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Re: Premium Allocation Approach

We have reviewed the aspects of IASB Agenda Papers 8, 8A, 8B, and 8C (FASB references: 71, 71A, 71B, and 71C, respectively) related to the Premium Allocation Approach (“PAA”) and offer significant support for the two model approach as outlined in Agenda Paper 8C/71C. We appreciate the thorough analysis in the four related agenda papers covering the most important issues on this topic. In addition, we appreciate having the agenda papers available well in advance of the planned discussion at the July 21, 2011 meeting.

Along with the agenda papers, we have carefully reviewed the table of similarities and differences in paper 8A/71A and wish to provide the following feedback in advance of the aforementioned meeting:

- We support most of the concepts under the two model approach
  - Paper 8B/71B describes the importance of maintaining consistency with the revenue recognition model for the period represented by the new term “liability for remaining coverage”. We agree with references to the similarities with the revenue recognition model since the unearned premium reserve approach, which as noted in the paper is widely used around the world, is in fact a revenue recognition approach.
  - We support the separate asset classification for acquisition costs, consistent with the revenue recognition model.
    - Separate classification for these costs is considered a more transparent and decision-useful method of presentation for contracts within the scope of the PAA which are exposed to different risks and for which the amount and trends in gross written and earned premiums are key performance indicators used to manage the business.
We understand the intent of the proposed eligibility criteria in the two model approach and preliminarily believe most not all of the products currently classified as short-duration under FASB Accounting Standards Codification Topic 944 Financial Services – Insurance would be eligible for the PAA. We will, however, continue to review our product portfolios against the eligibility criteria and if we identify clarifying language that we believe would enhance the criteria, we will share that language with the boards.

We disagree with the basic rationale underlying Agenda Paper 8B/71B – PAA – i.e., that it is a simplification of the building block approach (“BBA”) and that it represents a simplification of the BBA under a one model approach. We believe the PAA, as drafted, would be applied to insurance contracts with attributes and characteristics fundamentally different than those present in contracts accounted for using the BBA.

We do not believe it is necessary to refer to the consistency of the PAA with the revenue recognition approach as support for a one model approach (Agenda Paper 8B paragraph 14a) or as a two model approach; the arguments related to one model or two models appear to be semantics and we believe it is counterproductive in advancing the standard on accounting for insurance contracts. Instead, we believe the focus should be on developing the accounting guidance in accordance with the characteristics of the insurance products and providing an accounting framework which facilitates understanding the financial statement results which reflect the economics of the insurance product attributes. Characteristics of portfolios of similar insurance contracts would be separately classified and generally use either the BBA or the PAA. For contracts which are accounted for under the PAA, the liabilities for remaining coverage and the liabilities for incurred losses would each be accounted for under different provisions.

We appreciate the boards’ outreach activities and the opportunity to be included in the discussions related to the development of the insurance contracts standard. We value the opportunity to provide written comments as well. As the boards and staff continue their work and outreach on the development of the characteristics of the accounting for the liability for incurred claims, we stand ready to assist to review modeling, discuss theory, share perspectives, field test or to contribute to the understanding of insurance products, if necessary.

Sincerely,

Group of North American Insurance Enterprises
National Association of Mutual Insurance Companies
Property Casualty Insurers Association of America