

THE CHUBB CORPORATION

15 Mountain View Road, P.O. Box 1615, Warren, New Jersey 07061-1615

December 6, 2007

Mr. Robert Herz Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116



LETTER OF COMMENT NO. 42

RE: INVITATION TO COMMENT ON THE FASB AGENDA PROPOSAL: ACCOUNTING FOR INSURANCE CONTRACTS BY INSURERS AND POLICYHOLDERS, INCLUDING THE IASB DISCUSSION PAPER. PRELIMINARY VIEWS ON INSURANCE CONTRACTS

Dear Mr. Herz:

The Chubb Corporation is a holding company with subsidiaries principally engaged in the property and casualty (P&C) insurance business. We appreciate the opportunity to respond to the Invitation to Comment on the FASB Agenda Proposal: Accounting for Insurance Contracts by Insurers and Policyholders, Including the IASB Discussion Paper, Preliminary Views on Insurance Contracts. As part of our response, we have attached a copy of our comment letter to the IASB on its Discussion Paper.

We encourage the FASB to undertake a joint project with the IASB to develop a global accounting standard that addresses recognition, measurement, presentation and disclosure requirements for insurance contracts. We urge the FASB to involve the U.S. insurance industry in these efforts.

While we support the addition of the joint project to the FASB's agenda, we do not believe that the preliminary views expressed in the IASB Discussion Paper are a suitable starting point for the project. We believe current U.S. generally accepted accounting principles (U.S. GAAP) are a better starting point.

Paragraph 20 of the agenda proposal notes that the joint project may be an opportunity to simplify U.S. GAAP for insurance contracts and improve comparability in accounting for contracts with similar economic characteristics. We do not believe that the views expressed in the IASB Discussion Paper would accomplish either of these objectives.

The IASB Discussion Paper does not recognize the significant fundamental differences between life insurance contracts and P&C insurance contracts. In light of these differences, we believe that separate accounting models are needed for life insurance contracts and P&C insurance contracts.

As discussed in detail in our response to the IASB, our primary concern with the IASB Discussion Paper is the proposed measurement of P&C insurance liabilities at current exit value based on hypothetical transfers to third parties. We question the reliability, relevance and decision usefulness of the proposed measurement model for financial reporting purposes and we do not believe that it would be an improvement over current U.S. GAAP. We believe that U.S. GAAP provides appropriate and comprehensive guidance on how to account for P&C insurance liabilities. This accounting model is well understood by users and accurately reflects how management views the business.

Finally, before an exposure draft on accounting for insurance contracts is issued, we recommend that further progress on the financial statement presentation project as well as the conceptual framework and revenue recognition projects should be made to provide solid bases for conclusions relating to the accounting for insurance contracts.

We would be pleased to discuss our comments and recommendations with members of the FASB or its staff. I can be reached at (908) 903-2301.

Very truly yours,

Henry B. Schram
Senior Vice President and
Chief Accounting Officer

Attachment



THE CHUBB CORPORATION

15 Mountain View Road, P.O. Box 1615, Warren, New Jersey 07061-1615

December 6, 2007

Mr. Peter Clark Senior Project Officer International Accounting Standards Board 30 Cannon Street London EC4M 6XH United Kingdom

RE: DISCUSSION PAPER – PRELIMINARY VIEWS ON INSURANCE CONTRACTS

Dear Mr. Clark:

The Chubb Corporation is a holding company with subsidiaries principally engaged in the property and casualty (P&C) insurance business. The Chubb Group of Insurance Companies, headquartered in the United States, provides a broad range of P&C insurance products to businesses and individuals around the world. We appreciate the opportunity to respond to the International Accounting Standards Board (IASB) Discussion Paper, Preliminary Views on Insurance Contracts.

We appreciate the IASB's efforts to develop a high quality global accounting standard for insurance contracts and we agree with the basic premise that contracts with similar economic characteristics should be accounted for in a similar manner. However, we believe the proposed model fails to recognize the significant fundamental differences between life insurance contracts and P&C insurance contracts.

Life insurance contracts are typically long-duration contracts that provide coverage for an extended period of time whereas P&C insurance contracts are short-duration contracts that provide coverage for a relatively brief and defined period, generally one year or less. In addition to the difference in duration, the nature of the liabilities and obligations under life insurance contracts and P&C insurance contracts are significantly different. For life insurance contracts, the insured event is certain to occur and the amount of future payment obligations is readily determinable under the contract. For P&C insurance contracts, an insured event may or may not occur and the amount of any future payment obligations is not determinable under the contract. Payments are only made with respect to insured events occurring during the coverage period. If no loss event occurs, no payments are made.

In light of these fundamental differences, we believe that separate accounting models are needed for life insurance contracts and P&C insurance contracts.

As a provider of P&C insurance, the balance of our comments will address these types of contracts.

Measurement of P&C Insurance Liabilities

Our primary concern with the Discussion Paper is the proposed measurement of P&C insurance liabilities at current exit value. Current exit value is defined in the Discussion Paper as the amount an insurer would expect to pay at the reporting date to transfer its remaining contractual rights and obligations immediately to another entity. It is important to note that the Discussion Paper acknowledges that, "in most cases, insurers cannot transfer the liabilities to a third party and would not wish to do so" (paragraph IN22). Because of this, an observable market for the transfer of existing P&C insurance liabilities does not exist. Given this fact, we question the reliability, relevance and decision usefulness of the proposed measurement model for financial reporting purposes and do not believe that it would be an improvement over current accounting principles generally accepted in the United States (U.S. GAAP).

We believe that U.S. GAAP provides appropriate and comprehensive guidance on how to account for P&C insurance liabilities. This accounting model is well understood by users and accurately reflects how management views the business. Therefore, we do not support a fundamental change to the recognition, measurement and financial reporting of P&C insurance liabilities from that required by U.S. GAAP.

The Discussion Paper describes the two major categories of liabilities relating to insurance contracts as the pre-claims liability, which for P&C insurance companies is the unearned premium reserve, and the claims liability.

Pre-Claims Liability

The pre-claims liability of a P&C insurer represents the insurer's stand-ready obligation to pay valid claims for future insured events arising under existing contracts. Since the term of a P&C insurance contract is generally one year or less, the average coverage period of the pre-claims liability is about six months. However, it will be many years until the ultimate number of claims relating to any such future insured events is known and there is significant uncertainty as to the amount that will ultimately be paid. For this reason, the pre-claims liability should be equal to the unearned premium reserve, subject to a liability adequacy test. We believe this is the most objective, reliable and transparent measure of the portion of the actual premium charged for assuming the risk that relates to the future coverage period. This is similar to current U.S. GAAP.

We believe that the accounting for the acquisition costs related to P&C insurance contracts should be consistent with that for the unearned premium reserve. Our preference would be to report the unearned premium reserve gross and the acquisition costs as a prepaid asset as we believe this presentation provides more useful information to the users of the financial statements. If the acquisition costs are not reported as a prepaid asset, the unearned premium reserve should be reported net of the related acquisition costs.

Claims Liability

The claims liability of a P&C insurer represents the insurer's liability to pay valid claims for insured events that have already occurred. We believe that this liability should be measured using management's best estimate of the nominal settlement value of claims and related expenses based on entity specific assumptions. This approach is consistent with U.S. GAAP.

Conceptually, we would agree that the discount for the time value of money and risk margin for the uncertainty of future cash flows should be reflected in the measurement of P&C claims liabilities if the amount and timing of the underlying cash flows and a risk margin could be reliably estimated. However, this is not the case for most P&C claims liabilities. P&C claims liabilities are subject to such significant uncertainty that insurers are not able to adequately estimate the timing of the cash flows, their associated probabilities and applicable risk margin. In fact, there is no specified or obvious objective process for establishing the relevant risk margin and no evident means of testing such margins with hindsight as time goes on. Therefore, we believe that risk margins and discounting should be excluded from the measurement of P&C claims liabilities.

An accounting model based on the proposed current exit value approach would add additional layers of uncertainty, complexity and the pretense of precision, without adding any real accuracy, to an already complex estimation process. Moreover, such a model would likely result in estimates of P&C claims liabilities that would be more volatile and less comparable, both from company to company and over time, than estimates based on the nominal settlement value.

Most reserving practitioners charged with developing estimates of claims liabilities for P&C insurers do not attempt to identify all possible scenarios of uncertain events and assign probability-weights to each scenario, as proposed in the Discussion Paper. Instead, most employ a variety of actuarial methods in order to establish a mean estimate of the expected ultimate liability (or expected settlement value). The subjectivity and uncertainty associated with assigning the appropriate probability-weights to all possible scenarios would far exceed the subjectivity and uncertainty associated with utilizing a mean estimate.

We are aware that there are "experts" who assert that current exit values can be developed through the use of models that rely on probability distributions of loss payouts. It requires a significant leap of faith to think that a reliable hypothetical current exit value can be derived solely from mathematical models, especially with regard to the many commercial P&C insurance exposures with heterogeneous risk characteristics, particularly long-tail liability classes and low frequency/high severity classes. We encourage the IASB to gain a better understanding of the mechanics of these models and the underlying assumptions required to develop the hypothetical current exit value. These models rely on a significant number of explicit and implicit assumptions, or even guesses, to develop and probability-weight all possible scenarios. There is no meaningful process to verify and measure the accuracy of many of these assumptions over time. In many cases, a slight modification to an underlying assumption could result in a significantly different outcome which evidences the subjectivity and volatility that are imbedded in this approach.

Presentation of Financial Statements

Financial statements should help explain how well an entity has managed its business. In this regard, we believe current U.S. GAAP is superior to the IASB's proposed model. U.S. GAAP for P&C insurance contracts has proven to be a decision useful and reliable means to measure and assess operating performance. U.S. GAAP provides meaningful metrics that enable financial statement users to evaluate management's performance. For example, underwriting income and combined loss and expense ratios are key measures that allow the comparison of operating performance among periods and between competitors. U.S. GAAP also provides for substantial disclosures of loss reserve development. Loss reserve adequacy is critical to the evaluation of underwriting performance of a P&C insurer. The change in nominal loss reserves, or loss reserve development, provides useful insight into historical loss reserve adequacy.

Paragraph IN2 of the Discussion Paper notes that many of the accounting practices currently used for insurance contracts differ from those used in other sectors and make it difficult to understand insurers' financial statements. We believe that the use of the current exit value model for P&C insurance contracts would only exacerbate this difficulty.

The current exit value model appears to lack meaningful metrics that would allow financial statement users to understand the bottom line results of a P&C insurer. In particular, we believe that including the change in P&C insurance liabilities, based on a current exit value approach, as part of incurred losses in the income statement would significantly limit the usefulness of the income statement. We have a strong sense that many U.S. analysts would expect, or even prefer, to receive the same income statement, balance sheet and supplementary financial data they currently receive, exclusive of the effects of the current exit value approach.

The IASB has not yet formed an opinion on how the proposed insurance accounting model would be presented in the financial statements. Before an exposure draft of an international insurance accounting standard is issued, further progress on the financial statement presentation project as well as the conceptual framework and revenue recognition projects should be made to provide solid bases for conclusions relating to the accounting for insurance contracts. Further, we recommend that the IASB work with the various segments of the insurance industry to field test the approach it decides to pursue before an exposure draft is issued. Field testing will highlight the practical issues that insurers would face in implementing the proposal and would ensure that the proposed guidance results in relevant, reliable and decision useful information to financial statement users.

Cost and Timing

The cost and effort required to implement systems and processes to estimate cash flows and risk margins by class of business would be significant. Further, there would be considerable ongoing costs, including the additional cost to audit these measurements. We believe this expenditure of time and money is unwarranted given our view that the current exit value model would result in liability estimates that are more subjective and less reliable than current U.S. GAAP.

In recent years, reporting requirements of public companies in the U.S. have been accelerated. Because the estimate of risk margins and discount can only be completed after the estimate of nominal loss reserves, there would be a tremendous strain in closing financial records in a timely manner to meet public and other filing deadlines.

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In summary, we believe the IASB should develop separate accounting models that address the fundamental differences between life insurance contracts and P&C insurance contracts. Further, we do not believe that the hypothetical current exit value model would be an improvement over current U.S. GAAP for P&C insurance contracts.

As required by current U.S. GAAP, the P&C insurance accounting model should be based on measuring and recognizing pre-claims liabilities based upon the unearned premium approach and claims liabilities based on the nominal settlement value. A model founded on these principles would produce the most relevant and reliable financial results to measure the operating performance of a P&C insurer. This model would also be less costly and require less resources and effort to implement, maintain and audit compared with the current exit value model proposed in the Discussion Paper.

We would be pleased to discuss our comments and recommendations with members of the IASB or its staff. I can be reached at (908) 903-2301.

Very truly yours,

Henry B. Schram
Senior Vice President and
Chief Accounting Officer