August 16, 2006

Technical Director – File Reference No. 1325-100
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 1325-100
   Invitation to Comment: Bifurcation of Insurance and Reinsurance Contracts for Financial Reporting, dated May 26, 2006

Dear Sir or Madam:

WellPoint, Inc. ("WellPoint") is the largest health benefits company in terms of commercial membership in the United States, serving over 34 million members as of June 30, 2006 and with total revenues of $44.5 billion for the year ended December 31, 2005. WellPoint appreciates the opportunity to respond to the FASB’s (the “Board”) invitation to comment (the “Invitation to Comment”) on Bifurcation of Insurance and Reinsurance Contracts for Financial Reporting, which applies to policyholders, insurers, and reinsurers.

Background

We commend the Board in its continuous effort to improve accounting and financial reporting in the complex area of insurance and reinsurance accounting. However, we believe that the scope of the Invitation to Comment may be too broad and appears to result in an overhaul of insurance and reinsurance accounting when, in our opinion, only a few changes may be necessary.

We are not commenting on the specific issues addressed by the Board in the Invitation to Comment as we believe that responses to specific issues are better suited at a later stage of the project, once the Board has addressed the other conceptual concerns raised in this letter. Accordingly, we are commenting only on broader concerns over the conceptual issues in the Invitation to Comment. This approach addresses the Board’s threshold question in paragraph 3 of the Invitation to Comment of “...whether bifurcation would improve financial reporting by providing users of financial statements with better information about the economic substance of insurance arrangements relative to the information provided by the current accounting for these arrangements.”
Scope of the Invitation to Comment

A key focus of the Invitation to Comment is to strengthen the reporting and disclosure by companies that buy insurance contracts (referred to as "corporate policyholders") to provide enhanced disclosure of the risks retained in insurance contracts (see paragraph 3 of the Invitation to Comment). This issue often arises in finite risk insurance contracts, whereby the insurance company only covers risks up to a specified level of losses. In addition, the current model is a pass-fail test where the entire contract is accounted for as either a deposit or insurance, depending on whether the contract transfers significant insurance risk.

The perceived problem with the current accounting guidance is that U.S. generally accepted accounting principles do not define a minimum level of insurance risk that must be accepted by the insurer to qualify for insurance accounting. Rather, the guidance is principles based, which has resulted in a small number of abuses of the rules that have caused well publicized financial statement restatements. However, as acknowledged in paragraphs 39 and 40 of the Invitation to Comment, we believe that, in general, the industry has settled on a minimum level of insurance risk transfer that must be achieved to allow insurance accounting. Accordingly, we believe the scope of the Invitation to Comment is too broad.

Furthermore, the Invitation to Comment does not introduce any new concepts in terms of how to determine if insurance risk transfer has occurred. The proposed definition of insurance risk in paragraph 34 of the Invitation to Comment is very similar to the guidance in Statement of Financial Accounting Standards No. 113, Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts ("FAS 113"), related to the determination of whether a reinsurance contract transfers insurance risk. As a result, we believe the Invitation to Comment would merely result in a change in the classification of the portion of the contract that does not transfer insurance risk, but it does not address the issue that was the impetus for the proposed project, which is the lack of specific guidance on how to determine the level of insurance risk transferred.

Ability to Achieve the Goal of the Invitation to Comment

As stated above, a key focus of the Invitation to Comment is to increase transparency of corporate policyholders' retained risks. To achieve this goal, the Board proposes the bifurcation of the insurance contract into multiple components and to account for each component separately. However, we believe that not all corporate policyholders would have sufficient data available to reasonably estimate the portion of the insurance contract that transfers insurance risk to the insurer versus the portion that represents coverage of anticipated claims under the insurance contract. As a result, the goal of the Invitation to Comment, in our view, may be difficult to achieve without undue burden on corporate policyholders, or without the use of highly judgmental estimates and assumptions that may result in a misrepresentation of the financial impact of the underlying contract.
For example, many corporate policyholders buy group health insurance coverage for their employees by obtaining quotes from multiple insurers. The ultimate decision of which insurer to select is often dependent on multiple factors, including the premium charged for the coverage, the service offerings of the insurer, the network coverage, and other intangible factors such as reputation of the insurer. Rarely does the corporate policyholder have sufficient data available to reasonably estimate how much of the premium is charged for anticipated claims versus how much is charged for the insurer's risk component or other intangible aspects. Further, even the insurance companies proposing on the group health coverage for a particular corporate policyholder may not be able to obtain enough company-specific data to properly estimate the specific insurance risk of that particular employee population. However, the Invitation to Comment would require that level of detail of analysis by both sides to bifurcate the premium into a deposit component (for anticipated claims) and a risk component. We believe this requirement causes undue burden and could ultimately result in arbitrary allocations that could distort financial reporting and disclosure.

Assume for example that a corporate policyholder obtains a standard, fully-insured group health insurance contract from an insurance company to cover its employees for the coming year. If the concepts and provisions of the Invitation to Comment are adopted, the corporate policyholder would have to bifurcate the premium into an insurance and deposit component. Based on the corporate policyholder's best estimate, it assumes that the premium of $1,000,000 (paid in advance) covers $700,000 of anticipated claims, plus a $300,000 premium to compensate the insurer for taking on the risk that actual claims could be larger than $700,000, without any coverage limits. Accordingly, the corporate policyholder would record an asset for prepaid claim costs of $700,000 and would recognize the $300,000 risk premium as expense over the annual contract term. Actual claims paid would then reduce the prepaid asset balance and would be recognized as expense when paid. If, after the end of the coverage period (claim payments for benefits incurred in any given period often continue for a certain amount of time after the end of the coverage period), actual claims incurred only amounted to $600,000, the remaining $100,000 asset balance would not be recoverable and must be written off in a future period, which would result in a mismatch in the income statement.

Conversely, if the entire contract were accounted for as insurance, the corporate policyholder would recognize the entire $1,000,000 as expense in the current year, which appears to better match the expense with the period in which group health insurance coverage is provided.

**Perceived Improved Disclosure of Risks**

Paragraph 44 of the Invitation to Comment states that some believe bifurcation would improve the understandability of insurance risks retained by an insurer by reporting premiums net of any deposit components. This statement implies that financial reporting would be improved simply by requiring insurers to bifurcate their insurance contracts. However, we believe bifurcation does not improve the understandability of retained risks. Rather, only enhanced disclosure of methods and assumptions used to determine that
certain risks have been transferred would allow a reader of the insurer's financial statements to better understand the amount of risk inherent in the financial statements. We caution, however, that due to the multitude of differing contracts that insurers enter into, a mere requirement to provide additional disclosures would likely not increase the transparency of the financial statements and may cause confusion. Therefore, we urge the Board to analyze the areas of abuse by certain companies in the past and focus the requirement for enhanced disclosure on those areas.

Summary

We believe the proposal to bifurcate insurance contracts into insurance and deposit components does not improve the financial reporting of such arrangements. The current accounting model for such arrangements generally captures the economic substance of the arrangements and provides for proper accounting and financial reporting. Accordingly, we do not believe that a full overhaul of insurance and reinsurance accounting is necessary.

However, we do believe that the evaluation of insurance risk transfer, which is crucial to the determination of the accounting method to apply to an insurance arrangement (i.e., insurance or deposit accounting), requires a significant degree of judgment. The well-publicized alleged abuses of this judgment by certain companies demonstrate that greater clarity in this particular area is warranted. Accordingly, we urge the Board to consider additional guidance on the determination of insurance risk transfer in insurance contracts. Furthermore, after analyzing the key areas that led to restatements, the Board might also consider additional disclosure requirements that would help prevent such errors in judgment in the future. For example, while current accounting guidance already requires certain disclosures with respect to accounting for insurance and reinsurance contracts, the Board might consider enhanced disclosures in instances where material insurance or reinsurance arrangements only marginally pass the insurance risk transfer analysis. The pass-fail paradigm would receive increased transparency in situations where financial results are highly dependent on critical judgments by management. However, this would require either a codification of the current “rule-of-thumb” for the insurance risk transfer test (see paragraph 39 of the Invitation to Comment), or significant additional guidance from the Board on an alternative methodology and level for determining insurance risk transfer.
We appreciate the opportunity to respond to this Invitation to Comment and hope the Board finds our responses helpful. Should you have any questions on our comments or wish to discuss any of our responses with us directly, please feel free to contact me directly at 317/488-6770.

Very truly yours,

WellPoint, Inc.

Wayne S. DeVeydt
Senior Vice President
and Chief Accounting Officer

Copy to: Mr. David C. Colby
Executive Vice President
and Chief Financial Officer