July 7, 2014

Mr. Russell Golden  
Chair, Financial Accounting Standards Board  
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Re: Proposed Disclosure Requirements for Short Duration Insurance Contracts

The American Insurance Association (AIA) submits this letter in response to certain decisions that have been made by the Financial Accounting Standards Board (Board) regarding proposed disclosures that would be required for the reporting of short duration insurance contracts. AIA represents approximately 300 major U.S. insurance companies that provide all lines of property-casualty insurance to U.S. consumers and businesses, writing more than $117 billion annually in U.S. property-casualty premiums and approximately $225 billion annually in worldwide property-casualty premiums. AIA members would be subject to the proposed disclosure requirements and therefore offers these comments to assist the Board in developing useful and appropriate disclosure requirements.

AIA agrees with the objective of improving disclosure for property and casualty insurance contracts and also agrees with some of the tentative decisions (i.e., quarterly roll-forward of reserves, disclosure of the amount of discount for reserves that are discounted, and no disclosure about premium deficiency). However, AIA has significant concerns with several of the other tentative disclosure decisions made by the Board during its June 4, 2014 meeting. There are complicating factors involved with some of the recommended disclosures that warrant further discussion. Accordingly, the AIA strongly believes that the Board should formally expose the disclosure proposals in order to obtain full constituency feedback.

Some of AIA’s specific concerns are identified below:

- We acknowledge that currently, there is not a requirement for a significant discussion of “frequency and severity” about claims and the judgments made in determining the claims reserve; however, we note that Securities and Exchange Commission (SEC) filers
provide significant discussion about claims in the Critical Accounting Estimates section of Management’s Discussion and Analysis (MD&A). The MD&A provides information on how ultimate claims cost estimates are determined for major product lines, as well as the variables that create uncertainty in estimating the claims reserves. We believe that these disclosures address many of the issues discussed during the June 4, 2014 Board meeting and that MD&A is the appropriate area of the SEC filing for these types of disclosures.

• While we agree that the current disclosed claims reserve triangle in the Form 10-K could be improved, we believe that it is more appropriate to improve the current SEC guidance rather than incorporating it into the notes to the financial statements. Incorporating claims reserve triangles into the notes raises technical and conceptual issues that need to be addressed through evaluation and discussion with the preparer and user communities. For instance:
  o What level of aggregation is appropriate?
  o Is it appropriate to require 10 years of information in notes that support 3-year financial statements?
  o What is the cost of auditing ten years of information that will change over time due to reallocations between accident years and presumably changes in foreign currency?
  o How should changes in foreign exchange rates be reflected? Should they be restated at current foreign currency rates at the balance sheet date or should there be no restatement due to the foreign currency?
  o How should merger and acquisition activity be incorporated?
  o How will incorporation of these additional disclosures into the notes and the requisite auditing of this information impact SEC filings and the attest process under the Sarbanes-Oxley 404 rules?

• The proposed disclosures suggest a comparability that may not exist. Case reserves are not an accounting estimate, thus causing any required disclosure on “incurred but not reported” reserves (IBNR) to be non-comparable. Differences in case reserving practices will yield significantly different reserve estimates among companies. For example, one company may set up case reserves based on expected ultimate payout, another may set them at the probable maximum payout, while yet another may set them at probable minimum payout. There are other companies that may routinely set-up case reserves at $1 for claims with significant expected litigation.

• We believe that the disclosure of reported claim counts may not be useful information in many cases, as there is not a standard definition of claim counts. For a more detailed discussion regarding claim counts, please see Appendix A.
AIA believes the Board should address the above concerns before making final decisions on disclosure requirements for short duration insurance contracts. Because respondents to the 2013 proposed Accounting Standards Update primarily focused on the accounting for short duration insurance contracts and not disclosures, AIA believes the Board would benefit from a separate exposure of the disclosure proposals in order to obtain the most representative feedback about disclosure requirements.

AIA would be pleased to discuss further its concerns with the disclosure proposals. Please do not hesitate to contact us with any questions or concerns.

Sincerely,

Phillip L. Carson
Associate General Counsel and
Director – Financial Regulatory Policy

Cc: Ms. Meredith Brown (mabrown@fasb.org)
FASB Fellow
Appendix A

Claim Counts

We believe that the disclosure of reported claim counts will not be useful information in most cases, based on the following reasons:

- There is not a standard definition of “claim” within the industry or within a company, as it often varies among lines of business and coverages within lines. In addition, it is not an “accounting measure”. A claim count can refer to the number of loss events or it can refer to the number of claim features (i.e., discrete policy coverages) that are triggered by a loss event. For example, a situation in which the insured’s car with one passenger hits another car with three passengers can yield different interpretations of what constitutes a claim: one claim because there is one event; two claims involving one first party-event and one third-party event; five claims, consisting of one claim for each potential claimant; or more than five claims if the number of claimant/coverage combinations are counted, given that more than one coverage may apply to a claimant’s situation. The definition of “claim” is not consistent throughout the industry, as different claims handlers may process the situation differently, e.g., a claim handler may set up a single claim for an event with multiple, but currently unknown number of claimants/coverages or, in other situations, may set up individual claimant/coverage claim files that allow for more detailed processing. We are not suggesting that the Board establish criteria for defining a claim; in fact, we think that would be an inappropriate. However, we do believe that the Board and FASB staff should more fully understand industry practices before making a final decision on claim counts disclosure.

- Precautionary notices by a policyholder that an event has occurred may or may not lead to a claim. Practice varies across the industry as to when the precautionary notice is included in a claim count. The practice may even vary within an insurer, across its various lines of business and coverages within those lines, and with additional possible variations across time as claims systems or operational processes are enhanced or modified.

- Casualty deductibles may result in zero cost to the insurer. In this case, the insurer may settle and pay all claims and then bill the cost to the insured, up to the deductible amount. Claim counts may be generated even if all of the payment is under the deductible, in which case, the insurer is fully reimbursed.
and therefore incurs no cost. Changing the business mix between deductible and non-deductible policies within a company, across companies, and over time can lead to misleading and inconsistent analyses of claim counts.

- All claims are not alike. Reported claim counts are more meaningful if one claim is like another in a large homogenous block of policies, but for some coverage/business lines that involve a more dynamic mix of policy forms and coverage types, there can be tremendous variations. For example, a hail storm may create many claims, but few total losses, while a tornado may create few claims, but the reported claims may involve total destruction of the covered property. Similarly, winter weather may result in many slip-and-fall commercial liability claims of low value, leading to a high claim count, but a minor total payout; a building collapse, however, may result in far fewer commercial liability claims, but far more dollars in cost.