useful information and should be rejected.

In addition, we are concerned with the proposed timing. That is, although these issues have literally been around for years, the CASTF has not formally debated the issues in a comprehensively and developed any consensus positions. We do not believe the CASTF can give the thoughtful consideration that is warranted for a decision of such magnitude in the response time being offered them. Moreover, it is not our understanding that the FASB and IASB plan to vote on issues specific to the measurement of non-life insurance contracts at their meetings beginning May 17th and thus is may be unnecessary to solicit preliminary views of the CASTF that would not allow time for a fulsome consideration of the underlying issues.

Notwithstanding the preceding, we were surprised that instead of gathering support to reject a flawed accounting model, the questions posed to participants before the April 29th meeting, the meeting materials, and now the post-meeting questions posed to the CASTF and the LHATF are developed from the perspective of; “If we abandon efforts to develop the best, most decision-useful, accounting model for life and non-life insurance and instead accept the proposed untested, flawed model proposed by the IASB, how would we best operationalize it”? In recognition of what is at stake here, the credibility of the worlds’ largest insurance market, we believe that every resource should be directed to the issue of, “How do we, at this late date, intensify our efforts to encourage the IASB to amend the flawed elements of the Phase II Insurance Contracts Project, rather than, how would we best operationalize them”.

It is important to note the following in building the resolve to challenge the IASB and FASB and their flawed Phase II Insurance Contracts Project proposal:



- There has been almost no NAIC or IASB or IAIS public debate on fundamentally critical issues such as
 - The proposed requirements to discount life insurance reserves at risk free rates and potentially expense acquisition costs for general purpose financials;
 - The required application of a measurement methodology specifically designed for life insurance reserves to non-life insurance claim reserves;
 - The mandatory discounting of claims associated with non-life insurance contracts (including those with short-tail claims), and
 - The mandatory introduction of risk margins to the measurement of non-life insurance claims (including short-tail claims).
- The results of the IASB's very limited field testing (which included at least one US personal lines insurer) have only been disseminated in a high-level manner and it is unclear what modifications, if any, the IASB Board and Staff made to their proposals as a result of information obtained from the field test work. Given the size and importance of the US personal lines insurance market, we believe it is unreasonable for the IASB or the IAIS to expect our support for an untested, flawed model without a comprehensive debate and a fulsome evaluation of the results of the limited field test.
- Similar issues exist for the US commercial lines insurers. Like the personal lines insurers, the tentative decisions of the IASB have not been subject to a comprehensive dialogue of the merits of the IASB's proposals. The global importance of the US commercial insurance industry gives us the fundamental responsibility to challenge the flawed proposals in the Phase II Insurance Contracts Project.
- The FASB has not rendered a decision on many of the controversial issues, including almost all of the issues related to non-life insurance. Accordingly, instead of employing resources to evaluate how to operationalize elements of a flawed proposal, we should be directing all of our energies to toward eliminating the flaws and partnering with the FASB to do so.
- We believe what we are asking for is similar to the support U.S. regulators provided in opposing elements of Solvency II. More specifically, instead of focusing on how best to operationalize the various elements of Solvency II, U.S. regulators maintained their resolve and supported what they believed was a more appropriate solvency framework for U.S. insurers. As regulators of the U.S. insurance market, the single largest insurance market in the world, we encourage you to take an active role in promoting the U.S. view of the best, most decision-useful, accounting model for non-life insurance which incorporates the many proven benefits of the existing U.S. model.

We remain deeply concerned with both the content and direction of the Phase II Insurance Contracts Project. There are significant differences between the IASB's proposal, the FASB's leanings, and the views of IPs. In an exceptionally short period of time (i.e., before June 2011) all of these diverse views need to be reconciled and a final measurement and reporting standard for insurance finalized. The importance of the issues is commensurate with the importance of the global insurance industry. We have a fundamental responsibility to get the accounting framework right as it will likely be in place for the next 20 to 30 years. As a result, now is the time for the US regulators and IPs to work together and harness our collective energy and resources in an effort to guide the FASB and IASB to the best, most decision-useful, answers for the measurement of both life and non-life insurance contracts.

We appreciate your consideration of our views and look forward to working with you and your committee on resolving the issues discussed in this letter.

KAS:db