November 16, 2007

Mr. Robert Herz, Chairman
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116
File Reference No. 1540-100
Email: director@fasb.org

Re: Invitation to Comment on the FASB Agenda Proposal: Accounting for Insurance Contracts by Insurers and Policyholders, Including the IASB Discussion Paper, Preliminary Views on Insurance Contracts

Dear Mr. Herz:

The Hartford Financial Services Group Inc. ("The Hartford" or "we") appreciates the opportunity to comment on the Invitation to Comment on the FASB Agenda Proposal: Accounting for Insurance Contracts by Insurers and Policyholders, Including the IASB Discussion Paper, Preliminary Views on Insurance Contracts (the "ITC"). We agree with the ITC's statement that the insurance industry is international in scope, and we believe that it is important and beneficial for U.S. standard setters to be actively involved in efforts to develop a comprehensive international insurance accounting standard.

Therefore, The Hartford encourages the FASB to add to its agenda a joint project with the IASB on insurance contracts. We also encourage the FASB to engage the U.S. insurance industry in these efforts. In the past, our industry has been actively involved in providing resources to U.S. standard setters in the development of much of the extensive U.S. insurance accounting guidance listed in appendix A of the ITC.

We provide specific responses to the ITC's questions for respondents below. In addition, we have attached our comments to the IASB's Discussion Paper, Preliminary Views on Insurance Contracts. Certain of our comments to the IASB expand upon the responses to the ITC provided below.
Responses to the FASB's ITC

Question 1
Is there a need for the FASB to comprehensively address accounting for insurance contracts? Why or why not?

Yes. We believe that there is a need to comprehensively address the accounting for insurance contracts on an international level, and we believe that the FASB should be an active participant in that process. As noted in paragraph 10 of the ITC, there is currently no comprehensive international insurance accounting standard, resulting in a lack of uniformity as IFRS 4, the current IFRS for insurance contracts, allows insurers to use their existing accounting practices, which may be based on their local GAAP.

a. What aspects of existing U.S. GAAP accounting for insurance contracts could be improved or simplified and how pervasive are these issues?

We believe that existing U.S. GAAP could be improved in certain areas with respect to accounting for insurance contracts. First, we believe that insurance and investment contracts should not be subject to the bifurcation requirements of FAS 133. In lieu of bifurcation, all obligations to the policyholder should be accounted for together as one arrangement since the product features are integrated. Second, we believe that U.S. GAAP could be improved with enhanced disclosures concerning the subjectivity and inherent uncertainty underlying critical accounting estimates, including but not limited to property-casualty loss reserve estimates. We believe that the bifurcation issue encompasses most large life insurance companies and that enhanced critical accounting disclosures are applicable to all insurers.

b. How important is the development of a common, high-quality standard used in both the U.S. and IFRS jurisdictions?

The development of common insurance accounting standards in both U.S. and IFRS jurisdictions is important because insurance business has become increasingly global in nature. We believe that common standards which enhance the comparability and reliability of insurers' financial statements would be beneficial to users, investors, analysts and regulators. We also recommend that a common, high quality standard not be cost prohibitive to implement and maintain and should simplify, rather complicate, current insurance accounting standards.

We especially believe that common standards are important if internationally-based U.S. registrants have the option of filing their financial statements with the Securities Exchange Commission under either IFRS or U.S. GAAP.
Question 2
Are the preliminary views expressed in the IASB's Discussion Paper a suitable starting point for a project to improve, simplify, and converge U.S. financial reporting for insurance contracts? If not, why not?

No, we do not believe that the preliminary views of the IASB Discussion Paper are an appropriate starting point.

Under the IASB's proposed current exit value accounting model, insurers would incur significant costs to develop estimates of cash flows and risk margins based on hypothetical transfers to third parties, resulting in liability estimates that are more subjective and less reliable than existing U.S. GAAP. Because the IASB's current exit value model is primarily based on subjective or hypothetical market inputs that cannot be verified since there is no active and liquid market for most insurance contracts, we believe that the current exit value model provides less relevant and less reliable information than current U.S. GAAP and is inconsistent with business reality. In addition, without a complete conceptual framework and revenue recognition model, the proposed current exit value model appears to lack meaningful metrics that would enable management and other financial statement users to explain top line growth and bottom line results.

We believe that current U.S. GAAP for insurance contracts is well thought out and provides comprehensive guidance on how to evaluate and account for insurance contracts, and is a more suitable starting point for a project to improve, simplify and converge U.S and international financial reporting for insurance contracts.

a. Do you believe the preliminary views would be feasible to implement? If not, what aspects of the preliminary views do you believe could be difficult to apply and why?

We do not believe that the IASB's preliminary views would be feasible to implement. The introduction of discounting and the use of risk margins based on unobservable market assumptions into the measurement basis of insurance contracts will present valuation difficulties for preparers and will present a false sense of relevance and comparability to users. In addition, we believe that the probability-weighting of all possible cash flows is impracticable and will not result in more reliable estimates of insurance liabilities.

From the standpoint of a financial statement preparer, the implementation of the IASB's current exit value accounting model would be extremely costly in terms of human resources, system and process changes, modeling, testing, training and education. For example, significant costs would be incurred to estimate the timing of cash flows for many insurance liabilities as those timing estimates are often not required today. In addition, a current exit value insurance accounting model differs significantly from current statutory accounting practices in the United States, which would require companies to maintain, at a significant cost, a statutory basis of accounting that is vastly different than the proposed international insurance accounting model. Moreover, there may be the need to develop new performance metrics that would be relevant to a fair value-based insurance accounting model, which could be very different from the metrics used to currently manage and price insurance risks in our business. Therefore, companies may incur additional costs for maintaining multiple insurance accounting systems.
Finally, we believe that any new global insurance accounting standard should undergo extensive and rigorous field testing to ascertain its relevance, reliability, relative costs versus benefits and overall decision usefulness prior to implementation. The results of such field testing may provide additional information regarding the feasibility of implementing a new insurance accounting standard.

**b. Are there other alternatives to improve or simplify U.S. financial reporting for insurance contracts that you would recommend? What would be the benefits of those alternatives to users of financial statements?**

See our response to question 1a above. With regard to the issue of bifurcation of embedded derivatives under FAS 133, the current guidance allows for the inconsistent treatment of certain insurance products, specifically annuity products, which have similar product features. We believe that the elimination of this inconsistency will result in a more relevant presentation of these products and will no doubt simplify the accounting and financial reporting for these contracts.

We also believe that enhanced disclosures regarding critical accounting estimates would benefit users of financial statements by improving the quality and transparency of significant accounting policy disclosures. Enhancing users' understanding of critical accounting estimates, the impact those estimates have on insurers' financial statements and the sensitivity of such estimates should increase investor confidence in the financial reporting of insurers.

**Question 3**

*Is there a need to address accounting by policyholders in an insurance contracts project? Why? If yes, should accounting by policyholders be addressed at the same time as the accounting by insurers? Can or should that wait until after the accounting by insurers is completed?*

We are not aware of any significant issues with the accounting of insurance contracts by policyholders.

**Question 4**

*How would you address the interaction between the accounting for insurance contracts and the FASB's other projects on the conceptual framework, revenue recognition, liabilities and equity, financial instruments, and financial statement presentation? Are certain projects precedential?*

We believe that, before an international insurance accounting standard is finalized, the FASB and IASB should first make further progress on foundational projects such as revenue recognition, conceptual framework, liabilities and equity and financial statement presentations in order to provide solid bases for conclusions in the insurance contracts accounting discussion paper. However, with regard to the financial instruments project, we would caution the Board that, in our view, the elements of insurance contracts, particularly property casualty contracts, are much different than investment contracts and other more traditional financial instruments (e.g., bank deposits, publicly traded debt and equity investments, etc.). Therefore, we believe that the
financial instruments project should progress simultaneously with an insurance contracts project and that standard-setters involved in both projects should be sensitive to the differences between insurance contracts and other financial instruments.

We would be happy to discuss our comments in more detail with the Board. Please feel free to call me at (860) 547-4135 if you have any questions regarding this response to the ITC.

Sincerely,

Beth A. Bombara
Senior Vice President and Controller
The Hartford Financial Services Group, Inc.

Attachment
November 16, 2007

Mr. Peter Clark
Senior Project Manager
International Accounting Standards Board
30 Canon Street
London EC4 6XH
UNITED KINGDOM

Email: commentletters@iasb.org

Dear Mr. Clark:

Re: Discussion Paper – Preliminary Views on Insurance Contracts

The Hartford Financial Services Group Inc. (“The Hartford” or the “Company”) appreciates the opportunity to comment on the discussion paper Preliminary Views on Insurance Contracts issued by the International Accounting Standards Board (“IASB”) on May 3, 2007. The Hartford is a diversified insurance and financial services company, is headquartered in the United States, and is among the largest providers of investment products, individual life, group life and group disability insurance products, and property and casualty insurance products. The Hartford writes insurance in the United States and internationally. At September 30, 2007, total assets and total stockholders’ equity of The Hartford were $356 billion and $19 billion, respectively.

This discussion paper (“DP”) represents a significant milestone in the IASB’s efforts to adopt a high quality, principles-based global insurance accounting standard. The final insurance accounting standard is expected to provide guidance for preparers to produce financial statements that contain relevant, reliable and decision-useful information needed by users such as investors, analysts, creditors, and management to make informed credit, investing and similar resource allocation decisions.

The Hartford supports the use of accounting principles generally accepted in the United States of America (“U.S. GAAP”), which we believe are well thought out and provide comprehensive guidance on how to evaluate and account for insurance contracts. Under the proposed current exit value (“CEV”) accounting model, insurers would incur significant costs to develop estimates of cash flows and risk margins based on hypothetical transfers to third parties, resulting in liability
estimates that are more subjective and less reliable than existing U.S. GAAP. In addition, without a complete conceptual framework and revenue recognition model, the proposed CEV model appears to lack meaningful metrics that would enable management and other financial statement users to explain top line growth and bottom line results.

However, if the IASB ultimately decides to adopt an accounting model that is significantly different from U.S. GAAP, we believe that the IASB should incorporate the following principles to enhance the reliability and overall decision-usefulness of the financial statements for management, investors, creditors, and analysts:

- Insurance liabilities should be recognized using the current pricing value ("CPV") which is calibrated to the premium actually charged at the inception of the insurance contract. The risk margin embedded within the entry price at contract inception should be released into income over the period the insurer is released from risk (i.e. the period over which the company releases capital needed to support the liabilities).

- The lack of observable markets for insurance liabilities necessitates that at the issuance date of the insurance contract, the risk margins should be calibrated to actual premiums charged (market price) so there is no gain at the inception of insurance contracts.

- Insurance liabilities should be measured using entity-specific cash flows. Entity-specific cash flows reflect the cost structure and synergies of the insurer and are germane to estimating the price an insurer would charge to cover the remaining risk on in-force contracts or contracts issued through the balance sheet date.

- The assumptions underlying the entity-specific cash flow projections should be updated to reflect the entity's latest cash flow estimates, if necessary, at every reporting period.

- The entity-specific cash flows should be discounted at a current risk-free rate without an adjustment for the credit standing of the instrument or the entity.

- The risk margin represents compensation to the insurer (rather than to a hypothetical third party) for bearing risk. The insurance liability should represent an estimate of the price the insurer would charge to reissue the in-force contracts to cover the remaining risk. Given the lack of an active market for most insurance contracts, CPV is more reliable and decision-useful than a hypothetical amount that a third party would require to assume the liabilities.

- Risk margins should include the benefits of portfolio diversification and negative correlations between portfolios for which the risk exposures are managed and priced together.

- There should be no bifurcation or unbundling of insurance contracts into insurance and deposit components.

- The current revenue recognition model should be retained until the IASB completes a separate project on revenue recognition.
• Expected cash flow estimates should include, among others, all favorable and unfavorable policyholder behavior cash flows under the insurance contracts without the need for the “guaranteed insurability” criteria. Also, all participating dividend cash flows should be included in the measurement of insurance liabilities on participating contracts regardless of whether the participating dividends constitute a legal or constructive obligation.

• In determining the CPV, the insurer should consider that a portion of the premium recognized as revenue is to cover acquisition costs incurred.

We believe these modifications would result in more reliable and decision-useful information to users of insurers’ financial statements since at the issuance date of the insurance contract the valuation of the insurance liabilities is calibrated to the amount of premium actually charged, and CPV is based on an insurer’s own entity-specific cash flows and pricing assumptions. Subsequent to the issuance date of the insurance contracts, CPV represents the amount at which the insurer’s pricing models would value the remaining risk based on information available at the current balance sheet date. CPV is based on actual and verifiable entity-specific inputs compared to a CEV model that is primarily based on subjective or hypothetical market inputs that cannot be verified because there is no active and liquid market. We believe that CPV is significantly better than a hypothetical transfer price to a third party since, as the DP acknowledges, liability transfers do not and cannot typically occur in the actual marketplace. Also, CPV is also more consistent with the economic substance of an insurance contract transaction.

The introduction of discounting and risk margins into the measurement basis of insurance contracts will present additional estimates and assumptions that will affect reported amounts of insurers’ assets and liabilities. Moreover, empirical evidence by PriceWaterhouseCoopers, LLP (2007)¹ suggested that “users of financial statements are more interested in cash flow information than a hypothetical measure based on a transfer which is unlikely to take place.” While current value measurement models are used to some degree in pricing for certain insurance contracts, they are not calibrated in any way to actual market conditions and it would be misleading to represent a modeled value as any type of fair value or CEV.

From the perspective of an insurance company which prepares its financial statements in accordance with U.S. GAAP, we emphasize that the use of either CEV or CPV as a measurement basis would introduce additional subjectivity to the financial statements of insurers. Under U.S. GAAP, insurers currently make subjective and complex judgments that are inherently uncertain and subject to material change as facts and circumstances develop. For instance, ultimate payouts for many non-life insurance contracts are uncertain and rarely are such payments fixed and determinable as to timing and amount. The use of either a CEV or CPV measurement model will not change this fact.

Furthermore, we note that the implementation of a fair value-based insurance accounting model would be extremely costly in terms of human resources, system and process changes, modeling, testing, training and education. For example, significant costs would be incurred to estimate the timing of cash flows for many insurance liabilities as those timing estimates are often not required

today. In addition, a CEV or CPV insurance accounting model differs significantly from current statutory accounting practices in the United States, which would require companies to maintain, at a significant cost, a statutory basis of accounting that is vastly different from any fair value-based insurance accounting model. Moreover, there may be the need to develop new performance metrics that would be relevant to a fair value-based insurance accounting model, which could be very different from the metrics used to currently manage and price insurance risks in our business. Therefore, companies may incur additional costs for maintaining multiple insurance accounting systems.

Importantly, before an international insurance accounting standard is finalized, the FASB and IASB should first make further progress on foundational projects such as conceptual framework, revenue recognition, liabilities and equity and financial statement presentation to provide solid bases for conclusions in the insurance contracts accounting discussion paper. Also, the accounting for business combinations and portfolio transfers should be included in the business combinations project and not in the insurance contracts discussion paper.

In summary, we do not believe that a hypothetical CEV model would be an improvement over current U.S. GAAP and would not yield financial statements that are more reliable or relevant. Should the IASB nonetheless proceed with a measurement model that is different from U.S. GAAP, The Hartford recommends a number of improvements to the proposed CEV model. Most importantly, we recommend the use of CPV calibrated to the actual premium charged at the inception of the contract, the use of entity-specific cash flows, and a recorded value of the insurance contract liabilities that reflects the benefits of diversification among portfolios that are managed and priced together. The Hartford believes a CPV model alternative would provide more relevant and reliable information to users than a hypothetical CEV.

In the attached appendix, we provide specific responses to the DP’s questions for respondents. We would be happy to discuss our comments in more detail with the Board or the IASB staff. Please feel free to call me at (860) 547-4135.

Sincerely,

Beth A. Bombara
Senior Vice President and Controller
The Hartford Financial Services Group, Inc.

Attachment
Appendix
Responses to IASB Discussion Paper Questions

1. Should the recognition and derecognition requirements for insurance contracts be consistent with those in IAS 39 for financial instruments? Why or why not?

Response

No. The recognition and derecognition of the financial aspects of insurance contracts, including the insurance liability for life and property and casualty, should depend on the legal and economic substance of the underlying contracts and should not necessarily be consistent with International Accounting Standard No. 39, Financial Instruments: Recognition and Derecognition (“IAS 39”).

In contrast to other financial instruments, insurance contracts operate in accordance with the law of large numbers, are fortuitous in nature, and indemnify policyholders if the insured risk event occurs during the policy period. These differences in the legal and economic characteristics of insurance contracts when compared to other financial instruments necessitate differences in the recognition and derecognition criteria.

Recognition

IAS 39 requires that “an entity shall recognize a financial asset or a financial liability on its balance sheet when, and only when, the entity becomes a party to the contractual provisions of the instrument.”

We believe that both life and non-life insurance contracts should be recognized at the effective date of the contracts as legally determined in the particular jurisdiction. For certain life and non-life insurance contracts, the prospective policyholder may make a deposit toward premiums for a policy that is subject to further underwriting by the insurer or which is otherwise not yet effective. At any time before underwriting is finalized and a policy effective, any monies received by the insurer from the potential policyholder should be recorded as a deposit liability, since there is no insurance contract in-force at that time. The insurer is not liable for any claims prior to the effective date.

Derecognition

IAS 39 requires that “an entity shall remove a financial liability (or a part of a financial liability) from its balance sheet when, and only when, it is extinguished—i.e. when the obligation specified in the contract is discharged or cancelled or expired.”

We believe that an insurer should generally derecognize insurance contracts when the insurer has been legally released from liability whether through settlement, novation, expiration, extinguishment, or portfolio transfer, and/or when no further claims are likely to be made. For example, it is almost impossible for an insurer to determine when its financial liability is extinguished in cases such as asbestos, environmental, breast implants, silicosis, and certain workers compensation injury cases where cases have been re-opened subsequent to settlement. This issue is further complicated by the changes in legal theories, judicial interpretations and legislative actions that increase the uncertainty surrounding when certain insurance liabilities are extinguished. Thus, the “likelihood” that an insurer will not incur further claims is also an important factor in derecognizing insurance liabilities.

In summary, we note that the recognition and derecognition of insurance contracts is a complex legal subject matter that could vary from one legal jurisdiction to another. Therefore, we do not believe that the
IAS 39 provisions for recognizing and derecognizing financial instruments should be applied to insurance contracts without due consideration to the different legal and economic characteristics of the contracts.

2. Should an insurer measure all its insurance liabilities using the following three building blocks: (a) explicit, unbiased, market-consistent, probability-weighted and current estimates of the contractual cash flows, (b) current market discount rates that adjust the estimated future cash flows for the time value of money, (c) an explicit and unbiased estimate of the margin that market participants require for bearing risk (a risk margin) and for providing other services, if any (a service margin)?

If not, what approach do you propose, and why?

Response

We believe that at the inception of the contract, insurance liabilities should be measured at the entry price (i.e., actual premiums charged) because entry price is an observed market transaction that provides superior economic evidence to any hypothetical modeled value. The IASB’s proposed three building blocks should be modified to incorporate the following: (1) probability-weighting of all relevant entity-specific future cash flows; (2) a current risk-free discount rate without any credit adjustment, and (3) risk margin as a measure of compensation for bearing risk that considers uncertainty in the timing and amount of cash flows in the absence of an observable market. The modified form of the three building blocks should be calibrated to the actual premium charged so there is no gain at the inception of the insurance contract.

Specifically, with respect to building block (a) above, we believe that insurance liabilities should be measured using entity-specific as opposed to market consistent cash flows because there is no observable market for insurance contracts. Also, the entity-specific cash flows reflect the cost structure and synergies of the insurer and are germane to estimating the price an insurer would charge to cover the remaining risk on contracts issued through the balance sheet date. The assumptions underlying the entity-specific cash flow projections should be updated to reflect the entity’s latest cash flow estimates, if necessary, at every reporting period. Due to the potential implementation difficulties associated with a probability-weighted stochastic cash flow modeling approach, for certain insurance products such as auto insurance, the IASB should permit the use of deterministic actuarial indications to select a best estimate of nominal cash flows and the use of stochastic modeling to determine the distribution of possible cash flow outcomes around the best estimate or “mean”.

Building block (b) should clarify that the entity-specific cash flows should be discounted at a current market rate which approximates a risk-free rate. The current market rate used to discount the insurance liabilities should not include an adjustment for the credit standing of the instrument or the entity. Incorporating credit standing in the discount rate provides misleading and counterintuitive results.

It is important to note for building block (c) that the observed risk margin, which is a part of the actual premium charged, is a better measure of the insurer’s compensation for bearing risk than the risk margin obtained from any of the methods listed in appendix F of the DP. We believe that the choice of cash flow estimates, discount rate or risk margin method to measure the insurance liability should not lead to a non-economic gain at the inception of the insurance contract. Subsequent to contract inception, insurers should use a model, such as a cost of capital model, to calculate the estimated pricing value of its contracts as of the balance sheet date. Insurers should be able to use the same model they used to price the business at contract inception. As such, the model should reflect the insurer’s own diversification benefits and assumptions about the required capital to support the business and required return on that business.
Unless services are priced separately from the risk protection, we do not believe that any distinction between risk margin and service margin should be made. For one thing, it would be very difficult, if not impossible, to determine what activities necessary to fulfill the insurer's contractual obligations constitute a "service" and which do not. Whether or not a particular business function is outsourced should have no bearing on the accounting. It is important to note that for universal life, unit-linked, participating and most non-life contracts insurers would incorporate servicing expenses into pricing the integrated insurance contracts (bundled product) and that margin cannot practically be segregated into a margin for bearing insurance risks (risk margin) and margin for performing a service (service margin). Therefore, we recommend to the IASB that the concept of service margin be deleted from the proposed DP.

3. Is the draft guidance on cash flows (appendix E) and risk margins (appendix F) at the right level of detail? Should any of that guidance be modified, deleted or extended? Why or why not?

Response

No, we believe that appendices E (cash flows) and F (risk margins) provide more detail than necessary in a principles based insurance accounting standard. We believe that the price an insurer receives for its risk exposures in the form of premium charged is fundamental to how the insurer should measure the resulting liabilities so there should be no gain at the inception of the contract. In the case of appendix E, we believe that all cash flows that insurers include in pricing the product should be included in valuing the liability. Thus, the artificial restrictions of guaranteed insurability on the customer relationship intangible asset, and constructive and legal obligation on participating dividends are inappropriate when the insurance liability is calibrated to actual premium charged. Also, while appendix F should provide examples of various possible risk margin methods, both at contract inception and after contract inception, insurers should be allowed to calculate their risk margins consistent with how they price the business. The Actuarial Standards Board or the International Actuarial Association should be empowered by the IASB to provide the detailed actuarial standards on cash flows, risk margins and discount rate, if necessary. We believe that promulgating a specific risk margin method and placing an artificial limitation on the cash flows that should be considered would be inappropriate since it would lead to a gain at inception of the insurance contract and an insurance liability valuation at contract inception that differs from the observed market price.

Our main concerns with appendix E are as follows:

- There would be practical issues with how to adjust cash flows from entity-specific (or portfolio specific) to market consistent because market consistent inputs are largely unavailable for insurance liabilities and any adjustments to the entity-specific cash flows will be very subjective. For example, in many cases (and in virtually all cases for non-life contracts), any assumptions about how market consistent cash flows would differ from entity-specific cash flows would be speculative and unsubstantiated since there are very few, if any, observable market inputs.

- The requirement to include “all possible cash flows” would appear to be burdensome, costly and impracticable for insurers to implement. As a practical matter, even advanced stochastic modeling will not be able to accommodate “all possible scenarios.” For example, some stochastic models analyze up to 10,000 cash flow scenarios but this still doesn’t capture every theoretically possible outcome. We believe that the best estimate of cash flows (mean cash flows) is good enough for the purposes of valuing insurance liabilities. Furthermore, the actuaries of non-life insurers should be able to continue to use deterministic methods to arrive at a best estimate or “mean” estimate of nominal cash flows and then use stochastic models to fit a distribution around that best estimate. The use of complete stochastic analysis on all cash flows at every reporting period could be burdensome and costly for many insurers.
Our main recommendations on risk margins (appendix F) are as follows:

- The best evidence of market risk margin at the inception of the insurance contract is the margin included in the premium charged. Risk margins computed using any of the methods stated in paragraph F9 should be assessed for reliability and calibrated to the actual premium charged at the inception of the insurance contract. There should be no gain at the inception of the insurance contract because such a gain does not reflect economic reality and will not provide decision-useful information to users of financial statements.

- Subsequently, the best evidence of risk margin on the remaining risks is contained in an insurers’ own pricing model that should be applied consistently from one period to another.

- Risk margin should reflect the benefits of portfolio diversification and negative correlations that are already reflected in the price of insurance. The extent of the diversification benefit reflected in the risk margin should be based on the principles of how an insurer manages and prices risk exposures.

We recommend the following improvements to appendices E and F should the IASB decide to continue to provide detailed guidance.

Appendix E: Relevant cash flows should incorporate, among others, (a) gross future premiums on existing contracts including all policyholder behavior cash flows that would ordinarily be included in pricing the product (e.g., favorable policyholder behavior) whether or not there is guaranteed insurability, (b) all participating dividend cash flow whether or not it represents a legal or constructive obligation, (c) expected future claim payments, (d) acquisition costs, (e) costs to service insurance liabilities, and any other costs that would be included by the insurer in pricing the product.

Appendix F: At inception, risk margins should be calibrated to the observed risk margin using the actual premium charged so there is no gain or loss at inception. Since the risk margin embedded in the actual premium charged reflects the benefits of diversification across an entire portfolio of contracts, any modeled risk margin calculated subsequent to contract inception should similarly reflect the benefits of diversification.
4. What role should the actual premium charged by the insurer play in the calibration of margins, and why? Please say which of the following alternatives you support.

(a) The insurer should calibrate the margin directly to the actual premium (less relevant acquisition costs), subject to a liability adequacy test. As a result, an insurer should never recognize a profit at the inception of an insurance contract.

(b) There should be a rebuttable presumption that the margin implied by the actual premium (less relevant acquisition costs) is consistent with the margin that market participants require. If you prefer this approach, what evidence should be needed to rebut the presumption?

(c) The premium (less relevant acquisition costs) may provide evidence of the margin that market participants would require, but has no higher status than other possible evidence. In most cases, insurance contracts are expected to provide a margin consistent with the requirements of market participants. Therefore, if a significant profit or loss appears to arise at inception, further investigation is needed. Nevertheless, if the insurer concludes, after further investigation, that the estimated market price for risk and service differs from the price implied by the premiums that it charges, the insurer would recognize a profit or loss at inception.

(d) Other (please specify).

Response

We believe that the risk margins should be calibrated directly to actual premium charged (less acquisition expenses), subject to a liability adequacy test at inception as per option (a) above. We believe that the observed risk margin is more relevant and reliable because it is supported by an actual market transaction. Therefore, an insurer should not recognize a gain at inception. CPV should also be used to value insurance liabilities after contract inception, using entity-specific cash flows and entity-specific assumptions about the amount of capital required to support the insurance liabilities as well as the required return on capital. In the absence of an observable, deep and liquid market for insurance contracts, (b) and (c) above do not provide a reliable estimate of risk margin.

5. This paper proposes that the measurement attribute for insurance liabilities should be the amount the insurer would expect to pay at the reporting date to transfer its remaining contractual rights and obligations immediately to another entity. The paper labels that measurement attribute 'current exit value'.

(a) Is that measurement attribute appropriate for insurance liabilities? Why or why not? If not, which measurement attribute do you favour, and why?

(b) Is 'current exit value' the best label for that measurement attribute? Why or why not?

Response

a) No, given the lack of an observable market, CPV is more appropriate. CEV is not an appropriate measurement attribute because insurance liabilities are typically not transferred to a hypothetical third party, as the DP acknowledges. After contract inception, CPV represents an estimate of how much premium an insurer would require, based on its pricing models, to assume the remaining risk related to the contract. CPV would use up-to-date entity-specific cash flows and the same modeling techniques used by the insurer to price its business.
b) Current exit value should be labeled as “hypothetical transfer value.” Hypothetical transfer values cannot be calibrated to any market price and are not reliable or meaningful to investors. In addition, there would be no comparability among insurers.

We believe that the proposed current exit value as a measurement attribute for insurance liabilities is subject to the following limitations:

- By definition, current exit value is “the amount the insurer would expect to pay at the reporting date to transfer its remaining contractual rights and obligations immediately to another entity.” The measurement objective to transfer insurance liabilities to a hypothetical third-party insurer that is implied in the definition of CEV is inconsistent with insurance business reality because insurers typically settle contractual obligations to policyholders and do not transfer them to a third party in a hypothetical transaction at each reporting date. CEV will not lead to decision-useful information to insurers, creditors, investors and analysts, because the measurement objective and underlying assumptions are not consistent with business reality.

- The objective of CEV necessitates additional assumptions about an observable market, market participants, timing and amount of market consistent cash flows, probabilities, credit standing, and risk and service margins. These assumptions add to the complexity of measuring insurance liabilities and would serve to impair its reliability and relevance to users of financial statements.

- The additional subjectivity that would be introduced by CEV into the measurement of insurance liabilities is not relevant in determining whether insurance liabilities are adequate to settle policyholder claims as they fall due. Rather, the CEV purports to represent the price to transfer the liabilities to a hypothetical third-party at the reporting date. Furthermore, CEV would do nothing to improve what some perceive as a lag in when insurers currently report prior accident year reserve development. Rather, CEV could mask an understanding of what is driving the insurer to change its estimates of ultimate losses.

- In the absence of an observable market for insurance liabilities, CEV presumes a hypothetical transfer to a third party insurer and the use of non-existent market participant cash flows. While the DP has cited possible market prices to calibrate the CEV including reinsurance transactions, catastrophe bonds, business combinations and transactions with third party administrators, these transactions are typically private transactions that are unique to the circumstances and data from these transactions is unavailable to market participants.

- Valuing insurance liabilities at every reporting period using hypothetical third-party transferee assumptions would be daunting, untimely, costly and impracticable for regulatory filings. Even if considered useful, the cost of implementing the requirements of CEV of insurance liabilities at every quarter would exceed the perceived benefits to key users. People, process and technology costs associated with implementing CEV would increase for insurers and their investors.

- Insurers are going concern entities and do not transfer their liabilities at each reporting date. Insurers expect to be in business for the foreseeable future.
6. In this paper, beneficial policyholder behavior refers to a policyholder's exercise of a contractual option in a way that generates net economic benefits for the insurer. For expected future cash flows resulting from beneficial policyholder behavior, should an insurer:

(a) incorporate them in the current exit value of a separately recognized customer relationship asset? Why or why not?

(b) incorporate them, as a reduction, in the current exit value of insurance liabilities? Why or why not?

(c) not recognise them? Why or why not?

Response

We believe that option (b) is a more appropriate presentation of a customer relationship intangible asset as a reduction of the insurance liability because there is the right of setoff as defined in paragraph 5 of FIN 39, Offsetting of Amounts Related to Certain Contracts—an interpretation of APB Opinion No. 10 and FASB Statement No. 105. Insurers typically factor into pricing (i.e., premiums) assumptions about both favorable and unfavorable policyholder behavior including lapses, cancellations, surrender, and persistency. The IASB should not artificially restrict the recognition of beneficial policyholder behavior by using the guaranteed insurability criteria, which ignores the economic reality that insurers include expected favorable policyholder behavior cash flows in pricing.

7. A list follows of possible criteria to determine which cash flows an insurer should recognise relating to beneficial policyholder behavior. Which criterion should the Board adopt, and why?

(a) Cash flows resulting from payments that policyholders must make to retain a right to guaranteed insurability (less additional benefit payments that result from those premiums). The Board favors this criterion, and defines guaranteed insurability as a right that permits continued coverage without reconfirmation of the policyholder's risk profile and at a price that is contractually constrained.

(b) All cash flows that arise from existing contracts, regardless of whether the insurer can enforce those cash flows. If you favour this criterion, how would you distinguish existing contracts from new contracts?

(c) All cash flows that arise from those terms of existing contracts that have commercial substance (i.e. have a discernible effect on the economics on the contract by significantly modifying the risk, amount or timing of the cash flows).

(d) Cash flows resulting from payments that policyholders must make to retain a right to any guarantee that compels the insurer to stand ready, at a price that is contractually constrained, (i) to bear insurance risk or financial risk, or (ii) to provide other services. This criterion relates to nil contractual guarantees, whereas the criterion described in (a) relates only to insurance risk.

(e) No cash flows that result from beneficial policyholder behavior.

(f) Other (please specify).
Response

We believe that beneficial policyholder behavior should be measured using the cash flows in criteria (b) above, and it should include “all cash flows that arise from existing contracts, regardless of whether the insurer can enforce those cash flows” as long as those cash flows would be included in pricing the product. The alternative approaches (a), (c), (d), and (e) will not be consistent with the economics of pricing the insurance products and could lead to artificial gain/loss at the inception of the insurance contracts.

8. Should an insurer recognise acquisition costs as an expense when incurred? Why or why not?

Response

We believe that acquisition costs should be expensed as incurred to the extent that the relevant cash flows incorporate, as a reduction of the insurance liabilities, the gross future premiums on existing contracts and other policy charges the insurer expects to receive to recover the acquisition costs. This implies that there should not be the need for the guaranteed insurability criteria that artificially restricts the amount of gross future revenues the insurer could recognize to offset expenses on in-force contracts. Also, to minimize accounting mismatch at the inception of the insurance contracts, the part of the premiums and other policy charges that will be used to recover the acquisition costs should be netted against the acquisition cost expenses.

However, the IASB should note that there are future economic benefits associated with certain acquisition expenses. For example, in reinsurance, portfolio transfers and business combinations, insurers typically receive reimbursement for acquisition expenses in the form of ceding commissions or as part of the transfer/purchase price.

9. Do you have any comments on the treatment of insurance contracts acquired in a business combination or portfolio transfer?

Response

FAS 141, Business Combinations, and emerging accounting on business combinations require insurance liabilities to be measured at fair value as defined under SFAS 157, Fair Value Measurements. We note the IASB’s view that it has not concluded whether CEV is fair value; but it has not yet identified any differences between the two terminologies. We believe that the CPV (i.e., premium charged at contract inception or modeled pricing value subsequent to contract inception) is a better measure of fair value of insurance liabilities than CEV in a business combination given the lack of an observable, deep, and liquid market.

We believe that the accounting for insurance contracts acquired in a business combination or portfolio transfer should be addressed in the joint IASB/FASB project on business combinations, which should be consistent with any related insurance contracts accounting standard. We do not believe that the expanded presentation of the fair value of an insurance liability into the recorded value liability and an intangible asset (fair value less recorded value) that is permitted under IFRS 4, Business Combinations, is decision-useful.


10. Do you have any comments on the measurement of assets held to back insurance liabilities?

Response

We believe that the IASB should consider a fair value option standard similar to FAS 159 to allow insurers the ability to elect to measure certain assets which support insurance liabilities at fair value. Insurance liabilities should be measured at CPV and, to minimize any potential accounting mismatches, insurers should have the option to measure the assets backing insurance liabilities at fair value. For example, certain assets including investments in real estate, policy loans and mortgage loans on real estate are not currently measured at fair value.

11. Should risk margins:

(a) be determined for a portfolio of insurance contracts? Why or why not? If yes, should the portfolio be defined as in IFRS 4 (a portfolio of contracts that are subject to broadly similar risks and managed together as a single portfolio)? Why or why not?

(b) reflect the benefits of diversification between (and negative correlation between) portfolios? Why or why not?

Response

a) Risk margins should be determined at the portfolio level. The IASB should provide a working definition of a portfolio that incorporates the principles of risk aggregation based on how the insurer manages and prices its products. The concept of portfolio is important because the business of insurance by definition is a “pooling of risks” that relies on the law of large numbers to be profitable. In calculating the price it wants to charge for each individual risk, an insurer takes into consideration the expected cash flows on the entire portfolio of contracts and amount of premium necessary to achieve a targeted return on that portfolio. Individual contracts are not priced in isolation.

b) Risk margins should reflect the benefits of diversification to the extent that the risk exposures are managed and priced together. Risk margins should be calibrated to the risk margin embedded in the actual premium charged so there is no gain at the inception of the insurance contracts.

Among the reasons in favor of reflecting the benefits of diversification in the measurement of risk margins are:

- Diversification benefits reflect the economic business reality and competitive strategy of insurers in general and multi-line insurers in particular. Insurers may price certain products together because it makes profitable economic and business sense to manage and price the different risks together.

- Diversification benefits are consistent with the law of large numbers as an operating principle of insurance. Insurers generally do not issue a single insurance contract without regard to the number of type of other contracts in the portfolio. If it did price an insurance contract in isolation, the price of that contract would be significantly higher than if that same contract were priced as part of a large and diverse portfolio of risks. This reflects the reality that the larger the number of risks insured, the lower the variability in expected cash flows and, therefore, the lower the required risk margin. As stated in paragraph F5, “because the risks may have joint effects, the total risk margin may not equal the sum of the margins that would be appropriate for each risk individually”.

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Many reinsurance agreements cover multiple portfolios of direct business and the cost of reinsurance is one of the cash flows used in pricing the direct business. Since one can only compute a risk margin for reinsurance in conjunction with the risk margin for the direct business, a company could not avoid reflecting the effects of diversification in a case where a reinsurance agreement covers many types of liabilities.

All market participants price their products assuming the benefits of diversification. By restricting the unit of account to an individual portfolio, the assumption by the IASB is that a market participant transferee would view each portfolio as a separate purchase and not purchase a group of portfolios to participate in the benefits of diversification. This does not reflect an accurate depiction of a potential market since most insurers and reinsurers look to diversify within and across portfolios. If a diversified company has less overall risk, the lower risk should be reflected in the risk margin.

12. (a) Should a cedant measure reinsurance assets at current exit value? Why or why not?

(b) Do you agree that the consequences of measuring reinsurance assets at current exit value include the following? Why or why not?

(i) A risk margin typically increases the measurement of the reinsurance asset, and equals the risk margin for the corresponding part of the underlying insurance contract.

(ii) An expected loss model would be used for defaults and disputes, not the incurred loss model required by IFRS 4 and IAS 39.

(iii) If the cedant has a contractual right to obtain reinsurance for contracts that it has not yet issued, the current exit value of the cedant's reinsurance asset includes the current exit value of that right. However, the current exit value of that contractual right is not likely to be material if it relates to insurance contracts that will be priced at current exit value.

Response

(a) No. At contract inception, the insurer should record a reinsurance asset equal to the portion of the CPV (i.e. actual premium charged) that is intended to cover the cost of reinsurance. Since the reinsurer requires a risk margin as part of the ceded premium, the insurer's estimate of that amount should be recognized as an expense over the period the reinsurer is released from risk. The reinsurance asset should be calibrated to the actual ceded premium paid at contract inception. As with the accounting for the direct contracts, subsequent to contract inception, the portion of the CPV that is intended to cover reinsurance is a modeled value using entity-specific cash flows and the insurer's own assumptions about its required return on capital and how much the reinsurance coverage would reduce required capital. Any change in this modeled value would be recognized in earnings in the period the change occurs.

(b) (i) We agree that a risk margin will increase the reinsurance asset and should be recognized as a decrease in net income over the period the assuming company is released from risk. To ensure that the risk margin embedded in the reinsurance asset is consistent with the risk margin embedded in the insurance liability for the direct contracts, both the asset and liability need to reflect the benefits of diversification. Treaty reinsurance often covers an entire portfolio of direct contracts and the pricing of the reinsurance includes the benefits of diversification that the reinsurer obtains. However, we note that for non-proportional reinsurance and stop loss covers, the risk margin on the underlying direct insurance would not necessarily be equal to the risk margin on the reinsured risk exposures.
(b) (ii) Yes, we agree that an insurer should not unbundle/bifurcate insurance contracts into deposit and insurance components because doing so would be arbitrary and provide unreliable and irrelevant information to users of financial statements. We believe that current U.S. GAAP accounting guidance is appropriate for evaluating the true economics of insurance and reinsurance contracts. The only way to evaluate for adequate risk transfer is to take into consideration all contract features together. Accordingly, except in cases where the contract specifies a deposit element separate from a risk transfer element, a single contract either has sufficient risk transfer in its entirety or it does not.

13. If an insurance contract contains deposit or service components, should an insurer unbundle them? Why or why not?

Response

No, we believe that an insurer should not unbundle/bifurcate insurance contracts into deposit and insurance components because doing so would be arbitrary and provide unreliable and irrelevant information to users of financial statements. We believe that current U.S. GAAP accounting guidance is appropriate for evaluating the true economics of insurance and reinsurance contracts. The only way to evaluate for adequate risk transfer is to take into consideration all contract features together. Accordingly, except in cases where the contract specifies a deposit element separate from a risk transfer element, a single contract either has sufficient risk transfer in its entirety or it does not.

14. (a) Is the current exit value of a liability the price for a transfer that neither improves nor impairs its credit characteristics? Why or why not?

(b) Should the measurement of an insurance liability reflect (i) its credit characteristics at inception and (ii) subsequent changes in their effect? Why or why not?

Response

(a) No. CEV is a hypothetical amount that is not observable in an active market. As such, neither the insurer nor the users of its financial statements would know whether a hypothetical current exit value improves or impairs the insurer’s credit characteristics.

(b) No. Credit standing should not be reflected in CEV or CPV measurements because it provides misleading and counterintuitive results. It does not make sense that an insurer should reduce its liabilities and record income because of deterioration in its credit standing. Policyholders typically do not pay any more or less for their insurance for variations in the credit standing of the insurer. Furthermore, there are regulatory safety nets such as guaranty fund assessments that support most insurance liabilities.
15. Appendix B identifies some inconsistencies between the proposed treatment of insurance liabilities and the existing treatment under IAS 39 of financial liabilities. Should the Board consider changing the treatment of some or all financial liabilities to avoid those inconsistencies? If so, what changes should the Board consider, and why?

Response

In general, inconsistencies between insurance liabilities and other financial instruments should be minimized to the extent that the legal and economic characteristics of the contracts are more similar than dissimilar. The underlying legal and economic characteristics of certain insurance contracts are fundamentally different from other financial instruments and the IASB should not necessarily conform insurance accounting rules to IAS 39 requirements. Some factors for the IASB to consider include:

(a) Unlike other financial instruments, there are no deep, liquid and active observable markets for insurance liabilities. Therefore the transfer price under the proposed current exit value is purely hypothetical and, therefore, inappropriate.

(b) In the absence of an observable market for insurance liabilities, there should be no artificial gain at the inception of insurance contracts. At the inception of the insurance contract, the insurer has not provided its services and the premium to be received pursuant to the terms of the contract is the most reliable measure of the contract’s value.

(c) Unlike other financial instruments, most insurance contracts are contracts of indemnity and fortuity that only make good business sense when the law of large numbers is in operation.

(d) Unlike other financial instruments, the appropriate income statement presentation of insurance contracts generally show earned premiums and loss and loss adjustment expenses that are used to compute analytical ratios such as the combined ratio, loss ratio and expense ratio. These business metrics are important for managing the business of insurance.

16. (a) For participating contracts, should the cash flows for each scenario incorporate an unbiased estimate of the policyholder dividends payable in that scenario to satisfy a legal or constructive obligation that exists at the reporting date? Why or why not?

(b) An exposure draft of June 2005 proposed amendments to IAS 37 (see paragraphs 247-253 of this paper). Do those proposals give enough guidance for an insurer to determine when a participating contract gives rise to a legal or constructive obligation to pay policyholder dividends?

Response

(a) Yes, we agree with the Board’s preliminary view stated in paragraph 254 that a policyholder dividend payable should be included in the cash flows used in measuring the insurance liabilities for participating contracts because insurers incorporate assumptions about expected participating dividend payouts into the premium charged to policy holders.

(b) No, we do not believe that the legal/constructive obligation criteria specified in paragraphs 247-254 of the DP provides sufficient guidance to accommodate all practical situations on participating dividends in every jurisdiction of the world. The overall principle is that if an insurer includes participating dividends in pricing its products, then reasonably expected cash outflows for policyholder participating dividends should be included in the measurement of the insurance liabilities to reflect economic reality. A principles-based
insurance standard should provide an operating principle and not rules, because the rules may not address the true economics of participating dividends of current and future insurance contracts in every jurisdiction of the world.

17. Should the Board do some or all of the following to eliminate accounting mismatches that could arise for unit-linked contracts? Why or why not?

(a) Permit or require insurers to recognise treasury shares as an asset if they are held to back a unit-linked liability (even though they really do not meet the Framework's definition of an asset).

(b) Permit or require insurers to recognise internally generated goodwill of a subsidiary if the investment in that subsidiary is held to back a unit-linked liability (even though IFRSs prohibit the recognition of internally generated goodwill in all other cases).

(c) Permit or require insurers to measure assets at fair value through profit or loss if they are held to back a unit-linked liability (even though IFRSs do not permit that treatment for identical assets held for another purpose).

(d) Exclude from the current exit value of a unit-linked liability any differences between the carrying amount of the assets held to back that liability and their fair value (even though some view this as conflicting with the definition of current exit value).

Response

In principle, The Hartford supports the IASB's actions to minimize accounting mismatches between unit-linked assets and liabilities. We believe that an option similar to choice (c) above to permit insurers to measure assets at fair value through profit or loss if they are held to back unit-linked insurance liabilities provides the best alternative. However, we believe that the solution should be optional, similar to FAS 159, Fair Value Option. We do not believe that option (a), (b) and (d) provide appropriate solutions.

18. Should an insurer present premiums as revenue or as deposits? Why?

Response

Provided that there is adequate risk transfer, insurance premiums should be presented as revenues on the income statement when earned. Insurance premiums meet the definition of revenue under existing accounting rules and should not be treated as a deposit. The timing of earning revenues depends on whether the IASB chooses to retain the accounting model of recognizing revenues over the coverage period or adopts a model whereby all revenue is earned when an insurer enters into an insurance contract. Provided that the IASB retains a model where revenues are generally recognized as earned over the coverage period, then the insurer should recognize the cost of incurred claims, acquisition costs and servicing costs in the period the costs are incurred and should recognize the release of risk margin over the period the insurer is released from risk. However, if acquisition costs are expensed at contract inception, then the insurer should recognize revenue at contract inception equal to the portion of the premium charged to cover the acquisition costs. Otherwise, an insurer would record a significant loss at contract inception which does not reflect the economics of the transaction.

Insurance contracts that do not transfer significant insurance risk should use deposit accounting, without the need for bifurcation or unbundling of insurance contracts.
19. Which items of income and expense should an insurer present separately on the face of its income statement? Why?

Response

The following items of income and expense should be presented in one basic income statement for life and non-life insurers. Segment disclosures may provide additional details that are specific to life or non-life insurance products.

a. Revenues

i. Premiums earned

ii. Net investment income earned
   1. Securities available for sale and other
   2. Equity securities held for trading

iii. Realized capital gains and losses

iv. Other income (Fees for services not included in premium)

v. Total revenue

b. Expenses

i. Benefits, losses and loss adjustment expenses (including experience adjustments and unwinding of discounting)

ii. Acquisition costs expensed

iii. Other expenses (including servicing expenses)

iv. Provision for risk margin (i.e. net change in risk margin)

v. Dividends to policyholders (on participating contracts)

vi. Interest expense

vii. Total Expenses

c. Income before income taxes

d. Income taxes expense

e. Net income

The above items on the income statement of life and non-life insurers provide information about revenues, expenses and net income that are relevant and useful in deriving key operating, financing and investing metrics for the purposes of making credit and resource allocation decisions about insurers. For example, earned premiums show the volume of business, as well as the risks undertaken by insurers in the light of available surplus or equity capital. The loss and loss adjustment expenses, underwriting expenses, and
earned premiums are also useful in computing loss ratio, expense ratio, and combined ratio that are used to manage the business.

Finally, we believe that a statement of comprehensive income should include the following additional unrealized items: changes in unrealized gains/loss on securities, cumulative effect of accounting change, changes in net gain/loss on cash flow hedging instruments, changes in foreign currency translation adjustment, and other unrealized gains/unrealized losses.

| 20. Should the income statement include all income and expense arising from changes in insurance liabilities? Why or why not? |

Response

Yes, the income statement should include all income and expenses that arise from changes in insurance liabilities. In addition to showing all income and expenses arising from changes in insurance liabilities, the income statement should reflect expenses that arise from acquiring and servicing the business but are not cash flows that arise directly from the contracts themselves. Examples are acquisition costs and costs to service in-force contracts.

| 21. Do you have other comments on this paper? |

Response

1. Notwithstanding the relative improvement opportunities for U.S. GAAP on insurance accounting, the IASB should give thoughtful consideration to using U.S. GAAP as a model for global insurance accounting because of its usefulness in providing relevant, reliable, understandable and comparable financial information to users of financial statements. Current U.S. GAAP on insurance accounting in the form of FAS 60, FAS 97, FAS 113, FAS 120 and other related literature deserve a serious consideration for several reasons. U.S. GAAP on insurance accounting:

(a) Has an appropriate measurement objective for insurance liabilities: to settle a group of policyholder claims as they become due. This objective, supplemented by appropriate disclosures, is understandable and decision-useful to investors.

(b) Reflects the business reality that insurance prices and the corresponding insurance liabilities should be based on entity-specific cash flows, with appropriate adjustments for market observable assumptions. Therefore, insurance accounting under U.S. GAAP provides more relevant and understandable information to users and reflects organizational synergies and efficiencies which are germane to the settlement of policyholders’ obligations.

(c) Allows multiple credible actuarial techniques such as best estimate of cash flows, probability weighted cash flows and other appropriate techniques, as a means to computing the value of insurance liabilities. For example, under current U.S. GAAP, an insurer could use a probability weighted advanced stochastic model or a single deterministic method.

(d) Has withstood the test of time and business challenges that only a robust and realistic set of accounting standards can successfully handle.

(e) Provides a comprehensive set of standards to accommodate the practical business realities of different types of insurance contracts including life, property and casualty and health contracts of both short and long duration. Current U.S. GAAP also has well-thought out views on valuation...
issues including the reliability of cash flow patterns for discounting, the consideration of tail risk, the significance of risk transfer, the treatment of policyholder participating dividends and the consideration of risk transfer in reinsurance contracts.

(i) Provides a practical approach to risk transfer analysis without the need for arbitrary bifurcation of insurance.

(g) Recognizes the legal and economic differences of life, health and property and casualty contracts.

(h) Is widely used across the globe by preparers and is well understood by analysts and other users.

(i) Provides a solid basis for accounting standards of insurance regulators and other users to analyze the solvency, profitability and liquidity of insurers.

(j) Requires meaningful disclosure information on cash flows and other relevant factors that enhance the understandability, comparability, relevance and reliability of the measurement attributes used in the accounting for insurance contracts.

2. We are concerned about the implementation of any new insurance accounting standard that radically departs from current U.S. GAAP from the perspective of decision usefulness, reader understandability and consistency of application. Current U.S. GAAP has been in effect since 1983 when SFAS 60, Accounting and Reporting by Insurance Enterprises became effective, and has evolved gradually since then through the issuance of certain modifying standards (including, but not limited to, SFAS 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments, FAS 113, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments and SEC Staff Accounting Bulletin No. 62, Discounting by Property-Casualty Insurance Companies). Throughout this period, best practices in insurance accounting and reporting have developed. As a result, we believe that insurer financial statements in the United States are generally well-understood by the investor and analyst community.

Therefore, if the IASB ultimately adopts an accounting model which is significantly different from U.S. GAAP, we recommend the following pre-implementation and transition proposals:

(a) Any new global insurance accounting standard should undergo extensive and rigorous **field testing** to ascertain its relevance, reliability, relative costs versus benefits and overall decision usefulness prior to implementation. Field testing should consist of a representative sample of insurers, including multi-line insurers, and its results should be viewed in parallel to existing U.S. or other GAAP applied by the company, and should provide decision useful information to typical users including management, investors and analysts.

(b) In addition, in order to ease the transition to a fair value-based insurance accounting model, we recommend that during a transition period, financial statements continue to be prepared under the existing insurance accounting bases with supplemental disclosure of the financial position and results of operations under the new basis of accounting. These disclosures would be in the form of a note to the financial statements and would include financial statements prepared under the new basis of accounting and relevant disclosures that support those supplemental financial statements. Notwithstanding our concerns regarding the additional costs companies may incur from maintaining multiple insurance accounting systems, we believe these transitional disclosures will result in enhanced understandability of the new basis of accounting and the development of best practices in its application.
3. The IASB should improve the **definition of insurance** to include the concepts of indemnification, fortuity, and the law of large numbers as provided under paragraph 1 of FAS 60.

4. As noted in our response to question 11, the IASB should improve the **definition of portfolio** to include the principles of how risks are managed and priced together to allow for diversification benefits. Diversification benefits are at the core of pricing insurance contracts and managing capital.

5. The IASB should make substantial progress on foundational projects such as revenue recognition, conceptual framework and financial statement presentations in order to provide solid bases for conclusions and enhance the standard-setting due process.