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I appreciate the opportunity to comment on the FASB Insurance Contracts Exposure Draft. I am a Fellow of the Casualty Actuarial Society and a member of the American Academy of Actuaries.

The guidance contained in the exposure draft proposes very significant changes to the measurement of liabilities for property-casualty short-duration contracts. The changes would impact preparers of financial statements through increased costs and resource allocation required to comply with the many newly required calculations, judgments, and disclosures. The changes would also impact users as the proposed basis for measurement is completely different from historic GAAP earnings and balance sheets. Both users and preparers would face serious issues addressing the complexity of the guidance. Yet, in my view, the resulting measure is not an improvement over the current standard for short-duration contracts in either the decision usefulness of the resulting information or the ability to compare performance across insurance entities. Therefore, I encourage the Board to retain the current accounting guidance for short-duration contracts and to not implement the guidance proposed in the exposure draft.

The proposed guidance's requirement to discount cash flows is the primary item that distinguishes it from the current guidance for short-duration contracts. It is also the primary item that would lessen decision useful information for users of financial statements. Clearly, discounting is a valid economic measure and has its place in all types of applications, but applying it to the uncertain cash flows which occur in property-casualty insurance for the purposes of determining the liability is a subjective construct which truly is not in line with how property-casualty insurance companies operate. User preferred nominal performance and financial health measures, including reserve adequacy, will be buried under complex cash flow calculations. Comparability across companies will depend upon untangling a mass of assumptions, including discount rates, expected loss payout patterns, and "portfolio" construction. Both preparers and users would face significant hurdles to implement the guidance and interpret its results, and both parties would face significant incremental and ongoing costs. Users lose the ability to compare results to historic GAAP financial statement. Preparers losses may well be far greater if investors confidence in the complex financial statements erode to the point of removing capital from the property-casualty sector. Because the current short-duration contract guidance has been in place for an extended period, through several insurance/economic cycles, and is understood and accepted by users, it is very difficult to justify discarding it for an untested and complex standard which risks capital flight.

A secondary issue with the proposed guidance is redefining the liability measurement objective as the "unbiased probability weighted mean". The guidance makes clear that the objective is the statistical mean, but allows for consideration of a limited number of "scenarios" pursuing the same objective. It is generally unwise in any actuarial measure to ignore the uncertainty in the proposed estimate. Whether it be in ratemaking or in reserve estimates, selecting the mean as the estimate to use/book without due consideration to risk increases the probability of failure. Insurance regulators and rating agencies would likely have concerns if small and large companies alike begin targeting the mean estimate as the liability to book. Economic capital models developed to address the NAIC Own Risk and Solvency Assessment may well indicate the need for a point other than the mean to address individual companies' risk profiles. For these reasons, it is preferable to leave the liability measurement objective unchanged from the current short-duration contract guidance.

Briefly, there are two other issues in the exposure draft which tarnish its value. The first is the requirement to earn the liability for remaining coverage proportionally to the incurred loss pattern, if that pattern is not uniform over time. Requiring earnings patterns be in synch with incurred patterns quarter by quarter adds very little, if any, useful information and is disproportionate to the cost of having to do so, especially as all property-casualty contract premium is earned within one year anyway. Second, the aggregation of cash flows by portfolio is not compatible with the traditional property-casualty aggregation of premiums and losses by calendar-accident year as the former does not match premium and losses from identical contracts.

In closing, I once again adjure the Board to retain the time and cycle tested current guidance for short-duration contracts as it provides superior decision useful information and comparability across entities compared to the ambiguous and complex measures which would be proposed from the guidance in the exposure draft.

Respectfully submitted,

A handwritten signature in cursive script that reads "Jason Clark".

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