

From: Peter Walford [mailto:pwalford@imagine.bm] LETTER OF COMMENT NO. 25

Sent: Thursday, August 24, 2006 11:15 AM

To: Director - FASB

Subject: File Reference No. 1325-100

On behalf of Imagine Group Holdings Limited I attach its response to the FASB Invitation to Comment on Bifurcation of Insurance and Reinsurance Contracts for Financial Reporting.

Regards

Peter Walford

Peter A. Walford Imagine Insurance Company Limited 2nd Floor, Cedar Court Wildey Business Park St. Michael Barbados West Indies

Tel: (246) 467 9200 Fax: (246) 467 9204 Direct: (246) 467 9260

e-mail: pwalford @ imagine.bm www.theimaginegroup.com

RESPONSE TO FASB INVITATION TO COMMENT ("ITC") ON BIFURCATION OF INSURANCE AND REINSURANCE CONTRACTS FOR FINANCIAL REPORTING SUBMITTED BY IMAGINE GROUP HOLDINGS LIMITED

Introduction

It is our view that bifurcation is not the answer to the current dilemma of reporting inadequacies and the misapplication of accounting guidance which regulators currently face. Its introduction will not prevent abuses of either and therefore will be of limited benefit to all who depend on reliable financial data.

Concerns

The introduction of bifurcation will significantly reduce the benefits derived from purchasing insurance/reinsurance products as only the premium related to the risk transfer element will be allowable as a deduction for tax purposes.

Currently, structured reinsurance products provide the market with an alternative choice in determining which of its exposures it requires coverage for, in what form and at what price. Bifurcation will diminish this choice.

If bifurcation is implemented, economic forces will determine that the supply of structured products will exceed demand thus reducing premiums and exposing insurance/reinsurance companies to a greater volatility in earnings.

Recommendations

Our recommendations to alleviate the current shortcomings in financial reporting are detailed below but essentially involve a different approach to the whole question of risk assessment and reserving disclosure.

- 1. The assessment of risk transfer has evolved into an accountant's judgment based on available data. However, the level of risk transfer should be determined by an actuarial calculation based on either a stochastic model or one of the methods of calculating risk transfer as detailed in the report of the American Academy of Actuaries, Committee on Property and Liability Financial Reporting. The most time efficient method could be the "expected reinsurer deficit" method.
- Disclosure in financial statements of reserving methodology should be mandated to include data at various confidence levels. This would enable the informed reader to draw a conclusion as to the appropriateness of the reserves.
- Risk based capital is an integral part of a company's ability to accept risk and must be included in risk transfer assessments and disclosed in the reserving methodology note to the financial statements.

Conclusion

Time is the essential ingredient in the formulation of an approach to ensure that all parties involved in the insurance/reinsurance industry are compatible and that reliable information is available to interested parties.

In our view the most expedient method of achieving this goal is as set out above. Our recommendations are straightforward, can be achieved with the minimum of additional work and expense, and can be implemented in a short time frame.

Responses to the eleven issues raised in the ITC

Issue 1 - The combined IFRS 4 definition of insurance contract and GAAP definition of insurance risk adequately describes what an insurance contract is. It distinguishes those contracts from other financial contracts and adequately identifies insurance risk. The descriptions in the ITC of finite insurance and reinsurance contracts, including the risk-limiting features, adequately identify those contracts.

Issue 2 - The Statement 113 risk transfer guidance for reinsurance contracts can be applied by corporate policyholders and insurers for determining whether an insurance contract transfers significant insurance risk. However, as stated above an actuarial basis for insurance risk transfer assessment is needed so that the Statement 113 risk transfer guidance can be applied and disclosed consistently.

Issue 3 – Bifurcation is, as stated above, not the approach that we recommend.

Issues 4 through 9 – No comment.

Issue 10 – Current data availability can produce the information required for our recommendations without material change.

Issue 11: In our view – no.