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Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, CT 06856

Subject: File Reference No. 2012-200

The Property Casualty Insurers Association of America (PCI) appreciates the opportunity to comment on the Exposure Draft issued June 27, 2012 regarding disclosures about liquidity risk and interest rate risk. PCI's more than 1,000 member insurance companies write over \$190 billion in annual premium, which represents more than 39 percent of the property casualty insurance coverage written in the United States.

#### **Questions for Preparers and Auditors – Liquidity Risk**

Question 1: For a financial institution, the proposed amendments would require a liquidity gap table that includes the expected maturities of an entity's financial assets and financial liabilities. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

Response: We believe property casualty insurers would incur significant operational constraints in complying with this requirement. In general the business model of property casualty insurers does not include an attempt to match assets and liabilities. Operating revenue mainly provides funds for the payment of claims. Additional funding is provided through investment portfolios of very liquid assets. This model is used because of the inherent uncertainty in the ultimate amount and payment date of many property and casualty claims.

Question 3: The proposed amendments would require information about expected maturities for financial assets and financial liabilities to highlight liquidity risk. Expected maturity is the expected settlement of the instrument resulting from contractual terms (for example, call dates, put dates, maturity dates, and prepayment expectations) rather than an entity's expected timing of the sale or transfer of the instrument. Do you agree that the term expected maturity is more meaningful than the term contractual maturity in the context of the proposed liquidity risk disclosures? If not, please explain the reasons and suggest an alternative approach.

Response: Property casualty insurance contracts do not include contractual terms for claim settlement dates or amounts. As previously noted there is significant uncertainty around the ultimate amounts and payment dates of property casualty insurance policy claims. The uncertainty becomes more significant with the complexity of the claim as the settlement process becomes more protracted. This scenario is usually related to liability claims. Providing auditable expected dates for settling such claims would be problematic at best.

#### **Questions for Preparers and Auditors – Interest Rate Risk**

Question 13: The interest rate risk disclosures in this proposed Update would require a repricing gap table. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

Response: The repricing gap table is not appropriate for the property casualty insurance business model. P&C contracts generally are repriced at least every 12 months. In addition, as has been described previously,

P&C carries do not match assets and liabilities due to the inherent uncertainty in the ultimate amounts and payment dates of property casualty insurance policy claims.

Question 14: The interest rate risk disclosures in this proposed Update would include a sensitivity analysis of net income and shareholders' equity. Do you foresee any significant operational concerns or constraints in determining the effect of changes in interest rates on net income and shareholders' equity? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

Response: A sensitivity analysis of net income and shareholder's equity is not necessary for property casualty insurers as they do not manage interest rates to match assets and liabilities as part of their business model.

### **Questions for All Respondents**

Question 20: The amendments in this proposed Update would apply to all entities. Are there any entities, such as nonpublic entities, that should not be within the scope of this proposed Update? If yes, please identify the entities and explain why.

Response: Nonpublic property casualty companies should be excluded from the scope of the proposal. The users of financial statements of nonpublic property casualty insurers are generally aware of the business model of P&C companies and have access to the companies' management to obtain additional information and clarity. The cost/benefit to the shareholders of nonpublic property casualty insurers for making the proposed required disclosures would not be positive.

If you have any questions or comments about our letter, please contact me at your convenience.

Sincerely,



James M. Olsen