

February 12, 2010

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Mr. Russell G. Golden, Technical Director File Reference No. EITF090G Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

#### Dear Mr. Golden:

CIGNA Corporation appreciates the opportunity to share our views on the Financial Accounting Standards Board's (FASB) Exposure Draft of the proposed Accounting Standards Update of Topic 944, Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts. CIGNA is one of the largest investor-owned health care and related benefits organizations in the United States. Key product lines include medical coverages and related specialty health care products and services such as pharmacy, behavioral health, dental benefits and disease management; group disability, life and accident insurance and related case management services; and International life, accident, supplemental health and expatriate health care products and services. In addition, CIGNA has corporate-owned life insurance product lines.

Our comments regarding this Exposure Draft are summarized immediately below, followed by a more in depth discussion:

- The scope of the proposal should be limited to clarifying that advertising costs do not meet the definition of acquisition costs
- Revising the definition and treatment of acquisition costs would be best addressed as part of the development of a global standard for insurance contracts
- The issuance of temporary guidance is a distraction from reacting to other proposed and issued guidance that is significant to insurers
- Defining acquisition costs as <u>only</u> those relating to successful efforts will create inconsistencies with existing guidance and will require the development of systems and processes to track these costs
- Various costs identified in the proposal as indirect can, in fact, directly relate to and vary with the acquisition of insurance contracts and should be considered for deferral
- Advertising costs incurred by insurance entities should not be included as part of deferred acquisition costs
- The proposed effective date, with prospective application and the option for retrospective application, is appropriate

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### Scope

While we appreciate the value of the Board's objective to address diversity in practice regarding the interpretation of which costs of acquiring and renewing insurance contracts qualify for deferral, in this case, we believe it would be most cost beneficial to simply answer the question initially raised by certain constituents concerning whether advertising costs meet the definition of acquisition costs. Our position is based on the fact that the FASB's joint project with the International Accounting Standards Board (IASB) to develop a global standard on accounting for insurance contracts is expected to include both a definition of acquisition costs and guidance for their accounting treatment. At this point in time, the tentative definition contemplated under that joint project is different from current US GAAP guidance as well as that proposed in this Exposure Draft.

We are greatly concerned with the timing of this revised guidance (in 2010) when it is expected to be superseded by the FASB's final insurance contracts guidance in 2011. As you may appreciate, CIGNA, along with others in the insurance industry is currently responding to recent guidance from the FASB for variable interest entities, financial instruments disclosures, and transfers of financial instruments, while monitoring and providing feedback to both the FASB and IASB for their various joint projects to develop high quality global accounting standards. At the same time, we are providing support to several of CIGNA's international locations that are preparing to implement International Financial Reporting Standards beginning in 2010. Because we believe that the guidance in this Exposure Draft will be 1) a distraction from these other important initiatives to improve financial reporting and 2) a temporary change in accounting for acquisition costs, we strongly encourage the FASB to narrow their guidance to respond to the issue of advertising costs.

In addition to these concerns about scope and timing, we have provided below our responses to other issues raised in the Board's proposal.

## Acquisition Costs Must Relate to Successful Efforts

We do not believe that capitalized acquisition costs should be limited to those related only to the successful acquisition or renewal of insurance contracts. Such treatment is inconsistent with the model set forth in Topic 340-20 (formerly SOP 93-7) for direct response advertising, whereby all the costs of acquisition are deferred if the total expected benefits exceed those costs. We believe this non-industry specific model to be particularly suitable for methods of selling that use internal resources, such as an internal sales force for telemarketing which is used in various international markets. In our view, establishing industry-specific guidance in contrast to this existing model will introduce additional disparity within accounting standards that is unnecessary and undesirable. Our current systems and processes allow us to determine whether the total expected benefits exceed the costs of contract acquisition. Moreover, the existing requirement under US GAAP to assess the sufficiency of unearned premiums already contemplates the recoverability of deferred acquisition costs and does so in a manner that properly reflects the way we price and manage our indemnity products on a pooled basis.

From a practical perspective, the added expense of developing systems and processes to track costs associated with successful versus unsuccessful selling efforts (e.g. tracking acquisition costs related to sales on a contract-by-contract basis) are not justified.

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Finally, limiting the capitalization of costs to those related only to the successful acquisition or renewal of insurance contracts will create a disjoint when reporting costs associated with an internal sales force versus those associated with external agents, even though distribution costs may be similar. Presuming that an insurer develops systems and processes to track costs associated with successful versus unsuccessful selling efforts, the same visibility is not available for costs incurred by external agents, yet those external agents are certainly recovering their costs for both successful and unsuccessful efforts through commissions received. As a result, comparability of acquisition costs within and among insurance companies will be compromised. Because the timing of recognizing costs for internal resources will be accelerated versus that for the costs for external resources, a competitive imbalance may result. This imbalance could drive real business change. In other words, while using an internal sales force may be more advantageous from a strategic perspective (because doing so offers more control over product delivery, more immediate feedback from the market and more flexibility in general), insurers may be more likely to use third parties to avoid the competitive disadvantages of the proposed accounting treatment.

### Revised Definition for Acquisition Costs

We believe that acquisition costs of an insurance entity should be defined as those costs that vary with and are directly related to the origination or renewal of insurance contracts. As noted above, we believe any new definition of acquisition costs should be addressed only within the comprehensive joint project for insurance contracts.

However, if the Board proceeds to finalizing this proposed guidance, we note that various costs identified in the proposal as indirect, such as rent, equipment and occupancy costs, can directly relate to the acquisition or renewal of an insurance contract. In other words, certain overhead costs are neither indirect, nor fixed, as general overhead costs may be. For example, a telemarketing function, which is common for selling certain products in international markets, can result in salary, commission, benefit, rent, equipment and occupancy costs that are incurred solely to acquire or renew insurance contracts. Accordingly, these types of overhead costs (i.e., the direct and variable elements) are appropriately deferred under the current definition of acquisition costs (vary with and are primarily related to the acquisition of insurance contracts) and should continue to be deferrable under any proposed alternative definition. As discussed above, defining these costs out of deferrable acquisition costs will create an imbalance within and among insurance companies using internal rather than external resources.

#### Advertising Costs

We agree with specifying that advertising costs incurred by insurance entities should follow the guidance for advertising in Topic 720 or Subtopic 340-20, as applicable. We strongly recommend that any final guidance be limited to this issue.

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# Proposed Effective Date

If the Board decides to issue final guidance as currently described in the Exposure Draft, we support the proposed effective date, with prospective application and the option for retrospective application. For companies that issue long-duration contracts, such as ours, retrospective application may be more desirable for the users of our financial information to compare period to period performance; however retrospective application may not be feasible because historical data needed to comply with the proposed definitional changes may not be readily available or obtainable at a reasonable cost for all comparative periods, particularly for a temporary change in accounting treatment.

If we can provide further information or clarification of our comments, please call me (215-761-1170) or Nancy Ruffino (860-226-4632).

Sincerely,

Mary T. Hoeltzel