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I appreciate the opportunity and invitation to comment on the FASB Insurance Contracts Exposure Draft (Top 834). I am a Fellow of the Casualty Actuarial Society with over twenty-two years of experience in the Property and Casualty insurance field. I currently oversee the actuarial department at my company which includes pricing, modeling, and reserving. As part of my responsibilities I frequently review the financial statements of other insurance entities making comparisons to our own.

Upon reviewing the exposure draft, I have many concerns about the consequences of adopting any and all of the components of the exposure draft. The stated objective of the exposure draft is to "... increase the decision usefulness of the information about an entity's insurance liabilities, including the nature, timing, and uncertainty of cash flows related to those liabilities, and the effect on the statement of comprehensive income, and to provide comparability, regardless of the type of entity issuing the contract."

It is my opinion that none of the components stated in the objective will be accomplished by implementation of the exposure draft and it is my recommendation that the current accounting system for Property/Casualty Insurance entities be retained. Adoption of the exposure draft will result in placing an undue burden on most property/casualty insurance companies and will substantially complicate comparisons of financial results between carriers.

Of primary concern are the following three issues:

- Portfolio definition/construction
- Estimated ash flows by portfolio and the application of a subjective discount factor
- Complexity and cost

Portfolio definition/construction

The wide open guidance provided in defining and constructing portfolios could be problematic – especially when trying to compare financial statements between insurance entities. In many instances, flexibility can be viewed as a positive, but in this instance, I believe it creates more problems than it solves. As each company constructs and develops different definitions of portfolios, comparisons will become even more difficult and more disclosures will be required. The restrictions may also result in a company developing portfolios that differ substantially from how management typically measures profitability and results which only creates further division from accounting statements and management viewpoints. These restrictions may also result in portfolios for which credible projections of cash flows are not possible due to small breadth of data.

Estimated cash flows by portfolio and application of a subjective discount factor

Further complicating the varying sets of portfolio definitions is the requirement to estimate cash flow patterns by portfolio. Actuaries have many toolsets available to estimate projected future cash flows, but many times actual cash flows will differ substantially from the original projections. Estimating the ultimate payout of a portfolio of claims is challenging enough, and adding the additional step of estimating cash flows will only further complicate the process. There is already a great deal of judgment and a number of assumptions involved in estimating future claim liabilities and the increased need for additional judgment will only further complicate a proper understanding of a company's financial statement. Actuaries typically come to differing opinions when presented with a similar set of data based upon their experience, judgment, and the assumptions used.

The requirement for discounting also adds to the level of required judgment and further complicates the comparisons between financial entities. The historical reserve concern of users of P&C financial statements has been the adequacy of reserves. These users will likely want to see reserves at an undiscounted level so sufficient disclosures will be necessary to calculate the numbers the users want to see in the first place.

The goal, in my opinion, should be to minimize the need for judgment in financial statements rather than adding to the need.

Complexity and cost

The length of the exposure draft is a testimony to the complexity of the proposed changes. Companies will be faced with a substantial increase in the time and resources required to meet the requirements of the exposure draft which will increase costs across the board for insurers. In addition, investors and analysts may get to the point where investing in P&C insurance companies is too difficult due to the complexity of the GAAP accounting system. The costs and the risks are far too high – especially given that very few of the stated objectives are accomplished in my opinion.

The old adage applies in this situation – "If it ain't broke, don't fix it." Although there is room for improvement in the current accounting system, I believe the current system is far superior to the changes recommended in the exposure draft. It is therefore my opinion that the current accounting system be retained.

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