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Submitted via email to: [director@fasb.org](mailto:director@fasb.org)

**Re: Preliminary Views on Revenue Recognition in Contracts with Customers**

The Hartford Financial Services Group Inc. (“The Hartford” or “we”) appreciates the opportunity to comment on the *Preliminary Views on Revenue Recognition in Contracts with Customers* (“the Revenue Recognition PV”). The Hartford, headquartered in Connecticut, is an insurance and financial services company that provides investment products, individual life, group life and group disability insurance products, and property and casualty insurance products to policyholders in the United States and internationally. At December 31, 2008, total assets and total stockholders’ equity of The Hartford were \$288 billion and \$9 billion, respectively.

As an insurance company, we are concerned with how the concepts of the Revenue Recognition PV will interact with the IASB’s discussion paper *Preliminary Views on Insurance Contracts* (a Joint Project of the FASB and the IASB, hereafter referred to as the “Insurance Contracts Joint Project”) if insurance contracts are scoped into a final revenue recognition standard. For example, the Revenue Recognition PV would measure performance obligations using the transaction price recognition model whereas the Insurance Contracts Joint Project has been exploring liability measurement using a fair value construct (whether it be a current fulfillment value or current exit value).

The following points are examples of where there appear to be inconsistencies or conflicts between the Revenue Recognition PV and the Insurance Contracts Joint Project:

- 1) **Insurance contracts should be accounted for as either financial instruments or the sale of risk protection services, but not both.** The Insurance Contracts Joint Project has

been discussing recognizing and measuring insurance contract liabilities similar to financial instruments—at either current fulfillment value (CFV) or current exit value (CEV). The Revenue Recognition PV, however, would recognize and measure insurance contracts as the sale of risk protection and other services, such as claim handling services. The Boards of the FASB and IASB should decide which accounting model is most appropriate for insurance contracts—as financial instruments or as the sale of risk protection services—and ensure the revenue recognition and liability measurement principles are consistent under one theory.

- 2) **The proposed standard should clarify which components of the insurance margin are to be recognized based on the transaction price (such as a residual margin) and which portion should be remeasured based on changes in current exit value or current fulfillment value.** Under a fair value construct, a portion of the profit margin that represents the compensation a third party would require to assume the risk of adverse reserve development must be held as a risk margin. Under both CFV and CEV, the risk margin is remeasured over time until the contractual obligations are settled. Under the Revenue Recognition PV, however, the unearned revenue (including the unearned profit), is not remeasured. Since the Insurance Contracts Joint Project applies to recognition of the liability and the Revenue Recognition PV applies to recognition of revenue, it is unclear how insurance companies should apply the conflicting principles to recognizing risk margins. It makes sense, however, to remeasure the risk margin and release the risk margin into income over the period that the claims are settled.

In addition, we ask that you consider the following observations related to the application of the Revenue Recognition PV to insurance contracts:

- 3) **The standard should clarify that, for some contracts (including insurance contracts), some transaction costs may be incurred over a *period of time* and not on a single date.** Consistent with the notion that the issuance of an insurance contract is the sale of risk protection services rather than the sale of a financial instrument, acceptance *of the contract* (not just of the services) does not occur until the insured acknowledges that it is bound to the terms of the coverage and this does not all happen on the first day of coverage. Under most short-duration insurance contracts, insureds have a unilateral right to cancel their policy at any time thereby canceling any right to future coverage. Similarly, insurers have a unilateral right to cancel future coverage under the contract due to non-payment of premium. As a result, customers typically indicate their acceptance of the contract over the coverage period as they pay sufficient premium.

Likewise, while producer commissions are typically paid up front, commissions are not incurred until and unless the customer continues to keep the contract in force by paying sufficient premium. If the insured cancels the contract mid-term, the agent must refund that portion of the commissions that relates to the unexpired period of coverage. The event that triggers the incurrence of the commissions is, therefore, not the first day of coverage, but the passage of time over the entire term of coverage.

To illustrate this point, assume an insurer changes the terms of its commission arrangement with its agents such that, instead of paying 100% of the commission when the policy is issued, the insurer increases the commission rate slightly but pays the commission in installments to match the premium payments made by the policyholder. In this example, assume the economics are the same--the agent's higher commission rate compensates them for the lost investment income due to the delay in receiving the commissions. As with the pay-all-commissions-up-front scenario, in the pay-commissions-in-installments scenario, commissions are contingent on the policyholder keeping the policy in force which is contingent on the policyholder paying their premium. With the pay-all-commissions-up-front scenario, a policy cancellation results in the agent refunding a portion of the commissions. With the pay-commissions-in-installments scenario, future commission payments are withheld. This demonstrates that regardless of the timing of the commission payments, the commissions are not incurred when the policy is issued. Because the commissions are contingent on the insurer providing coverage over the risk protection period, they should not be reflected as an expense upon contract issuance.

Therefore, when commissions are paid up front, the excess of commissions paid over commissions incurred should either be reflected as an asset or be offset by an allocated portion of the transaction price, consistent with Implementation A of the IASB's proposed measurement approach in its Discussion Paper, *Preliminary Views on Insurance Contracts*. Two substantively identical transactions should not produce different accounting results.

Paragraph A49 (Example 8) of the Revenue Recognition PV gives an example of a contract where non-refundable commissions paid at contract issuance must be expensed even though they relate to providing IT services for five years. We believe that the accounting answer is different if the commissions are refundable and the purchaser of the IT services can cancel future services under the contract at any time by withholding future payment of the transaction price.

- 4) **The Revenue Recognition PV should adopt Implementation A of the Insurance Contracts discussion paper whereby an insurer would record revenue to offset acquisition costs incurred or at least the incremental acquisition costs incurred.** Particularly for long-duration contracts, the acquisition costs are substantial and are recovered by premium payments to be made over many years. Expensing acquisition costs without commensurate revenue would result in an income statement that is materially different from the expected economic profit or loss and would have the counterintuitive effect of showing increasing profits in periods of declining sales.
- 5) **For the vast majority of insurance contracts, claim adjudication is an activity to satisfy the insurer's obligation to cover risk over the risk coverage period and is not a separate service.** In most cases, claim handling services are not sold separately nor could they be priced separately. For example, individuals and small businesses do not separately purchase claim handling from risk protection nor would an insurer underwrite the risk if a prospective customer wanted to purchase claim handling separately. The risk coverage

and the claim handling are inextricably linked. The mere fact that, in some cases, claim handling services are priced and sold separately for large account business should not mean that claim handling should be identified as a separate component of the premium for all insurance contracts. The Revenue Recognition PV should clarify that in many cases where there is a sale of insurance risk protection, the promised asset, which would not include the risk margin, is transferred to the customer over the risk coverage period and not over the entire claim settlement period.

We would be happy to discuss all of our comments in more detail. Please feel free to call me at (860) 547-4135.

Sincerely,

A handwritten signature in cursive script that reads "Beth A Bombara".

Beth A. Bombara  
Senior Vice President and Controller  
The Hartford Financial Services Group, Inc.