December 15, 2010

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

Re: Preliminary Views on Insurance Contracts, File Reference No. 1870-100

Thank you for the opportunity to comment on the Financial Accounting Standards Board Discussion Paper (DP) on the preliminary views on insurance contract accounting. We applaud the efforts of the FASB and IASB to address the insurance contract accounting project, but we have concerns with the proposed accounting that is described in the DP. Our top issues of concern are:

- The discount rate for the insurance liabilities versus the accounting for assets has the potential for mismatch in the accounting that is not present from an economic perspective as assets supporting the insurance liabilities would fluctuate with risk free rates, liquidity, and credit spreads while the insurance liabilities would fluctuate with risk free rates and a potentially different liquidity spread. Lack of clear guidance in this area is a concern. We also believe that long duration liabilities with illiquid elements should allow a discount rate that corresponds more closely with a buy and hold strategy. Under this view, a more defined discount rate would emerge as an asset earnings rate less a long term view of default costs and investment expenses. Shorter term liabilities with market based policyholder options may require a markedly different approach to illiquidity premiums. Lack of guidance concerning the illiquidity premium may result in inconsistency of treatment throughout the industry. This issue is of particular concern for products with very long duration cash flows such as long term care and long term disability insurance.

- The definitions of “contract boundary” and “short duration contract” described in the DP, and being considered by both Boards, is confusing and complex as they would apply to our group insurance portfolio, and we believe that these products have minimal prefunding of benefits during the coverage period and should optionally be treated as short duration contracts. Many group insurance contracts have a short initial rate guarantee period of 12, 24, or 36 months. As a contract approaches the rate guarantee expiration date, an insurer might elect to keep the current rate and not reprice if the contract is profitable. In this situation, the insurer still has the right to change the rate at any time or even cancel the coverage. The definition of a short duration contract in the IASB ED would imply that the contract would start out as long duration using the
building blocks and switch to a short duration model as soon as the rate guarantee period expired and move to a modified accounting approach. This change in accounting method for a single contract will be extremely complex to implement and analyze. We believe the modified approach should be optional and the definition of a long duration contract should be based on prefunding; lack thereof would allow for a short duration treatment. Under the short duration method, a loss test is currently stipulated in order to provide for any embedded loss during a guarantee period; this provision should remain.

- The amortization of the composite margin is overly prescriptive and does not align with a principles based approach. A more flexible approach to amortization which connects the margin to underlying risks, or cost of capital, would appear to be more appropriate. A more general statement of the goals of the amortization process would align with a principles based approach. Additional latitude may also help with convergence between IASB and FASB in this matter and allow companies to adopt one method to establish the margin. The only substantial difference remaining with IASB would be the lock-in versus reset question for some or all of the margins.

- For certain businesses, presentation of results under the summarized margin approach moves the focus from fundamental operational metrics such as benefit ratios, expense ratios and premium revenue growth to changes in margins and re-estimates. We believe this change will be difficult to manage with the many constituents.

- We believe that other methods for determining the first building block, i.e. the best estimate of future cash flows, should be allowed, as there are better approaches than a probability weighted cash flow approach for certain products as outlined in our response to question 7.

We identify several other issues in our detailed answers to the DP questions, including:

- Incremental acquisition costs should be determined at the portfolio level
- Contract boundary definition should be changed to account for rate regulation
- Unbundling clarification and simplification is needed

We address the questions contained in the paper in the remainder of our response below.

Sincerely,

[Signature]

Albert A. Riggieri
Senior Vice President, Chief Actuary
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Definition and Scope

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

**Company Response:**
Yes, we particularly agree with the Board’s view to remove the insurance entity orientation from current guidance and to look to an arrangement’s economic characteristics to determine the appropriate accounting model. We also agree that compensation is a more suitable term than indemnification.

**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?

**Company Response:**
Although we agree with the Board’s position, we do not believe there will be a significant impact on current practices of insurance companies and therefore probably would not result in an improvement to current financial reporting in the insurance industry. We do believe that there are potential benefits for greater consistency across companies not considered insurance companies that might issue contracts meeting the definition of insurance.

**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?

**Company Response:**
We would agree that a standard for insurance contract accounting should only scope in those contracts that cover insurance risk.

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

**Company Response:**
To ensure that the Board’s stated intentions of transparency and comparability are achieved, we would like more clarity around what parts of a contract are “interdependent”. For example, we do not see the value of unbundling universal life insurance contracts. The insurance cash flows are dependent on the account values, so we need to use the account value information to determine insurance cash flows. We use a market consistent discounting method for the
insurance cash flows and a fair value measure for the account value, so it would seem we would get to the same answer if we were to keep the product bundled. Keeping it bundled simplifies the work effort and gets to materially same result as unbundling.

**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?

**Company Response:**
We believe that the description of the measurement objective should be modified to express the value as a best estimate of the cash flow taking into account various potential outcomes rather than a probability weighted cash flow. The probability weighted cash flow method is just one technique that might be used to arrive at a best estimate while other methods may be better suited depending on the product characteristics.

Some products have cash flows that do not depend on interest rates or other market variables, and as such, tend to exhibit stable characteristics. An example would be an accident product that pays a small benefit amount according to a fixed indemnity schedule for the occurrence of an accident. With a product of this type, without a significant skewness to the outcomes, a simple model may be preferred.

Other products like disability income have a fairly stable outcome but have some skewness that can be approximately addressed using a factor, which would eliminate the need for complex models.

**Question 8:** Do you think that an entity’s estimate of the net cash flows should include a risk adjustment margin?

**Company Response:**
We believe that this issue can be best addressed by defining a set of characteristics of a margin and leaving the specific structure to be determined in practice. We have not had sufficient time to model all of the alternatives for our products and there may be an argument for the risk/residual approach, but the work completed to date seems to indicate that the cost of having two components is not justified by any enhancement in our view. We could understand a floor on the margin as that is represented by a risk component, however, a floor without a very firm definition would be of little or no use and may actually be detrimental to constituent’s understanding.

**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?

**Company Response:**
The objective of a risk adjustment appears understandable and we believe that any of these methods could serve as a valid risk adjustment. The principal issue related to the risk margin is that of consistency of viewpoints and its calculation, which we do not feel can be reached at this time and should not be strictly defined. If a risk adjustment is required, we do not believe that limiting the choice of methods to the three prescribed will lead to comparability due to the many choices and assumptions that need to be made within each method. We also believe that there are other approaches than those listed which can lead to a risk adjustment. For some products with little volatility, simple methods should be allowed. For other products, there may be other methods that would better estimate the risk. For example, a simple percentage margin may be appropriate and would adequately measure the risk on some products. Stress testing may be appropriate for other catastrophic and low frequency risks.

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

**Company Response:**
See Response to Question 9.

**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?

**Company Response:**
The proposed guidance for the description of cash flows is operational. However, some fulfillment costs could be incurred before the contract boundary date. See Question 13 for further discussion.

**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?

**Company Response:**
To be consistent with other accounting guidance, any liability that is due past 12 months should be discounted if the effect is material.

The discount rate used by the insurer should reflect the characteristics of the insurance contract, including liquidity, currency, and timing. However, there are many ways to arrive at the
appropriate discount rate besides the risk free rate plus liquidity premium that is described in the DP.

We believe additional guidance is needed in order to bring about some level of consistency. In addition, such guidance should follow from the stated principle of reflecting the characteristics of the liabilities. For long dated, illiquid liabilities, we believe that a rate reflecting a buy and hold strategy should drive the amount of the illiquidity premium taken into account in the discount rate. In such a case, the illiquidity premium could be best related to a total available market spread less a long term default provision. On the other end of the spectrum, a short dated, very liquid liability would have a discount rate much closer to a short term, highly liquid investment contract such as a treasury note. Guidance for intermediates would tend to reflect some of each situation depending upon specifics.

**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?

**Company Response:**
It seems intuitive that if you are using a fulfillment model to measure the contract liability, you would include all cash flows necessary to acquire and fulfill that liability. However, we have an issue with the contract boundary as it may relate to acquisition costs. The Board proposes to use the earlier of either signing the contract or being on risk to provide coverage as the beginning point of the consideration of cash flows for the contract liability. Significant incremental expenses are incurred before these dates to acquire and initiate a contract. As the IASB ED points out in BC135, an insurance contract is generally priced to recover these costs and in BC136, a faithful representation of the remaining obligation should not include the part of the premium that paid for the incremental acquisition costs. If the Board’s intention is to include those cash flows that are directly incremental to the acquisition of the contract including selling, underwriting, and initiating costs, then we believe it should be clearly stated that qualifying costs could be incurred before the proposed contract boundary.

**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?

**Company Response:**
In other areas of the guidance the Board proposes that an insurer should determine cash flows for a portfolio of contracts that are subject to broadly similar risks and managed together as a single pool. In the IASB’s discussion of aggregation for a risk margin in its ED BC120, “The Board acknowledges that this description of a portfolio is not fully rigorous, but it believes that a more
rigorous definition is not attainable and that this description will provide information that is relevant to users and faithfully represents the extent of risk, at a reasonable cost.”

We believe that all incremental acquisition costs should be determined at the portfolio level not the contract level. This is consistent with the fundamental insurance principle of pooling.

**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?

**Company Response:**
Please refer to question 8 for our discussion on the risk margin.

**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?

**Company Response:**
The composite margin should be released over a risk based measurement. As a company is released from its risk to provide the coverage or pay the associated claims, the composite margin should be released. Applying this principle in practice would allow for a specific design of the composite margin release based upon the circumstances of the risks represented.

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

We agree that there is no need to accrete interest on the margin. From a practical standpoint, the costs would not justify any additional benefit this information would provide.

**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?

**Company Response:**
We believe that a fundamental difference in treatment should exist for short duration and long duration contracts but we believe that the criteria for determining the boundary between them is not clear; the use of a 12 month coverage period is an arbitrary boundary. As an example, a group insurance contract may have a two year rate guarantee period and have no prefunding of benefits as claim costs and premiums are correlated. The contract would be called long duration however, given its characteristics; it may better be represent as a short duration contract. At the
end of two years, the insurer may choose not to reprice the case if it is profitable and there would no longer be a rate guarantee period. It would be complex for the contract to change accounting treatment and be called short duration after being long duration for the first two years. A preferred change to the criteria would be to allow (but not require) the short duration accounting if the contract has no material prefunding of benefits evidenced by a negative present value of fulfillment cash flows over the life of the policy.

**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)?

**Company Response:**
The optional modified approach for contracts without prefunding of benefits should be based on an unearned premium reserve and include onerous contract testing. There should be no composite margin and amortization for the coverage period.

**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?

**Company Response:**
We believe the proposed measurement model may provide relevant information, but we have several issues with some of the details and have some questions of interpretation. In particular, we are concerned about the asset and liability mismatch that may exist in the accounting. Inherent volatility in fair value accounting will most likely move the focus from operational performance of the insurance company to understanding how assets and liabilities fluctuate with interest rate changes.

**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)?

**Company Response:**
See our response to question 18.

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

**Company Response:**
We believe that the alternative approach and the discount rate methodology need to be modified for either the modified approach or the building block approach to provide decision useful information. In particular we do not believe this will work well for group insurance contracts if a
12 month contract boundary is required to use the modified approach. If the discount rate is the risk free rate with a liquidity premium we have concerns around the volatility for long duration insurance contracts like long term care and disability insurance.

**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.

**Company Response:**

**One time costs:** Adaptation of all reserve engines and/or the development or purchase of new engines, if existing engines are not able to be adapted. We estimate significant costs to be involved with these changes, including not only systems costs but personnel time/costs as well. In addition, significant effort will be involved with the development of systems and processes that would generate the proposed information for the proposed IASB disclosures.

**Ongoing costs:** Costs of implementing new processes/controls to sustain the new reserves model / disclosures as well as maintenance of the new model within an already tight financial statement closing timeframe.

**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.

**Company Response:**

The result of a margin approach would neither present better performance metrics nor a better understanding of our business. For products without participating funding accounts and other non-spread products, management uses premiums, revenues, benefits paid, and operating costs to understand the performance of our business and to make strategic decisions. There is no substitute for this critical information. For many of our businesses, the benefit ratio (benefits as a percentage of premiums) is a key metric in determining performance for both our analyst and investor community and management and is frequently cited in our quarterly earnings releases as well as analyst calls and presentations. Changes in the insurance liability will inherently require a long term view due to the volatility from period to period that will normalize over time. The income statement is the scorecard for our current performance and should reflect current information about considerations received (premiums) and the change in our obligations (benefits paid and change in benefit reserves).
**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)?

**Company Response:**
We believe that the premium presentation approach would reflect the relevant information that management uses and investors assess for certain types of businesses.

**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?

**Company Response:**
In general, we agree with the objective to disclose information needed to evaluate the timing, amount, and to some extent, the uncertainty of future cash flows. However, we would strongly encourage the Board to consider the need for insurers to withhold certain information that relates directly to how we price and underwrite our insurance contracts. We would also propose that due to the inherent uncertainty of sensitivity analysis, that this information remain in the management discussion and analysis of items 7 and 7A in forms 10-K and 10-Q and therefore covered under safe harbor provisions.