September 20, 2019

Mr. Shayne Kuhaneck
Acting Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: File Reference No. 2019-760, Proposed Accounting Standards Update Financial Services—Insurance (Topic 944), Effective Date

Dear Mr. Kuhaneck:

Cigna Corporation appreciates the opportunity to comment on the Financial Accounting Standards Board’s Proposed Accounting Standards Update, Financial Services – Insurance (Topic 944), Effective Date (“the Update”).

Cigna is one of the largest investor-owned global health services organizations in the United States, and has operations in selected international markets. Our insurance subsidiaries are major providers of medical, dental, disability, life and accident insurance and related products and services, the majority of which are offered through employers and other groups (e.g. governmental and nongovernmental organizations, unions and associations). Cigna also offers Medicare and Medicaid products. In addition to its ongoing insurance operations described above, Cigna also has reinsurance, retirement and individual life and annuity businesses in run-off.

Cigna commends the Board for its careful consideration and response to industry concerns regarding the effective date of Accounting Standards Update No. 2018-12, Financial Services – Insurance (Topic 944): Targeted Improvements to the Accounting for Long Duration Insurance Contracts (ASU 2018-12). We strongly support deferring the effective date of ASU 2018-12 by one year for larger public companies, as a number of technical issues remain open within the industry.

Many of these technical issues continue to be discussed by the AICPA Insurance Expert Panel, and of particular concern to Cigna, are complexities related to ceded and assumed reinsurance under the new guidance, which we’ve discussed below. Additionally, while we support the proposed changes to the effective dates, we have concerns about transition for reinsurance...
contracts between larger public companies and all others due to the staggered effective dates. Although the Board has acknowledged this asymmetry in the effective date in the Basis for Conclusion, we would like to recommend that a practical expedient be included in the transition guidance for blocks of business assumed or reinsured by a large public company (subject to a 2022 effective date) where the administration or valuation is provided by a company with the later effective date. This expedient would permit companies, on a contract by contract basis, to measure the affected contracts on the same basis. For instance, if a non-public reinsurer has not yet adopted ASU 2018-12 due to the allowable later effective date, the larger public entity can adopt the later effective date for that specific book of business.

In addition, Cigna would like to bring to the Board’s attention a reinsurance concern that we believe to be outside the scope of the effective date proposal, yet is potentially significant to the implementation of ASU 2018-12. We respectfully request the Board consider providing relief from certain aspects of ASU 2018-12 for traditional and limited-pay books of business that have been or will be effectively sold (or 100% reinsured) through reinsurance. For an originating company that has effectively transferred all future insurance risk to its reinsurer through a 100% indemnity reinsurance transaction, certain aspects of this standard substantively alter the operational (and potentially contractual) relationships between the originating company and the reinsurer in the interest of fulfilling measurement and reporting requirements that are neither reflective of the economics of the transaction nor provide decision-useful information for users of the financial statements. It is not uncommon for insurance companies to enter into 100% indemnity reinsurance treaties when novation is not practical or not achieved, whereby the reinsurer assumes administration of the direct book of business, including the calculation of reserves, and the originating company effectively exits the business, releasing its records to the reinsurer. We direct your attention to the illustrative example of such a transaction provided as an appendix to this letter.

The standard’s requirement to cohort for future policy benefit measurement based on direct written date for direct business, and reinsurance treaty date for reinsured arrangements, suggests that the reinsurer exposed to the insurance risk and owning the administrative records at the reporting date would need to calculate at least two sets of reserves using different cohorts to support the measurement and reporting requirements of the originating company, as well as any intermediary reinsurers. Each of these calculations required by the reinsurer represents the same obligation to the policyholder. In many cases, the reinsurer responsible for the insurance risk at the reporting date may not have a direct contractual relationship with the originating reinsurer. Additionally the reinsurer’s contractual terms may not require it to support the insurer’s accounting to the extent required by the standard and therefore its ability to calculate reserves by cohort would be excessively burdensome. Furthermore, the originating insurer entered into the reinsurance transaction to exchange insurance risk for credit risk and, while the policyholder reserves are the direct obligation of the originating insurer, the reinsurer has assumed the obligation for the policyholder reserve.

Cigna would like to request a practical expedient that would streamline the cohorting requirements for 100% reinsured traditional and limited-pay business to allow ceding and assuming companies to measure reserves on the same basis (as the ultimate assuming company) with disclosure of the Company’s cohorting policy. Consistent with current
disclosure requirements, the originating insurer will continue to disclose that it remains primarily liable to the policyholder in the event that the reinsurer does not perform its financial obligations under the contract (i.e. in the event of insolvency). We believe this will reduce the cost and complexity of implementing the new standard for preparers, without compromising decision-useful information to the users.

We hope the Board will discuss issues related to reinsurance and consider appropriate amendments to ASU 2018-12 to reduce the burden on preparers. We thank the Board for its continued engagement with preparers and industry groups on open technical issues, particularly those related to reinsurance, and look forward to an ongoing dialogue to ensure an effective and smooth transition to the new guidance for all companies.

Sincerely,

Mary T. Agoglia Hoeltzel
Appendix

Base Scenario

- Company A = Original direct writer of long duration traditional or limited-pay contract
- Company B = Reinsurer who purchases the book of business written by Company A, by entering into a reinsurance contract.

When a direct book of business is sold to another company (B), it is frequently accomplished through a 100% indemnity reinsurance transaction. Practically speaking, through this transaction, future insurance risks are transferred to the reinsurer (B), who typically also assumes administration of the direct book of business, including the calculation of reserves. In some cases, novation may ultimately be possible (policyholder gives permission for the policy to be “transferred” from the original direct writer (A), and it effectively becomes a “direct” policy of the reinsurer (B). However, many times novation is not practical or not achieved.

Without novation, if Company B does not perform its financial obligations under the contract (i.e. in the event of insolvency), the policyholder still has a claim against Company A, effectively exposing Company A to credit risk of Company B.

In general, Company A surrenders all related policy data as it has effectively exited the business. In this example, since Company B would have all policy records, Company B would be responsible for calculating reserves and other financial statement elements and would supply Company A with the information necessary to report on a statutory and GAAP basis quarterly.

ASU 2018-12 Implications

If the requirements to cohort for future policy benefit measurement are based on direct written date for direct business, and reinsurance treaty date for reinsured arrangements hold, in these circumstances, Company B would need to calculate two sets of reserves under different bases (one for itself, and another for Company A), both representing the same obligation to the policyholder.

- Company A – issued policies under this block of business from 1960 to 2000 (required 40 cohorts based on issue year at minimum)
- Company B – entered into treaty to assume 100% of Company A’s block of business in 2000 (required 1 cohort based on treaty date at minimum)

In addition, because it takes such an extended number of years for long duration business to run off, it would not be uncommon in the above scenario, for Company B to sell pieces of the reinsurance business to another Company (Company C) along with all records and administration.

- Company C – entered into treaty to assume 100% of Company B’s previously assumed block of business in 2005 (required 1 cohort based on treaty date at minimum)
Therefore applying the cohort requirements, Company C, in addition to calculating its own reserves using the 2005 cohort, may be required to calculate reserves for Company B using a 2000 cohort as well as Company A using 40 different issue year cohorts (note there is no contractual relationship between Company A and Company C) for the business it reinsured. The resulting calculations would result in three different reserve calculations and valuations for the same policyholder obligation.