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CIGNA Corporation appreciates the opportunity to share our views on the FASB Agenda Proposal: Accounting for Insurance Contracts by Insurers and Policyholders, including the IASB Discussion Paper, "Preliminary Views on Insurance Contracts". CIGNA is one of the largest investorowned health care and related benefits organizations in the United States. Key product lines include medical coverages and related specialty health care products and services such as pharmacy, behavioral health, dental benefits and disease management; group disability, life and accident insurance and related case management services; and International life, accident, supplemental health and expatriate health care products and services. In addition, CIGNA has certain inactive businesses, including run-off retirement and reinsurance operations.

For several reasons, CIGNA encourages the FASB to add to its agenda a joint project with the International Accounting Standards Board (IASB) addressing insurance contracts. First, we believe that convergence of accounting standards in an increasingly global marketplace is essential to providing users of financial statements with comparable, decision-useful information. With the Securities and Exchange Commission presently considering whether and when to allow both domestic and foreign filers to submit financial statements prepared in accordance with International Financial Reporting Standards (IFRS), the need for a single global standard for insurance contracts is even more critical. Second, we believe that moving to a single, principlesbased standard addressing various insurance products might simplify reporting by eliminating the multiple models used by international entities for their various audiences today including capital and debt markets, insurance regulators and taxing authorities. Finally, we believe that the FASB can help bring to the policy-setting discussion an understanding of the private medical insurance business in the United States, as this unique business model differs significantly from other insurance businesses currently represented in the international marketplace. Because medical claims and claims adjustment expense are highly dependent on the business operations model (provider networks, medical and disease management programs, and claims paying capabilities), CIGNA believes that the IASB's proposed accounting model should be clarified so that certain entity-specific data for medical insurers is specifically considered.

In encouraging the FASB to participate in a joint project, CIGNA emphasizes that a major overhaul of the current insurance contract models used in the United States is not needed. In

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fact, we view SFAS Nos. 60, 97 and 113 as the most logical starting point for a principles-based standard to provide users with the most relevant, reliable and current information and to converge with International standards. In our comments below, we explain our major points of contention with the IASB's proposed model, highlight the need to consider the unique aspects of the medical insurance market in this standard-setting, and discuss our rationale for using the current insurance accounting models existing in the United States as the starting point of convergence discussions.

IASB Proposed Model:

CIGNA does not agree that the preliminary views expressed in the IASB's Discussion Paper are a suitable starting point because the proposal is not likely to achieve the IASB's objectives of relevance, reliability and comparability at a reasonable cost as discussed further below.

Relevance

The "current exit value" as defined in the proposal is not a relevant measurement basis for insurance contracts because it does not reflect management's perspective in running and evaluating the performance of the business. As insurance liabilities are rarely transferred in practice, the "current exit value" represents a hypothetical concept, providing users with no real value or insight into a company's actual performance or financial health. Insurance contracts are priced and underwritten with a focus on the settlement value of expected claim payouts to be made to or for policyholders. An accounting model using a liability measurement based on settlement value provides the users of financial statements with the most relevant and decision-useful information available which is also consistent with how management directs and evaluates the business.

In outlining the objectives of financial reporting, the FASB's Concept Statement No. 1 states that financial accounting is not intended to measure directly the value of a business, but rather to provide information about financial performance with a primary focus on earnings and its components. In addition, the IASB proposal indicates that their objective is a measurement model that gives users useful information on amount, timing and uncertainty of the future cash flows resulting from contractual rights and obligations created by insurance contracts. CIGNA believes that a *settlement value* model is clearly in line with the concepts and objectives of both the FASB and IASB.

The IASB's "current exit value" model has three other significant features that CIGNA believes would provide users of financial statements with less useful and less relevant financial information:

 Market participant data: With policies underwritten to be profitable on an entry or settlement value basis, the "current exit value" model using market participant data for cash flows might result in increased recognition of gains or losses at inception. These day one gains and losses would likely unwind over time as experience develops in line with the initial pricing assumptions, creating artificial volatility in financial statements that would be confusing and misleading to users.

- Discounting: Discounting liabilities using risk-free rates creates a disjoint between a company's pricing and reporting methodologies, which would likely create losses at inception for many contracts that are underwritten and expected to be profitable. CIGNA believes that current measurement methodologies that consider the returns on the assets held by an entity to fund the obligations better represent the economics of the business model and better reflect the entity's financial results and performance.
- Credit Characteristics: Considering an insurer's credit characteristics in the measurement of insurance contracts is not appropriate as it would understate future required cash flows in the event of deteriorating credit or default. In reality, insurers cannot realize these gains by transferring their obligations to another party because of laws generally prohibiting this type of transaction in the United States. Further, insurance regulators have developed market protections in the United States that often essentially guarantee that claim payments are made. For these reasons, the credit characteristics of the insurer are irrelevant to the current exit value calculation and would impede comparability between companies. CIGNA believes that a settlement value model properly excludes credit characteristics from the liability measurement and is the most relevant measurement attribute for insurance liabilities.

Reliability and Comparability:

CIGNA believes the "current exit value" model will reduce reliability and comparability in accounting and reporting of insurance contracts because two of its three fundamental building blocks are dependent on significant judgment that will be difficult to defend and audit. First, while the use of probability-weighted cash flows is appropriately required in accounting for certain long duration products today, this building block will greatly expand this approach to many other products and require many scenarios and subjective assumptions applied by actuaries to determine probabilities. Second, with limited market-participant data points available as input, risk and service margin assumptions will be based on the viewpoint of a largely hypothetical market participant. The resulting assumptions are not likely to be neutral, rendering them neither reliable nor comparable between two reasonable parties. CIGNA believes these two building blocks would unnecessarily add complexity to the measurement process and bring comparability and auditability into question.

Drawing an analogy to the fair value measurement hierarchy in SFAS No. 157, most of the inputs to the measurement model would be classified as level three, indicating the lowest level of reliability. The introduction of increased subjectivity combined with limited market-participant data would increase the likelihood of diversity in practice, create greater risk for misstatements, and reduce comparability making financial decisions more difficult for users.

Reasonable Cost

Finally, while we have not attempted to predict the cost of a transition to the proposed model, it will require significant investments in systems, processes and people to provide probability-weighted cash flows with sufficient time for analytical review and audit on a quarterly basis as currently required of entities reporting in the United States. While many companies in the

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United States currently prepare cash flow projections for insurance regulators, these processes are conducted annually with approximately six months of preparation time. As the IASB proposal would require similar processes each quarter, the IASB should seriously consider a field test of the proposal to determine the likely cost and usefulness of the resulting financial information before finalizing this model.

U.S. Medical Insurance Market:

As noted above, development of a principles-based standard for all insurance contracts must consider the unique operation of medical insurance contracts in the United States to report relevant, reliable financial performance and condition for such business. In particular, CIGNA is concerned that the emphasis in the IASB's proposed model on the use of market participant data could improperly lead to the exclusion of entity-specific data when projecting cash flows for the liability measurement. CIGNA recommends that the guidance on cash flows be clarified so that certain entity-specific cash flows such as those related to provider networks, medical and disease management and claims payment systems unique to the U.S. private medical insurance market are included in the accounting model to provide for an accurate measurement and representation of the contract's exit value. The following example will help to illustrate how a focus only on market participant data might produce unreliable financial information.

A typical contract providing for employer group medical coverage has several components, among them: 1) insurance coverage, 2) access to the insurer's provider network and related discounts, and 3) access to the insurer's medical and disease management programs. The insurer's ultimate cash flows are a function of each of these components as well as the insurer's efficiency in processing and settling claim payments. Excluding these entity-specific elements of estimated probability-weighted cash flows could significantly change the liability measurement. If the insurer's provider networks, medical and disease management programs and claims paying systems and processes are not as efficient and effective as those of other market participants, a cash flow projection from the standpoint of a market participant will understate the cash flows that will actually be required to settle the insurer's obligation. This would result in artificially improved financial performance early in the contractual period, with declining results as the actual higher cash flows develop. Clearly, this would be misleading and confusing to users of that insurer's financial reporting.

While claims paying capabilities are likely to differ amongst various life, disability and property casualty insurers, the elements of provider networks and medical and disease management programs to manage claims costs are unique to medical insurers. In a hypothetical transfer of the insurance contract to a third party, the policyholder would likely be offered continued access to the provider networks and disease management programs of the original insurer for the remainder of the initial coverage period. The availability of these entity-specific contract features as part of the market transaction further demonstrates that they must be included in the accounting model to preserve relevance and reliability.

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Convergence and current insurance accounting in the United States:

CIGNA recognizes that the accounting guidance in SFAS Nos. 60, 97 and 113 requires analysis of complex contractual provisions and cash flows to determine which model should be used for measurement and reporting in the United States. The application of the appropriate accounting model then produces a liability measurement that is largely a settlement value – although for long duration contracts, the models do recognize the time value of money. CIGNA believes that these accounting models appropriately balance reporting for complex contracts at a reasonable cost, while providing decision-useful financial information to all users. These existing accounting models also avoid the artificial accounting volatility that is a concern with the current exit value used in the proposed IASB model.

While the current accounting models used in the United States do not use the same basis for assets and insurance liabilities, CIGNA believes that resulting net income using settlement value for both assets and liabilities is the best presentation of how management operates the business. Accounting volatility is confined to comprehensive income so that users can see the potential effects of active asset management. CIGNA believes that current exit value for both the assets and liabilities is only relevant to users when management has decided to transfer an insurance book of business.

Although the current reporting model includes disclosure of the contractual cash flows for invested assets, the estimated cash flows of insurance liabilities is only required by the SEC for public companies. CIGNA believes that such a disclosure for all insurance companies would be useful information to allow users to assess any apparent mismatches of asset and liability cash flows.

We thank you for considering our comments and if we can provide further information or clarification of our comments, please call me or Nancy Ruffino (860-226-4632).

Sincerely,

Annmarie Hagan

APPENDIX I

This section addresses certain of the list of questions raised in the IASB Discussion Paper that are not covered in CIGNA's general comments above. As stated above, CIGNA supports the continued use of a "settlement value" accounting model, but offers these opinions related to the "current exit value" accounting model which is outlined in the Discussion Paper.

Question #1: Should the recognition and derecognition requirements for insurance contracts be consistent with those in IAS 39 for financial instruments?

CIGNA does not believe that the recognition requirements of IAS 39 should apply to
insurance contracts. While IAS 39 would likely call for recognition when the contract is
signed based on the "become a party to the contractual provisions" criteria, CIGNA believes
that the most appropriate triggering event to recognize an insurance contract is the date that
coverage begins exposing the insurer to risk.

Question #3: Is the draft guidance on cash flow and risk margin at the right level of detail? Should any of that guidance be modified, deleted or extended?

- CIGNA believes that flexibility should be incorporated into the cash flow guidance that
 would allow actuaries to forego using probability-weighted estimates of cash flows for less
 complex products where an acceptable level of precision is achieved using a "best estimate"
 or "more likely than not" approach.
- As noted above, CIGNA recommends that the guidance on cash flows be clarified such that
 certain entity-specific cash flows such as those for provider networks, medical and disease
 management and claims payment systems unique to the U.S. private medical insurance
 market are included in the accounting model to provide for an accurate measurement and
 representation of the contract's exit value.

Question #4: What role should the actual premium charged by the insurer play in the calibration of margins and why?

• CIGNA believes that the margin calculation at the inception of the contract should be calibrated directly to the premium charged by the insurer to the policyholder, subject to a liability adequacy test. This is the most accurate data point as its basis is an actual market transaction, it appropriately allows for no gain or loss at issue, and allows for profit to be recognized as the insurer is released from risk.

Question #6: In this paper, beneficial policyholder behavior refers to a policyholder's exercise of a contractual option in a way that generates net economic benefits for the insurer. For expected future cash flows resulting from beneficial policyholder behavior, should an insurer: a) incorporate them into the current exit value of a separately recognized customer intangible asset, b) incorporate them as a reduction in the current value of insurance liabilities, or c) not recognize them?

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- CIGNA believes that the net economic benefits generated from beneficial policyholder behavior should be incorporated as a reduction in the value of the liability. As expressed in paragraph 139, the contractual rights allow for continuation of the contract and if the portfolio were transferred, these rights could not be separated.
- CIGNA believes that the "guaranteed insurability" concept should be further clarified to address specific contractual features seen in the individual medical insurance marketplace today, including scenarios where: 1) insurers have the ability to unilaterally raise rates prior to an anniversary date (but rarely do so in practice), 2) an insurer cannot decide to unilaterally non-renew a small group contract due to regulatory constraints, or 3) an insurer has the right to raise rates on an individual guaranteed renewable product but only through regulatory oversight and without reunderwriting the policy.

Question #8: Should an insurer recognize acquisition costs as an expense when incurred?

As noted above, CIGNA favors a settlement value approach to measuring insurance liabilities
with acquisition costs deferred. Under the current exit value approach, CIGNA agrees that
the costs should be expensed and then incorporated into the liability measurement to the
extent built into premium pricing.

Question #9: Do you have any comment on the treatment of insurance contracts acquired in a business combination or portfolio transfer?

As noted above, CIGNA believes that the most appropriate measurement basis for an
insurance liability is its settlement value whether directly written, assumed or acquired in a
business combination. Under the current exit value approach, CIGNA would support valuing
acquired contracts consistently with its other contracts based on the notion that the
transaction itself is indicative of its value at date of transfer, which should be current exit
value.

Question #11: Should risk margins: a) be determined for a portfolio of insurance contracts, and b) reflect the benefits of diversification between (and negative correlation between) portfolios?

• CIGNA believes that the most appropriate unit of account for calculating risk margin is at the portfolio-level. Insurance contracts are underwritten assuming that similar risks are pooled together and spread over a large number of contracts. As such, the margin calculation should be performed at this same level.

Question #12: Should a cedant measure reinsurance assets at current exit value?

As noted above, CIGNA believes that reinsurance assets should reflect the expected amount
to be recovered from the reinsurer with the calculation based on the settlement value
methodology utilized for direct insurance provided. Under a current exit value approach,
CIGNA agrees that carrying the related reinsurance assets consistently at current exit value is
appropriate.

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Question #13: If an insurance contract contains deposit or service components, should an insurer unbundle them?

CIGNA believes that insurance contracts should only be unbundled in very limited
circumstances because the contracts are generally priced on a combined basis and bifurcating
the contract would be largely subjective and would not provide users with additional relevant
or useful information. Unbundling of deposit elements is appropriate only if there is an
explicit account balance. Unbundling of service elements is appropriate only if there are
explicit servicing charges.

Question #18 and #19: Should an insurer present premiums as revenue or deposits? Which items of income and expense should an insurer present separately on the face of its income statement?

• CIGNA believes that premiums should be presented as revenues reflecting the fact that they are payments to the insurer for the risk assumed. Each of the following should be separately presented on the face of the income statement: Premiums and Fees, Net Investment Income, Benefits Expense, Operating Expenses, and Realized Investment Gains / Losses.

Question #20: Should the income statement include all income and expense arising from changes in insurance liabilities?

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• Under a current exit value model, CIGNA agrees that changes in the value of the insurance liability should be reflected in the income statement in the current period. This immediate recognition is consistent with the treatment of changes in other assets and liabilities that are measured at fair value.