

August 25, 2006

Farmers New World Life Insurance Company

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LETTER OF COMMENT NO. 50

Technical Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Re: Invitation to Comment (ITC) - Bifurcation of Insurance and Reinsurance Contracts for Financial Reporting

Dear Technical Director:

Farmers New World Life (FNWL) would like to respond to the FASB's invitation to comment on the proposed Bifurcation of Insurance and Reinsurance Contracts for Financial Reporting. FNWL is a wholly owned life insurance subsidiary of Farmers Group which in turn is wholly owned by Zurich Insurance Company. We issue a mix of whole life, term, universal life, deferred annuities, variable universal life and variable annuity products.

In general, we are very concerned that the proposed project will not accomplish the goal of increased reliability of financial statements but it will add further complexity to those statements. We believe that due to the broadness of the definitions many insurance contracts will inadvertently be included inappropriately. While we acknowledge that there have been some highly publicized issues regarding finite reinsurance recently, we do not believe this indicates that the entire insurance accounting model needs to be replaced. Rather we believe that the Board should develop an interpretation that focuses on finite risk reinsurance contracts.

Our responses to the specific issues are listed below.

Issue 1: Does the IFRS 4 definition of insurance contract identify insurance contracts and sufficiently distinguish those contracts from other financial contracts? Does the GAAP definition of insurance risk identify and separate that risk from other risks such as financial risk? Do the descriptions of finite insurance and reinsurance contracts, including the risk-limiting features, identify those contracts? How could the definitions and descriptions be improved? Response: We believe the IFRS 4 definition of insurance contract provides an accurate method to distinguish between insurance and finance contracts. Further we feel that the definition of finite reinsurance as provided by the ITC is adequate.

Issue 2: Can the Statement 113 risk transfer guidance for reinsurance contracts be applied by corporate policyholders and insurers for determining whether an insurance contract transfers significant insurance risk? If not, how can the Statement 113 guidance be modified or clarified to apply to insurance contracts?

Response: We believe the FAS 113 defines the risk transfer adequately for life insurance company reinsurance contracts.

Issue 3: Does classifying an entire contract as insurance or bifurcating that contract into insurance and deposit components provide more understandable and decision-useful information? Which qualitative characteristics most influence your decision? Which approach more faithfully represents the economic substance of the contract? Why?

Response: We strongly believe that bifurcating either life insurance contracts or the associated reinsurance agreements into insurance and deposit components would result in less "understandable and decision-useful information" for the users of the financial statements. Currently neither pricing nor valuation occurs at the contract level. If an attempt were made to estimate the value on a contract level it would inject additional volatility between the original pricing assumptions (non-contract level) and the performance assumptions (contract level).

Issue 4: The flowchart suggests a sequence for analyzing contracts that integrates current insurance accounting guidance with a hypothetical bifurcation analysis. Do you believe that the sequencing and integration are appropriate? What changes would you propose? **Response:** If needed, the flowchart sequence provides adequate guidance for bifurcation analysis. However, as mentioned throughout this letter, we feel the vast majority of life insurance contracts can easily be identified as either insurance or deposit by using the existing definitions provided by FAS 113 and IFRS 4.

Issue 5: Do you agree with the characteristics identified for contracts that do or do not unequivocally transfer significant insurance risk? If not, why not? Should other characteristics be added? Are the examples in Appendix B representative of the discussion in paragraphs 57–59? Response: We believe that it would be wrong to change the test of whether significant insurance risk is transferred so that it is based on a rules-based approach as discussed in paragraph 58 of the ITC rather than the principle-based approach of FAS 113. The primary danger of the rules-based approach is so broad that it could inadvertently incorporate many life contracts and the associated reinsurance contracts that we feel should be excluded from the analysis.

Issue 6: Do you think the characteristics described in paragraph 58 for unequivocal insurance contracts are an improvement over the exemption from cash flow testing in paragraph 11 of Statement 113 (summarized in paragraph 37(c) of this Invitation to Comment)? Response: See response to Issue 5.

Issue 7: Do you prefer Approach A or Approach B for identifying contracts subject to bifurcation? Why? Do you believe that another approach would be superior? If so, how would you describe that approach? Would your preferred approach be operational? Would it make financial statements more decision useful?

Response: Since we believe bifurcation should not apply to life insurance products or to the reinsurance contracts associated with them we will not respond to this issue.

Issue 8: Should the criteria for bifurcation be different for insurance contracts and reinsurance contracts? Why? If yes, what differences would you suggest?

Response: Since we believe bifurcation should not apply to life insurance products or to the reinsurance contracts associated with them we will not respond to this issue.

Issue 9: Which of the methods identified in this Invitation to Comment for bifurcating insurance and reinsurance contracts do you believe has the most conceptual merit? Please explain. Please describe any additional bifurcation methods that you believe should be considered. Would corporate policyholders encounter unique implementation problems in applying any of the methods discussed in this Invitation to Comment?

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Response: Since we believe bifurcation should not apply to life insurance products or to the reinsurance contracts associated with them we will not respond to this issue.

Issue 10: Would data availability limit the development of any of the bifurcation methods discussed in this Invitation to Comment? To what extent are the models that would form the basis for these methods used to underwrite and price products? Would data availability (or lack thereof) affect only certain insurance forms, products, or lines of business? If so, which ones and why?

Response: Since we believe bifurcation should not apply to life insurance products or to the reinsurance contracts associated with them we will not respond to this issue.

Issue 11: In view of the IASB's project on insurance contracts, should the FASB be considering bifurcation of insurance contracts based on transfer of insurance risk?

Response: We believe that since FASB and IASB have stated their intention to pursue convergence of accounting standards it would be better to table this proposal. We believe it would be more productive to work with the IASB to develop acceptable definitions for insurance and transfer of risk that could be used to distinguish between insurance and deposit contracts.

Thank you for this opportunity to express our opinions and concerns regarding this proposed bifurcation project.

Sincerely,

Leeann Badgett
Director of Life Accounting
Farmers New World Life Insurance