October 10, 2013

Technical Director
Financial Accounting Standards Board
401 Merrit 7
P.O. Box 5116
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Subject: File Reference No. 2013-290

Endurance Specialty Holdings Ltd. ("Endurance") appreciates the opportunity to provide comments to the Financial Accounting Standards Board ("FASB") on the Exposure Draft ("ED") Insurance Contracts.

Endurance is a global specialty provider of property and casualty ("P&C") insurance and reinsurance. Through its operating subsidiaries, Endurance writes agriculture, casualty and other specialty, professional lines, and property lines of insurance and catastrophe, property, casualty, and other specialty lines of reinsurance. We prepare our consolidated financial statements in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). Our gross premiums written were $2.5 billion for the year ended December 31, 2012 and our shareholders’ equity was $2.7 billion at December 31, 2012.

Current U.S. GAAP model for insurance contracts

We believe that the current U.S. GAAP model for short-duration insurance and reinsurance contracts is a complete, comprehensive set of standards which have successfully produced high quality financial reporting for many years. The short-duration model has been tried and tested over a number of years and provides users with relevant, reliable, transparent, and decision-useful information which is comparable year over year and among P&C insurance and reinsurance companies. This model is familiar to users and does not have serious issues which need to be corrected.

We believe the proposed model described in the ED will result in reduced comparability, increased volatility and loss decision useful information to investors in P&C insurance and reinsurance companies. Further, we believe this standard will be costly to implement and will permanently increase the costs of monitoring, external audit and compliance due to the increased complexity and subjectivity inherent in the ED. We believe the significant overhaul of the existing U. S. GAAP model for short duration contracts is ill conceived, particularly as the impact will be to reduce comparability, objectivity, and quality of decision useful information with permanently increased costs of compliance.

We strongly encourage FASB to reach out directly to insurance investors and analysts to solicit their feedback on the ED as it is unlikely that their collective voices are being appropriately represented in the ED process. As a large publicly traded insurance and reinsurance company, we spend significant amounts of time with investment portfolio managers, advisors and research analysts, and the vast majority of these interactions have indicated to us there is very little investor support for the ED and the common view is that
the ED "is a solution looking for a problem" and the impact will be reduced transparency, comparability and quality of accounting and reporting.

The judgments required throughout the proposed standard significantly increase subjectivity in estimation processes and correspondingly reduce the ability of auditors and other third parties to objectively verify financial statements. We believe that any specific concerns with the current model should be addressed using a targeted approach rather than introducing an entirely new, untested model, which reduces comparability, increases earnings volatility and does not provide users with the information they require to make decisions regarding P&C insurance and reinsurance companies.

Premium Allocation Approach ("PAA")

Endurance supports the proposed approach of differentiating between short-duration and long-duration insurance contracts by proposing the PAA for short-duration contracts and the Building Blocks Approach ("BBA") for long-duration contracts. We support the PAA, however we have some concerns regarding the criteria that must be met to use the PAA, and the method of accounting for incurred claims under the PAA.

The criteria used in the ED to identify the contracts that fall under the PAA approach is too narrow and does not include all contracts that would be appropriately accounted for under the PAA model, such as low frequency, high severity contracts with a coverage period over one year. To broaden the criteria to include all appropriate contracts, we suggest that the criterion of "coverage period of one year or less" is replaced with the definition of a short-duration contract as stated in current U.S. GAAP, in Accounting Standards Codification ("ASC") 944. Our proposed revised criteria would therefore be the following:

- The contract provides insurance protection for a fixed period of short duration;
- or
- The contract enables the insurer to cancel the contract or to adjust the provisions of the contract at the end of any contract period, such as adjusting the amount of premiums charged or coverage provided; or
- At contract inception, it is unlikely that there will be significant variability in the expected value of the net cash flows required to fulfill the contract during the period before a claim is incurred

We believe that this definition is reasonable, principles-based and will appropriately include all contracts that are most appropriately accounted for under the PAA model.

The ED proposes that incurred claims under the PAA be measured using the present value of unbiased probability-weighted future cash flows consistent with the BBA. This would require insurers to apply the BBA to calculate the incurred claims, which, in our opinion, defeats the purpose of permitting a separate measurement method for short-duration contracts. The cost of maintaining the required information to calculate the incurred claims is greater than the benefit obtained from performing the calculation. Endurance proposes that the liability for incurred claims be calculated using current U.S. GAAP for short-duration contracts.

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1 ASC 944-20-15-7
Probability-weighted cash flows

The current definition of "probability-weighted estimate of future net cash flows" in the ED would require losses associated with infrequent but severe events, such as natural catastrophes, to be estimated before the event giving rise to the loss occurs. These losses have a remote likelihood of occurring, however if they do occur they will have a material impact on losses. Calculating a probability-weighted estimate would result in significant variability in loss estimates, as material losses would be recorded for an event which has not yet taken place, and then the losses would be reversed if the catastrophe does not occur. Losses on P&C insurance and reinsurance contracts are usually significant, and the ultimate costs are not known until the loss event is reported and settled. In many cases, a loss may not even be reported during the coverage period. Even when an event does occur, the probability-weighted cash flow estimate could be significantly lower than the actual loss, and would result in a significant adjustment when the actual cost of the event is known. This probability-weighted estimate is also a new concept for the industry and there is currently no generally accepted P&C actuarial method that could be used to calculate the probability-weighted cash flows. There are various methods that could be used to determine the probability-weighted estimate, and due to the lack of a generally accepted P&C method, the methods used will vary from company to company, and, even within companies, from product to product. This would result in an inappropriate diversity in practice among companies and would further reduce transparency in the loss estimation process. The probability-weighted estimate of cash flows is also not tested or trusted in the marketplace and therefore could be met with resistance from users of the financial statements. Also, companies do not have the systems in place required to calculate the probability-weighted cash flows. These systems would be costly to implement and require significant time and investment. In addition, some actuarial and risk management systems may need to be brought into scope for Sarbanes-Oxley 404 compliance. Companies would also require additional actuarial, modeling, risk management and finance staff to prepare, record, and report this information. Endurance believes that this proposal in the ED would be the most onerous to implement, and would require the most investment by companies to comply with. The current U.S. GAAP method of selecting the most likely outcome from a range of possible reserve estimates is a tested and trusted method which has been used successfully for decades, and Endurance believes that this is the best measure of the claims liability.

Discounting

We support the practical expedient included in the ED not requiring an entity to discount the incurred claims liability when the effects of discounting are immaterial to the portfolio(s) or when a meaningful portion of the incurred claims are expected to be paid within one year of the insured event.

If discounting is required, the ED proposes that the effects of changes in discount rates during the period would be recorded through other comprehensive income ("OCI"). We would prefer that entities have a choice to record the effects of changes in discount rates either through OCI or through net income. The exposure draft for the financial instruments classification and measurement project requires that substantially all equity securities and certain fixed income securities be classified at fair value with changes in fair value recognized in net income. Therefore, we would prefer the option to record the effects of changes in discount rates through net income to match our insurance liabilities with the related assets.
Portfolio definition

The definition of a portfolio of contracts in the ED could result in many portfolios that could be burdensome to manage and report. Endurance currently provides many types of insurance and reinsurance coverage over many lines of business, in multiple geographic locations. Splitting these policies into portfolios based on the current definition would result in an unmanageable number of different portfolios that would be required to be measured separately. Endurance recommends that the definition of a portfolio in current U.S. GAAP, under which contracts are grouped to be consistent with the entity’s manner of acquiring, servicing and measuring the profitability of its insurance contracts, be retained in the new standard.

Business combinations

The ED prescribes that in a business combination in which the fair value of the assumed insurance liabilities and insurance assets is less than the insurance contracts measurement, the difference should be immediately charged to net income, instead of the current practice of recognizing an asset for the value of a business acquired. This proposal seems contrary to other U.S. GAAP that recognizes that transactions executed at arm’s length typically do not result in an immediate loss. This change in recognition could affect an entity’s evaluation of business acquisitions. We view the approach proposed by the International Accounting Standards Board (“IASB”), in which goodwill is adjusted for the difference between the fair value of the net assets and the insurance contracts measurement, as a better alternative.

Presentation and disclosure

The ED states that the unwinding of the discount on the liabilities would be presented with investment expense and not as part of the underwriting margin components. This is a concern, as the discount on the liabilities is an underwriting activity, and should be reported as part of underwriting income, instead of being obscured within investment expense with other investing activities.

The requirement to separately present balances relating to the PAA and the BBA on the balance sheet and statement of comprehensive income is too detailed and would result in confusion among users of the financial statements for entities with balances under both approaches. Endurance prefers the IASB proposal of not distinguishing between BBA and PAA on the balance sheet and statement of comprehensive income.

The new presentation and disclosure requirements are a significant change from current U.S. GAAP, and Endurance would need to educate our management, analysts and investors on the new presentation format and the impact of the approach on reported earnings and key performance indicators, such as loss ratios. Further, the entire auditing profession and SEC staff would need significant remedial training and development to properly audit and oversee such information. We also anticipate an increase in the use of non-GAAP financial measures, as analysts and investors will require the current key disclosures, such as gross premiums written, net premiums earned, losses and loss expenses, and loss ratios, which will continue to be used to compare P&C insurance and reinsurance companies. The detailed disclosure requirements will also significantly impact our quarterly closing processes and our information system requirements. Our systems will need to be significantly updated to capture and produce the information required in the new ED.
Transition and effective date

Regarding the proposed transition method for the financial instruments standard, we agree that a retrospective application is more useful to financial statement users. However, retrospective application will be costly and impracticable, as some of the required information would no longer be available. As a result, entities would need to use significant judgment to determine the margin for contracts where the required information is no longer available. In our view, the cost of producing retrospective information outweighs the benefit. It introduces additional complexity and reduces comparability, and therefore Endurance supports a prospective approach for all changes as a result of the proposed standard.

Regarding the effective date, we estimate that we will require at least 6 years to prepare for a revised insurance contracts standard. Endurance will need a substantial amount of time to review the requirements of the new standard and evaluate the impact on our business, develop new information systems, train our finance, actuarial, modeling and risk management staff and others involved in the financial reporting process (including our Board of Directors and third party investment accounting providers) and to implement the new requirements. We anticipate that we will need approximately 2 years to understand and implement the new requirements. We would need an additional 4-5 years to complete implementation of any new information systems required and to acquire comparative numbers, therefore a total implementation period of 6-7 years would be required for Endurance to adopt the proposed standard. Additionally, given the significant changes proposed by the ED, we encourage the FASB to allow sufficient time to thoroughly field test and re-expose, as necessary, the proposed standard before finalization.

We have not yet undertaken a detailed cost analysis of the impact of the proposed standard on our business, however we expect to incur the following costs: modifying information systems and/or developing and implementing new information systems; modifying existing processes and controls and creating new processes and controls, including possibly bringing some actuarial and risk management systems into scope for Sarbanes-Oxley 404 compliance; communication and training (both internally and externally); additional actuarial, modeling, risk management and finance staff and consulting staff; and additional costs for internal and external audits of the new controls and disclosures. We believe these costs will be significant and permanent.

Thank you for consideration of our comments.

Yours sincerely,

[Signature]

Michael J. McGuire
Chief Financial Officer
Endurance Specialty Holdings Ltd.