15 December 2016

Re: Proposed Accounting Standards Update – Insurance Contracts (Topic 944)

Dear Sir/Madam,

As one of the leading global reinsurers, the Swiss Re Group ("Swiss Re") supports the Financial Accounting Standards Board (the "FASB" or the "Board") in developing high-quality accounting standards. Swiss Re's consolidated financial statements are prepared in accordance with the accounting principles generally accepted in the United States of America ("US GAAP"). We have reviewed the Proposed Accounting Standards Update – Targeted Improvements to the Accounting for Long-Duration Contracts (Topic 944) and welcome the opportunity to share our feedback with you.

We generally support the proposal as being a step forward in the accounting for long-duration insurance contracts. However, we have certain concerns and suggestions that we would like to bring to your attention.

Retrospective assumption unlocking

We believe that the proposed unlocking of assumptions will result in a more relevant view of the balance sheet position of insurers. However, the requirement to unlock reserving assumptions on a retrospective basis increases the complexity of the proposed guidance, requiring significant additional investment in processes and systems. Due to the locked-in assumptions in the current accounting model, existing finance and actuarial systems do not always link actual experience with reserving information. For reinsurers, the implementation would be further complicated by the requirement to obtain significantly more detailed information from cedents.
An alternative approach would be to track the margin on a prospective basis. Changes in future assumptions would be recognised in the margin and amortised prospectively. This would still be complex and costly to implement as systems would need to track the margin and its amortisation but would be simpler than the proposed retrospective approach. The prospective approach can then be combined with the proposed carry-over method at transition.

Amortisation of deferred acquisition costs

We generally support the proposal to simplify the amortisation of deferred acquisition costs (DAC). However, we are concerned that the simplified amortisation may distort the reported operating margins for some insurance and reinsurance contracts.

For example, for yearly renewable term (YRT) life reinsurance business, all else being equal, premiums usually increase over time, whereas the amount of insurance in force remains unchanged. If the DAC asset is amortised in proportion to the amount of insurance in force or on a straight-line basis, the reported operating margins would be distorted over time.

We thus believe that providing principles-based guidance on the amortisation of deferred acquisition costs would be more suitable than prescribing a specific amortisation method. For example, the guidance could state that deferred acquisition costs should be amortised on a basis consistent with the provision of services by the contract issuer. At the same time, to reduce potential diversity in practice and address concerns raised by users, the guidance could disallow some specific amortisation methods and retain the proposal to eliminate the accretion of interest to the unamortised DAC balance. In addition, preparers could be required to disclose in the notes to the financial statements a description of the DAC amortisation methods applied to different insurance and reinsurance contracts.

We understand that the proposed guidance is silent on the amortisation of present value of future profits (PVFP), although this intangible asset is similar to deferred acquisition costs. In our opinion, the guidance in the final standard should apply to the amortisation of both DAC and PVFP.

Transition

In principle, we are in agreement that the requirement to update assumptions would be an improvement over current US GAAP. However, we have a concern that, on transition, historical information may be limited or unavailable to allow the proposed amendments to be applied retrospectively. This is exacerbated by the requirement to obtain historical information on contracts that may no longer be in force at the date of transition.

Therefore, we believe the final standard should allow preparers to apply the alternative transition provisions, as described in the proposed standard, without having to demonstrate that it is impracticable to obtain the historical information required for retrospective application.

Effective date
The final standard should allow sufficient implementation time for the required changes in processes and systems as well as for the collection of the necessary historical information. In our opinion, this should be a minimum of three years between the issuance of the final standard and the effective date.

Yours sincerely,

Alexandre Hristov
Chief Accounting Officer