

November 16, 2007

Mr. Robert Herz, Chair
Financial Accounting Standards Board
401 Merritt 7
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LETTER OF COMMENT NO. 23

By E-Mail: director@fasb.org

File Reference: 1540-100

Dear Mr. Herz:

Introduction and Source of Interest

The National Association of Mutual Insurance Companies (NAMIC) is a trade association representing approximately 1,400 mutual, property-casualty insurers in the United States and Canada that write 40 per cent or more of the property-casualty premium in the United States. Although NAMIC's member companies do not generally publish financial statements using GAAP or IFRS, the parallel nature of statutory accounting, as maintained by the states and the quasi-governmental National Association of Insurance Commissioners (NAIC), causes NAMIC to have interest in the Board's Discussion Paper, *Preliminary Views on Insurance Contracts*.

In briefest explanation of that relationship, we note that the NAIC, acting on behalf of its member states, creates and maintains the system of statutory accounting by which insurers domiciled in the United States and certain territories report to their state regulators. That system of statutory accounting comprises standards and interpretations thereof that are applicable to all transactions and balances engaged in and maintained by insurers. As a matter of policy and regular deliberation, the NAIC considers pronouncements of the Financial Accounting Standards Board for their relevance and appropriateness for inclusion in statutory accounting. It is accurate to say that large amounts of material from FASB pronouncements are, via that process, embedded in statutory accounting that must be used by our members.

Given the IASB-FASB resolution for convergence, and through the FASB-NAIC link described above, NAMIC's members are potentially subject, in whole or in part, to accounting authority promulgated by the IASB. We therefore comment herein on those questions posed in this Board's Invitation to Comment.

Question 1: Is there a need for the FASB to comprehensively address accounting for insurance contracts? Why or why not?

- a. What aspects of existing U. S. GAAP accounting for insurance contracts could be improved or simplified, and how pervasive are these issues?*
- b. How important is the development of a common, high quality standard used in both the U. S. and IFRS jurisdictions.*

Answer 1: We acknowledge the underlying circumstance of capital markets gradually becoming global, yet the question that first importunes is whether existing financial reporting has failed users here or elsewhere by reason of its structure. Is it deficient qualitatively or quantitatively? Is it any more liable to engender misstatement than another system?

The question is apt, we assert, because we now see development by the IASB of an international standard that presumes to have application to all species of insurance business and that uses data that are largely hypothetical rather than particular to a reporting entity. Further, we take notice of the SEC's decision to allow registrants to file in either U. S. GAAP or in IFRS with no reconciliation from later to former needed. That SEC decision and its results will be tested and seasoned over time, but no conclusion can be offered now, *especially for insurers domiciled here or elsewhere*, that IFRS are superior. We do not know, in other words, whether the emperor is clothed and are reluctant to subscribe, without suitable impetus, to new and very different means for quantifying what is of crucial importance to insurers—reserve liabilities.

More directly stated, the question becomes the following: Is it appropriate to depart from current GAAP to a standard that professes to be comprehensive yet may have material quantitative deficiencies or fallacies? *Comprehensiveness* may suggest simplicity or elegance and may be a worthy goal if those such qualities are the result of comprehensiveness. Yet the complexity and disparity of insurance contracts suggests the goal of *comprehensiveness* may be elusive and itself the source of distortion.

Current practice in the property-casualty industry in this country involves management providing its best estimate of reserve liabilities and the actuary opining as to the adequacy of these. Without question the process is judgmental in significant part, yet surely judgment may often prove superior to a reserve-liability construct built on proxy values rather than non-existent market data. Many observers have termed current reserving practice in this country for property-casualty insurers as “principles-based,” in distinction to the more formulaic processes used in the life industry.

Moreover, stretching a measurement model, for example, over the polar worlds of property-casualty contracts and life-industry contracts should cause warnings to occur in the minds of those familiar with the insurance world. We admit that the IASB project is in early stages, yet extrapolation of what is now visible in the IASB Discussion Paper portends a certain chaos, should the three building blocks be implemented—with the attendant cost and disruption, particularly for the thousands of smaller insurance entities in this country.

Finally, more important than imposition of a comprehensive accounting standard for insurance contracts—or at least the first exercise in a critical path for a project of this magnitude—is proving inadequacy of current practice. We suggest to the Board that no fatal weakness is present nor any shortcoming that demands migration to what is visible in the IASB Discussion Paper.

Question 2: Are the preliminary views expressed in the IASB's Discussion Paper a suitable starting point for a project to improve, simplify, and converge U. S. financial reporting for insurance contracts? If not, why not?

- a. Do you believe the preliminary views would be feasible to implement? If not, what aspects of the preliminary views do you believe could be difficult to apply and why?*
- b. Are there other alternatives to improve or simplify U. S. financial reporting for insurance contracts that you would recommend? What would be the benefits of those alternatives to users of financial statements?*

Answer 2: In imposing much of the essence of IAS 39 on the insurance business, i. e. regarding insurance contracts or insurance risk as akin to financial instruments and their markets, the preliminary views in the IASB's Discussion Paper disqualify it as a practical vehicle for a comprehensive insurance-accounting standard. The three building blocks for measuring an insurer's reserve liability are perhaps theoretically attractive, yet their application would appear highly problematic, given the absence of relevant market-based data. Relative to a., what must be considered additionally as a practical matter is the substantial additional cost to the insurer in implementing and periodically computing reserve liability via the three building blocks—for questionable added accuracy.

Rather than having what amounts to actuarial method prescribed in accounting guidance, we believe it is reasonable—whatever the quantitative approach—to have this as part of actuarial guidance. Presence of this material in the Discussion Paper's appendices is, we believe, symptomatic of its overreach for comprehensiveness.

Question 3: Is there a need to address accounting by policyholders in an insurance contracts project? Why? If yes, should accounting by policyholders be addressed at the same time as the accounting by insurers? Can or should that wait until after the accounting by insurers is completed?

Answer 3: Creation of a standard, if deemed necessary, should center on insurers' accounting. Other activity, for policyholders or reinsurers, is of subordinate importance and should be treated accordingly.

Question 4: How would you address the interaction between the accounting for insurance contracts and the FASB's other projects on the conceptual framework, revenue recognition, liabilities and equity, financial instruments, and financial statement presentation? Are certain projects precedential.

Answer 4: A precedential hierarchy among the multiple projects suggests that those on the conceptual framework, revenue recognition, and perhaps liabilities and equity projects precede a project on insurance contracts. The insurance industry can add material to these projects in an effort to have the projects be inclusive and preclude contradiction or omission. Otherwise, the Board and staff should develop a list of interlocking or interplaying subject areas for purposes of continuing comparison during development.

Respectfully submitted,

/s/ William Boyd

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