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November 30, 2010

Mr. Russell Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Re: File Reference No. 1870-100

Dear Mr. Golden,

CNA Financial Corporation (CNA) appreciates the opportunity to comment on the FASB's Preliminary Views on Insurance Contracts discussion paper (DP). CNA is the seventh largest commercial insurance writer and the thirteenth largest property & casualty writer in the United States. CNA has insurance operations in both North America and Europe. Loews Corporation (Loews) owns approximately 90% of CNA's outstanding common stock.

The IASB Insurance Contracts Exposure Draft (ED) and the FASB DP propose dramatic changes to the accounting for insurance contracts. We have dedicated significant resources to reviewing both the ED and DP. While we acknowledge the theoretical merits of the fulfillment approach and the proposed building blocks, we believe the accounting model as proposed would add significantly to complexity and cost, and reduce clarity and comparability. We believe the current U.S. GAAP comprehensive accounting model is well understood and provides investors with decision-useful information.

The ED proposes radical changes that in our view will increase complexity, reduce transparency and provide less precise financial reporting results due to layering of estimates and judgments. Coupled with the voluminous proposed required disclosures, the financial statements will be overwhelming and difficult to understand and interpret. We do not believe the proposed accounting model will provide enhanced user information. Additionally, comparability between insurers will be diminished.

For a non-life insurer, underwriting results and the judgments related to loss reserves and current year loss ratios are key information for transparency of financial results for investors and other users of the financial statements. As proposed, the guidance will not clearly provide this information. Traditional measures of property & casualty performance, such as the loss ratio and combined ratio, will not be apparent to financial statement readers.

Many of the proposed changes are not consistent with the way we think about or manage our business; therefore, we expect implementation to be very difficult and costly. Such costs can only be justified if the new accounting model provides financial statement users with significantly improved transparency into the financial performance of the business, the underlying key judgments and the risks and uncertainties related to those judgments.

Our primary concerns with the proposed changes are detailed in the following paragraphs.

First Building Block

We do not believe that the guidance should specify the method to determine the estimate of insurance contract cash flows. Probability-weighted estimates are generally not used in non-life reserving today and would not be an improvement over existing U.S. GAAP.

We are concerned that the wording in the ED overemphasizes the term probability-weighted and may be read to require the identification of and assignment of probabilities to every scenario of commercial substance. This wording is not practical and implies a level of precision that does not exist. Ultimately, this approach may not result with the best estimate.

Furthermore, the proposal increases the number of significant judgments underlying financial reporting, including timing of cash flows, discount rate, and aggregation of business into different portfolios. The increased judgments introduce additional complexity, and reduce transparency and comparability for investors and other users of the financial statements.

We believe the final guidance should set forth a principle (such as to determine a mean estimate) and allow the actuarial profession to set the standards on how that principle will be met. We do not believe that preparers should be restricted in their approaches, and we do not believe accounting standards should govern the actuarial profession or how actuarial estimates are derived.

Recognition

The DP proposes "an insurer would recognize an insurance obligation when it becomes a party to the contract, which is defined as the earlier of the date on which the insurer is bound by either; a) the terms of the contract, or b) initial exposure to risk under the contract." Currently, the majority of insurers do not have systems or processes in place designed to capture and recognize data as of the contract binding date. As pointed out in the DP in paragraph 45, in many cases, the measurement of insurance contracts does not change materially after initial recognition and before the start of the coverage period. Insurers would incur significant costs to modify systems and make process changes in order to account for the proposed recognition for seemingly minimal to no benefit. We believe the intent of this guidance is to immediately recognize losses for potential onerous contracts which would be extremely rare as insurers do not knowingly enter into unprofitable contracts.

Modified Approach

As proposed, the modified measurement approach would be required for short-duration contracts that have a coverage period of approximately one year or less. We do not agree with a narrow definition of short-duration contracts due to the concern that certain similar contracts would have different measurement models and presentation criteria. This would not be efficient nor produce useful, consistent information for users of the financial statements. We believe the definition of short-duration insurance contracts should be changed to follow the definition under current U.S. GAAP in FASB Accounting Standards Codification 944, *Accounting and Reporting by Insurance Enterprises.*

If the proposed criteria to account for insurance contracts under the modified measurement approach is not revised to incorporate all similar contracts, we believe the modified measurement approach should be permitted, but not required.

Reinsurance

The proposed guidance does not appear to be complete. There are currently three paragraphs (108-110) in the DP that discuss accounting for reinsurance. Additional guidance is necessary to ensure this important topic is properly addressed and considered.

While we agree that there should be symmetry between the recognition and measurement of reinsurance contracts and the underlying ceded contract, this is not always practical or reasonable due to different types of reinsurance contracts such as multi-year catastrophe reinsurance contracts or reinsurance contracts that cover underlying contracts not yet entered into (i.e., "risks attaching" contracts). As currently proposed, there could be situations where a reinsurance contract is accounted for using the buildings block approach and the underlying contract is accounted for using the modified approach. This resulting outcome would produce non-useful information and would be confusing and hard to analyze.

Reinsurance is a significant, complex accounting area that requires further thought and consideration to ensure appropriate and comparable accounting is applied by insurers.

Presentation

The DP presents a margin presentation approach and two premium presentation approaches. We believe significant decision-useful information would be lacking under the proposed margin presentation approach for non-life insurance contracts. The margin approach is not consistent with how insurers manage their business or how management and investors analyze results. The margin approach does not include underwriting profitability measures which are key measures for both management and investors. Under the proposed margin approach, it will be very difficult to understand insurance operating results and current period activity based on review of the financial statements.

The premium presentation approach is more useful since underwriting measures such as premium revenue and claims and benefits incurred are included on the face of the financial statements. However, as discussed above, we have concerns regarding different accounting and presentation of similar contracts (due to narrow definition of short-duration) and the presentation of information at a portfolio level on the financial statements.

Furthermore, given the proposed presentation by portfolio, the volume of information will add to the difficulty of reviewing the financial information. The number of portfolios will vary depending on the insurer and types of business written. This will increase the line items on the face of the financial statements. Additionally, the increased disclosure requirements in regards to sensitivity analyses will make it difficult to understand the financial statements and aggregate financial results. The nature of the proposed required disclosures is difficult to apply and present in a manner that is concise and insightful because there are many significant variables underlying insurance cash flow estimates.

Summary

Given the significant impact of the proposed guidance, we strongly encourage the FASB and IASB to take the appropriate time to listen to constituents, conduct and finalize field tests, and fully understand the impact the proposed guidance will have on the insurance industry.

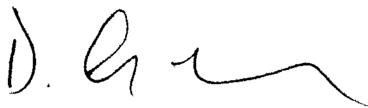
As acknowledged in the DP, generally accepted accounting standards in the United States include well established and accepted comprehensive accounting standards for insurance contracts. While we support efforts to improve the current accounting standards for insurance contracts and move towards a single set of high-quality globally accepted accounting standards, any changes should provide greater investor transparency and be consistent with the manner in which management runs and evaluates the

business. Several aspects of the accounting model proposed in the DP would require significant changes in operational and actuarial processes that are complex and are not consistent with how we run the business. As a result, we do not believe the DP's proposed accounting represents sufficient improvement to existing U.S. GAAP to justify issuing new guidance for Insurance Contracts.

The remainder of this letter addresses the specific questions applicable to CNA contained in the DP and further elaborates on our conclusions.

If you have any questions, please feel free to call me at 312-822-1222.

Sincerely,



D. Craig Mense

Insurance Contracts Comment Letter

Definition and Scope

Question 1: Are the proposed definitions of insurance contract and insurance risk (including the related guidance) understandable and operational? [FASB Q1]

Response 1: Yes. We agree with the definition of an insurance contract and do not foresee any significant operational concerns specific with the proposed definition.

Question 2: If the scope of the proposed guidance on insurance contracts is based on the definition of an insurance contract rather than on the type of entity issuing the contract, would financial reporting be improved? [FASB Q2]

Response 2: Yes. We agree that the scope of the proposed guidance based on the definition of an insurance contract rather than on the type of entity issuing the contract would improve financial reporting and comparability between entities issuing insurance contracts.

Question 3: Do you agree with the proposed scope exclusions? Why or why not? [FASB Q3]

Response 3: Yes. We agree with the proposed scope exclusions, but we do not believe the exclusions are complete.

We believe separate accounts should be added to the scope exclusions because under our interpretation of the Board's definition of 'participating investment contracts' separate accounts would be included in the proposed model for insurance contracts. Refer to our response to Question 5.

Question 4: Should benefits that an employer provides to its employees that otherwise meet the definition of an insurance contract be within the scope of the proposed guidance? Why or why not? [FASB Q4]

Response 4: No comment.

Question 5: The Board's preliminary view is that participating investment contracts should not be accounted for within the proposed model for insurance contracts but, rather, should be included in the scope of the proposed model for accounting for financial instruments. Do you agree? Why or why not? [FASB Q5]

Response 5: We agree with the FASB's preliminary view that these contracts should not be included in the scope of the proposed model for insurance contracts and instead should be included in the proposed model for financial instruments because such contracts do not transfer significant insurance risk and are by definition an investment contract (i.e. long-duration contracts that do not subject the insurance entity to risk arising from policyholder mortality or morbidity).

Question 6: Do you support the approach for determining when noninsurance components of contracts should be unbundled? Why or why not? [FASB Q6]

Response 6: We agree that if a component is not closely related to the insurance contract that an insurer would account for that component as if it were a separate contract and apply the relevant standard to that specific component, which is consistent with the stated principle in paragraph 39.

Recognition and Measurement

Question 7: Do you agree with the use of the probability-weighted estimate of net cash flows to measure insurance contracts? Does that approach faithfully represent the economics of insurance contracts? Is it an improvement over existing U.S. GAAP? [FASB Q7]

Response 7: We do not believe that the guidance should specify the method to determine the estimate of insurance contract cash flows.

The first building block of the fulfillment cash flows proposes "an explicit, unbiased and probability-weighted estimate of the future cash outflows." Probability-weighted estimates are not necessarily used in non-life reserving today and would not be an improvement over existing U.S. GAAP.

Furthermore, within the Basis of Conclusions of the ED, it states "the starting point for an estimate of cash flows is a range of scenarios that reflects *the full range of possible outcomes*." We are concerned that the wording in the ED overemphasizes the term probability-weighted and may imply that identification of and assigning probabilities to every scenario of commercial substance may be required. There are many ways of producing appropriate estimates of mean value measures including methods that do not involve explicit identification of and assigning probabilities to every scenario. This wording is not practical and, ultimately, this approach may not result with the best estimate.

We believe the final guidance should set forth a principle (such as to determine a mean estimate) and allow the actuarial profession to set the standards on how that principle will be met. This view is based on the fact that there are numerous insurance products and niche markets that have unique considerations. Therefore, each insurer considers different items when estimating future cash flows which involve actuarial expertise. We do not feel that preparers should be restricted in their approaches, and we do not believe accounting standards should govern the actuarial profession or how actuarial estimates are derived.

Question 8: Do you think that an entity's estimate of the net cash flows should include a risk adjustment margin? [FASB Q8]

Response 8: No. We do not believe the estimate of net cash flows should include a risk adjustment margin due to the complexities involved in determining an appropriate risk adjustment and the inability to properly define and measure risk with a single number. We believe a risk adjustment margin would reduce comparability among insurers given the level of judgment and estimation involved. As such, we believe users of financial statements will remove any income fluctuation due to a risk adjustment margin from earnings and effectively add to capital any embedded risk adjustment margin.

For example, Standard & Poor's, in their Risk-Based Insurance Capital Model, explicitly add back to their "Total Adjusted Capital" any "prudential margins included in reserves" and "equalization/catastrophe reserves." We believe the same approach would likely apply to any risk adjustment margin embedded in the statement of financial position, and other financial statement users will likely adopt similar approaches should risk adjustment margins be included in estimates of net cash flows.

Insurers would be required to incur significant costs and resources to estimate risk adjustments each reporting period. As outlined above, these costs would be incurred to estimate an amount that we do not believe is useful or comparable, and many users would actually eliminate the risk adjustment from financial results for their purposes. As a result, we prefer the composite margin approach.

Question 9: Is the objective of the risk adjustment margin understandable? If so, do you think that the techniques for estimating the risk adjustment margin (see paragraph 52(b)), faithfully represent the

maximum amount that the insurer would rationally pay to be relieved of the risk that the ultimate fulfillment cash flows exceed those expected? [FASB Q9]

Response 9: No. We do not believe the objective of the risk adjustment margin is understandable due to uncertainty regarding how it is defined in DP. As currently defined in paragraph 52(b) of the DP, the objective refers to "the maximum amount that an insurer would pay to be relieved of the risk that the ultimate fulfillment cash flows exceed those expected." It does not reference the risk that ultimate fulfillment cash flows vary from the expected cash flows. The maximum amount an insurer would rationally pay to be relieved of all of the uncertainty (both favorable and unfavorable) would be very different from the amount to be relieved of only the unfavorable uncertainty. We recommend replacing the word 'exceed' in the objective with the words 'differ from.' As noted above, we do not believe the risk adjustment is an adequate way to communicate risks to the users of the financial statements.

Furthermore, the proposed definition of the explicit risk margin is consistent with the definition of an 'exit price' which is defined in current U.S. GAAP (Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*) as "the price that would be received to sell an asset or paid to transfer a liability." Therefore, we believe using an explicit risk margin will introduce an unintended transfer/exit value measure and not a contract fulfillment value based measure which we believe was the Boards' intent. Therefore, we would recommend an implicit risk margin as part of a single composite margin rather than an explicit risk margin.

If an explicit risk margin is included in the final guidance, similar to the determination of the estimate of future cash outflows, we believe the actuarial profession must be closely involved in determining the appropriate methodologies for determining the risk adjustment. We do not agree with limiting the techniques that could be used in estimating risk adjustments. We believe there are situations where the three techniques noted in the ED could be used to properly estimate a risk adjustment; however, there are other methodologies and potentially future developed methodologies that could be viable and even better options. Therefore, we would recommend that the Board only state the principle and let the actuarial profession determine the most appropriate methodology to meet that principle.

Question 10: Do you think that the risk adjustment margin would be comparable for entities that are exposed to similar risks? [FASB Q10]

Response 10: No. Our actuaries have advised that the prescribed risk adjustment margin would not be comparable given the complexities involved in determining an appropriate risk adjustment, the inability to properly define and measure risk with a single number, the option to use various techniques, and the approach of similar entities to determine a portfolio at different levels (i.e., line of business, segment, reporting unit, legal entity, etc.).

Question 11: Do you agree with the description of cash flows that should be included in the measurement of an insurance contract? Is the proposed guidance operational? [FASB Q11]

Response 11: Yes. We agree with the description of cash flows that should be included in the measurement of an insurance contract. As highlighted in our executive summary, we have significant concerns regarding the practicality and implementation of the proposed guidance.

Question 12: Do you agree that the carrying amount of all insurance contracts should be discounted if the effect is material? Do you agree with the proposed guidance on the discount rate that should be used to measure the carrying amount of insurance contracts? If not, which discount rate should be used? [FASB Q12]

Response 12: Yes. We agree that it is reasonable to reflect the time value of money.

In regards to the discount rate, we agree with the principle that the discount rate established in valuing an insurance contract liability should be based on the characteristics of the liability, including, but not limited to, the liability's duration and convexity, as well as its liquidity and currency risk. The DP currently only specifically mentions that an 'an adjustment for illiquidity' may be considered and we strongly believe that this is just one of many factors that should be considered in the establishment of an appropriate valuation discount rate.

The guidance should state a principle such as 'a discount rate should be established based on the characteristics of the liability, including, but not limited to, duration, convexity, liquidity and currency risk.' Furthermore, to ensure consistency and comparability, there should be more guidance regarding the determination of the discount rate similar to International Accounting Standard (IAS) 19, *Employee Benefits*, which requires a high-quality corporate bond rate. Recognizing different discount rates may be appropriate for different insurers dependent upon the types of contracts written, some specific guidance and/or examples will increase consistency and comparability amongst insurers.

The assumptions and judgments used by insurers to determine the appropriate discount rate should be disclosed in the notes to the financial statements.

We also believe it is difficult to incorporate the consideration of materiality into discounting. We suggest removing the reference to materiality. If 'discount if the effect is material' is included in the final standard, we encourage the Board to provide more guidance around what this means and provide examples of what types of policies or interest rate environments would be considered material and should be discounted to ensure there is consistency and comparability between insurers.

We would further mention that the discount rate is a significant concern due to the proposal to update the discount rate each reporting period and to report any fluctuations caused by changing discount rates through the income statement. We believe that the financial statements will not be useful, and may even be misleading, if operating results reflect changes in discount rates. These fluctuations have the potential to significantly impact financial results, even though the fluctuations may not be representative of actual business performance.

We believe that any fluctuations caused by changes in discount rates should be reported through other comprehensive income in order to avoid significant volatility in the income statement. Changes in the discount rate are not reflective of the insurers' performance; therefore, these fluctuations should be reported through other comprehensive income.

Furthermore, given the inherent linkage of the assets and liabilities of an insurer, we encourage the Board to ensure a level of consistency in the valuation of assets and liabilities as it finalizes conclusions in regards to accounting for both Insurance Contracts and Financial Instruments.

Question 13: Do you think that acquisition costs should be included as one of the cash flows relating to the contract? If not, how would you account for acquisition costs? [FASB Q13]

Response 13: Yes. We agree that acquisition costs should be included as one of the cash flows related to the contract.

Question 14: Do you agree that acquisition costs included in the cash flows used in the measurement of the insurance contract should be limited to those that are incremental at the individual contract level? If not, which acquisition costs, if any, would you include in the measurement of the insurance contract? [FASB Q14]

Response 14: Paragraph 59 of the DP defines incremental cash flows in relation to the individual contract. This definition ignores the pooling concept that is fundamental to the business of insurance, including the pooling of acquisition costs as well as overhead costs. Not recognizing certain cash flows in the measurement (i.e., non-incremental acquisition and overhead costs) reduces the relevance of the financial statements to users. We also believe that the DP definition will result in different liability amounts being held depending on the form of the compensation used to distribute the same product. We do not believe this is appropriate.

We suggest that incremental acquisition costs, at a minimum, should be considered at a portfolio level versus a contract level, which is consistent with Accounting Standards Update (ASU) 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts.*

Question 15: Do you agree with the use of either the composite margin approach or two-margin approach to measure the net insurance contract? Does either approach faithfully represent the economics of insurance contracts? Is either approach an improvement over the measurement used in current U.S. GAAP? [FASB Q15]

Response 15: We prefer a composite margin approach, based on our responses to the risk adjustment questions previously posed in Questions 8-10, because we believe the composite margin is easier to calculate and more comparable across companies.

Additionally, we do not believe that risk can be adequately described with a single number. The two margin approach is arguably the more theoretically 'pure' approach to viewing the economics of insurance contracts, but the amount of subjectivity involved in the two margin approach (which of the three methods to use, how to define portfolios, how to determine confidence levels, which of several actuarial methods to use to determine a statistical distribution of losses, etc.) will almost certainly produce incomparable results.

Insurers would be required to incur significant costs and resources to estimate risk adjustments each reporting period. As outlined above, these costs would be incurred to estimate an amount that we do not believe is useful or comparable, and we believe users would actually eliminate the risk adjustment from financial results for their purposes. As such, we prefer the composite margin approach.

Question 16: Do you think that the composite margin should be recognized in earnings in subsequent periods using the ratio described in paragraph 83? If not, how would you recognize the composite margin in earnings? [FASB Q16]

Response 16: In general we agree with the concept that a portion of the income should be recognized during the coverage period and a portion should be deferred and released over the claims settlement period. The ratio as described is oversimplified relative to the actual economics as the amount of margin released during the coverage period and the amount deferred is set arbitrarily across all lines without recognition of the unique characteristics of the risk. To ensure the recognition properly aligns with the nature of the insurance contract and risk, we suggest adding a premium/claim weighting component to the ratio. For example:

$$\frac{(X * \text{Premiums Allocated to Date}) + (Y * \text{Claims and Benefits to Date})}{(X * \text{Total Expected Premiums}) + (Y * \text{Total Expected Claims and Benefits})}$$

Dependent upon the nature of the risk, management would assign a premium weighting (X) and a claim weighting (Y) to each portfolio. For example, if management concluded that the majority of risk and claims are incurred in the coverage period, a premium weighting of 100% would be established and 100% of profit would be recognized over the coverage period.

We believe insurers should be required to disclose the estimates used to determine the recognition and discuss differences by portfolio, as applicable.

Question 17: Do you agree that interest should not be accreted on the composite margin? Why or why not? [FASB Q17]

Response 17: Yes. We agree that interest should not be accreted on the composite margin as we do not think that the accretion of interest is meaningful or beneficial.

Question 18: Do you think that all insurance contracts should be recognized and measured using one approach or that some insurance contracts should be recognized and measured using an alternative approach (for example, the modified approach)? Why or why not? [FASB Q18]

Response 18: Due to different economics of different products, we do not believe that all insurance contracts should be measured using one approach. Several aspects of the proposed guidance, most notably the summarized margin presentation, would not provide useful or meaningful information for non-life insurers. Therefore, we support an alternative approach such as the modified approach for non-life insurance contracts.

As proposed, we have some concerns with the modified approach which are addressed throughout this comment letter.

Question 19: If an alternate approach is required for some insurance contracts, what recognition, measurement, and presentation provisions should be applied (including those items noted in paragraph 106)? [FASB Q19]

Response 19: The modified measurement approach should include underwriting measures in the presentation due to the significance of this information to management and users of the financial statements.

Recognition of profit should largely be over the coverage period, with some deferral of profit if appropriate based on the nature of the insurance contract. Recognition of profit over the coverage period represents the timing of when an insurer is exposed to risk and, in several instances, the insurer has fulfilled the majority of its obligation during this period. Although recognition over the coverage period is not consistent with the theory of fulfillment cash flows, we believe this is more practical. In several instances, the majority of claims (and therefore profit) would be recognized over the coverage period. We believe the extended duration of a small deferred profit would increase administrative and recordkeeping efforts for minimal benefit. Therefore, recognition of profit over the coverage period is more operational.

With regard to the items noted in paragraph 106; a) it is not unreasonable to reduce the preclaims liability with incremental acquisition costs; b) interest should not be accreted on the preclaims liability as we do not think that the accretion of interest is meaningful or beneficial; c) the onerous test should be applied in a similar to manner as existing U.S. GAAP under ASC Topic 944, *Accounting and Reporting by Insurance Enterprises* (ASC Topic 944); d) it is vital that underwriting measures be presented in the financial statements. Additionally, the presentation and measurement should be consistent for all non-life insurance contracts.

As proposed in the ED, the modified measurement approach would be required for short-duration contracts that have a coverage period of approximately one year or less. We do not agree with a narrow definition of short-duration contracts due to the concern that certain similar contracts would have different measurement models and presentation criteria. This would not be efficient nor produce useful, consistent

information for users of the financial statements. We believe the definition of short-duration insurance contracts should be changed to follow the definition under current U.S. GAAP in ASC Topic 944.

If the proposed criteria to account for insurance contracts under the modified measurement approach is not revised to incorporate all similar contracts, we believe the modified measurement approach should be permitted, but not required.

Question 20: Do both the building-block approach and the modified approach (with the latter approach applied only to certain short-duration contracts) produce relevant and decision-useful information? Why or why not? [FASB Q20]

Response 20: We believe the building block approach does not produce relevant and decision-useful information for non-life insurance contracts. The proposed measurement model is fundamentally disconnected with how we manage and measure business.

The modified approach produces more meaningful and useful information for non-life insurance contracts due to the proposed premium presentation and recognition of profit, in most instances, over the coverage period.

Question 21: How should the scope of insurance products for each approach be defined (for example, duration of coverage period, duration of claims payment period, or type of insurance)? [FASB Q21]

Response 21: We believe the definition for short-duration contracts should be changed to follow the definition under U.S. GAAP in ASC Topic 944, "the contract provides insurance protection for a fixed period of short duration and enables the insurer to cancel the contract or to adjust the provisions of the contract at the end of any contract period, such as adjusting the amount of premiums charged or coverage provided." As a result, any contracts that do not meet the current definition as described under current U.S. GAAP as short duration would be accounted for under the proposed building blocks approach. This type of scope will allow for consistency in measurement and presentation for similar types of products which is most useful for management and users of the financial statements.

Question 22: Are there specific types of insurance contracts for which the approaches would not provide decision-useful information? [FASB Q22]

Response 22: As noted above, we believe the building block approach does not produce relevant and decision-useful information for non-life insurance contracts. The proposed measurement model is fundamentally disconnected with how we manage and measure business.

The modified approach produces more meaningful and useful information for non-life insurance contracts due to the proposed premium presentation and recognition of profit, in most instances, over the coverage period.

We are very concerned about the possibility of having two different measurement models for similar products. If the scope of the modified measurement approach is not revised and is required for short-duration contracts, there will be inconsistency in the measurement and presentation of similar insurance products which will be very confusing and lack any usefulness for users of the financial statements.

Furthermore, we are concerned that there will be inconsistency and lack of comparability in accounting for reinsurance. The DP states "a reinsurer would use the same recognition and measurement approach for reinsurance contracts as that used for direct insurance contracts." While we agree that there should be symmetries between the recognition and measurement of reinsurance contracts and the underlying contract ceded, this is not always practical or reasonable due to different types of reinsurance contracts

such as catastrophe reinsurance or reinsurance contracts that cover a different period than the underlying contracts. As currently proposed, there could be situations where a reinsurance contract is accounted for using the buildings block approach and the underlying contract is accounted for using the modified approach. This outcome would be non-useful information and would be confusing and hard to analyze.

In summary, we do not believe the DP's proposed accounting represents sufficient improvement to existing U.S. GAAP to justify issuing new guidance for insurance contracts.

Question 23: What are the implications of the recent U.S. healthcare reform to the application of the proposed contract boundary principle, including whether health insurance contracts written under the new reforms would meet the conditions in the proposed guidance to be accounted for under the modified approach? [FASB Q23]

Response 23: No comment.

Question 24: What other changes should be considered to both improve and simplify U.S. GAAP for short- and long-duration insurance contracts? [FASB Q24]

Response 24: No comment.

Question 25: What are the incremental costs of adopting the alternatives described in this Discussion Paper? Please separately describe one-time costs and ongoing costs. [FASB Q25]

Response 25: We need additional time to fully explore the implementation costs of the alternatives described in the DP. Based on our initial estimates, the cost and time to adopt the proposed accounting will be quite significant. The items we are considering include:

One-time costs:

- Training
- System costs to discount cash flows
- System costs to estimate probability-weighted cash flows
- System reconfiguration costs to recognize insurance contracts when bound (versus when effective)
- System costs to compute and recognize margins
- Reconfiguration of reinsurance systems
- System reconfiguration costs to capture, analyze, and report data on a policy year rather than on an accident year
- Significant effort needed to restore and analyze historical data to determine transition impact
- General ledger mapping
- 10K and 10Q restructure (for both CNA and Loews)
- XBRL tagging (for both CNA and Loews)
- Internal management reports will need to be revised to align with proposed guidance so management and the board of directors can review information as it will be reported
- Indirect costs to ensure compliance with SOX 404

Ongoing costs:

- Actuarial staff would need to be increased significantly due to increased workload
    - different process on a GAAP and statutory basis
    - remeasurement required each reporting period
- Increased time to analyze and explain fluctuations in financial results (for management, footnote disclosures, users, and auditors)

- Preparation of required disclosures (costs related to actuarial involvement in completing sensitivity analyses and costs related to updating and reviewing the disclosures)

We believe implementation costs could be significantly reduced by making the following modifications to the building blocks approach:

1. Revise building block one to be more comparable with how estimates are established today. We are concerned that the wording in the ED overemphasizes the term probability-weighted and may imply that identification of and assigning probabilities to every scenario of commercial substance may be required. There are many ways of producing appropriate estimates of mean value measures including methods that do not involve explicit identification of and assigning probabilities to every scenario. This wording is not practical and, ultimately, this approach may not result with the best estimate.
2. Revise the recognition guidance to be as of the effective date. As pointed out in the DP in paragraph 45, in many cases, the measurement of insurance contracts does not change materially after initial recognition and before the start of the coverage period. Insurers would incur significant costs to modify systems and make process changes in order to account for the proposed recognition for seemingly minimal to no benefit.
3. Remove the requirement to perform full remeasurement each reporting period. Remeasuring cash flow estimates and judgments each reporting period will be a significant cost and strain on resources. Complete remeasurement each reporting period is not deemed to be a beneficial exercise as estimates should not significantly fluctuate each reporting period. Rather, we suggest that assumptions and estimates are reviewed each reporting period and revised as deemed necessary.
4. Revise guidance to allow flexibility in determining different portfolios. Currently, non-life claims data is analyzed on an accident year basis. Converting all data and migrating systems from an accident year basis to a policy year basis would be a significant effort which is not consistent with how actuaries currently analyze the business.

The elimination of the four costs listed above would alleviate some of the costs of the implementation of this dramatic change; however, the cost would still be significant.

It is hard to justify expending all these costs and resources for a measurement that is not considered to be useful for management or users of the financial statements and is fundamentally disconnected with how we manage and measure the business.

Reinsurance

Question 26: The scope of the proposed guidance includes reinsurance contracts that an insurer issues or acquires. However, insurance contracts held directly by other policyholders would be excluded from the scope of the proposed guidance. Do you agree with this exclusion? Why or why not? [FASB Q26]

Response 26: No comment.

Question 27: Should there be symmetry between the recognition and measurement of reinsurance contracts and the underlying contract ceded? [FASB Q27]

Response 27: While we agree that there should be symmetries between the recognition and measurement of reinsurance contracts and the underlying contract ceded, this is not always practical or reasonable due to different types of reinsurance contracts such as catastrophe reinsurance or reinsurance contracts that cover a different period than the underlying contracts. As currently proposed, there could be situations where a reinsurance contract is accounted for using the buildings block

approach and the underlying contract is accounted for using the modified approach. This outcome would be non-useful information and would be confusing and hard to analyze.

Reinsurance is a significant, complex accounting area that requires further thought and consideration to ensure appropriate and comparable accounting is applied by insurers.

Specific items that need significantly more attention from the Board include:

- Should risk adjustments be calculated as Gross less Net equals Ceded, or as Gross less Ceded equals Net? The differences are material for many types of reinsurance, and we believe a focus on Net (i.e., Gross less Net equals Ceded) is what the users of financial statements would be most concerned with.
- How should reinsurance contracts covering underlying insurance contracts where the underlying insurance contract has not yet been written be treated? This is a very common occurrence and a complicated issue the ED does not address.
- How should reinsurance contracts written on a multi-year basis (i.e., long-duration) be treated when the underlying insurance is short-duration? This, too, is both a common and a complex issue covering contracts such as Risks Attaching treaties, multi-year catastrophe bonds (almost all catastrophe bonds are written on a multi-year basis) and others.
- Conditions under which an insurer would recognize a gain or loss at reinsurance contract inception.

Presentation and Disclosure

Question 28: The margin presentation approach highlights the changes in the insurance liability, rather than the current approach in U.S. GAAP, which presents, among other items, premium revenues, benefits paid, operating costs, and changes in loss estimates. Would this change improve your understanding of the performance of an entity that provides insurance (for some types of insurance or for all)? Please explain. [FASB Q28]

Response 28: No. We believe significant decision-useful information would be lacking under the proposed margin presentation approach for non-life insurance contracts. The margin approach is not consistent with how insurers manage their business or how management and investors analyze results. Additionally, the margin approach does not include underwriting profitability measures which are key measures for both management and investors. Under the proposed margin approach, it will be very difficult to understand insurance operating results and current period activity based on review of the financial statements.

Furthermore, the volume of information will add to the difficulty of reviewing the financial information. The proposed presentation is by portfolio. Depending on the insurer and types of business written, the number of portfolios will vary. This will increase the line items on the face of the financial statements. Additionally, the increased disclosure requirements in regards to sensitivity analyses will increase the difficulty and time to review the financial statements and disclosures and understand the financial results. The nature of the proposed required disclosures is difficult to apply and present in a manner that is as concise and insightful.

Lastly, the current revenue and expense presentation provides investors with a measure of performance in the income statement that allows investors to compare an insurance entity to other financial service and non-financial service entities. Therefore, we believe by requiring the margin presentation approach on the face of the financial statements will not improve the comparability or transparency between entities across industries.

Question 29: Should insurance contracts measured under the building-block approach be presented using a margin presentation approach or a premium presentation approach that would require a true-up amount as described in paragraph 119 (for example, the written allocation presentation approach or the allocated premium presentation approach)? [FASB Q29]

Response 29: We support a premium presentation approach. The premium presentation approach is more useful since underwriting measures such as premium revenue and claims and benefits incurred are included on the face of the financial statements. However, as discussed in previous questions, we have concerns regarding different accounting and presentation of similar contracts (due to narrow definition of short-duration) and the presentation of information at a portfolio level on the financial statements.

Question 30: Should short- and long-duration (or nonlife and life) contracts be presented in a similar manner even if such contracts are measured under different approaches? [FASB Q30]

Response 30: No. We do not believe short and long duration contracts should be presented in a similar manner. Rather we believe contracts should be presented in a manner that is consistent with how insurers manage their business or how management and investors analyze results.

Question 31: Do you agree with the proposed disclosures in the IASB's Exposure Draft? Why or why not? If not, what would you recommend and why? [FASB Q31]

Response 31: No. As currently proposed, we believe the required sensitivity analyses will produce numerous pages of additional disclosure information that is highly judgmental.

As worded, in paragraph 90(a) of the ED, "an insurer shall disclose: for the measurements that have the most material effect on the recognized amounts arising from insurance contracts, the methods used and the processes for estimating the inputs to those method. When practicable, the insurer shall also provide quantitative information about those inputs." There are numerous interpretations and potential disclosures that would be required under this guidance.

Additionally, these disclosures would be required at the portfolio level; therefore, potentially there would be numerous disclosures and sensitivity analyses for each portfolio. This amount of information could result in more confusion than clarity and diminish the clarity of true operating results such as favorable or unfavorable loss development. Furthermore, this level of detail is not practical. In summary, disclosures at this low of a level would be confusing and make it difficult for users to understand what is happening to the overall business at a macro level.

We believe clear, concise disclosures produce the most beneficial and useful information for users of the financial statements. Therefore, as an alternative to the proposed 'sensitivity analysis' disclosures, we would recommend a disclosure that provides transparency around the range of possible outcomes produced by the insurers' actuaries and disclose the methods and assumptions used to determine such ranges.

Additional Question for Respondents

Question 32: After considering your views on the specific issues contained in this Discussion Paper and the IASB's Exposure Draft, what do you think would represent the most appropriate improvement to U.S. GAAP?
(a) Pursue an approach based on the IASB's Exposure Draft? [FASB Q32 a]
(b) Pursue an approach based on the IASB's Exposure Draft with some changes? Please explain those changes. [FASB Q32 b]
(c) Pursue an approach based on the Board's preliminary views in this Discussion Paper? [FASB Q32 c]

(d) Pursue an approach based on the Board's preliminary views in this Discussion Paper with some changes? Please explain those changes. [FASB Q32 d]
(e) Make targeted changes to address specific concerns about current U.S. GAAP (for example, items included in paragraph 7)? Please describe those changes. [FASB Q32 e]

Response 32: We believe the most appropriate improvement would be to make targeted changes to address specific concerns about current U.S. GAAP. As acknowledged in the DP, general accepted accounting standards in the United States include well established and acceptable comprehensive accounting standards for insurance contracts. While we support efforts to improve the current accounting standards for insurance contracts and move towards a single set of high-quality globally accepted accounting standards, any change should be consistent with the manner in which management runs and evaluates the business. Therefore, we believe it would be most cost effective and efficient to start with the current U.S. GAAP guidance and make focused changes where needed.