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October 24, 2013

Ms. Susan M. Cospers, Technical Director
Financial Accounting Standards Board
401 Merrit 7
P.O. Box 5116
Norwalk, CT 06856-5116

Subject: File Reference No. 2013-290

Dear Ms. Cospers:

We appreciate the opportunity to provide comments to the Financial Accounting Standards Board ("FASB" or "Board") on its June 27th Exposure Draft regarding accounting for insurance contracts. Unum Group ("Unum") operates primarily in the United States and the United Kingdom and is the largest provider of disability insurance products in those two countries. Unum also provides a complementary portfolio of other insurance products, including employer- and employee-paid group benefits, life insurance, and other related services.

We recognize the value of the FASB's intent to bring greater consistency to the accounting for insurance contracts and also to align US GAAP, as closely as possible, with the insurance contract project of the International Accounting Standards Board ("IASB"). We believe that the Board has made improvements to current guidance in regards to reserve valuation. However, there are several areas where we believe the Board should re-evaluate the proposed guidance to either rectify flaws in the proposed standard or to see if there are ways to simplify what is a very complex change to insurance contract accounting and reporting. Additionally, we believe it is beneficial, particularly for investors and also for global insurers that the FASB and IASB work closely to develop a converged insurance contract accounting standard. Failure to reach a converged standard will significantly increase the costs and overall efforts to adopt two comprehensive accounting frameworks and will also diminish the comparability of the financial results of global insurers as it relates to analysis by users of financial statements. If the Boards are unable to reach a converged standard, then we encourage the FASB to reconsider whether improvements to existing GAAP may be made to achieve most of the desired results of the proposed standard.

The areas that we would like to specifically bring to the Board's attention relate to the following topics:

- Premium allocation approach – revenue recognition
- Premium allocation approach – required use for contracts of one year or less
- Locked single margin
- Onerous contracts – losses followed by gains
- Onerous contracts – level at which test is performed
- Transition, implementation efforts and costs
- Disclosures
- Communication and education

Premium Allocation Approach – Revenue Recognition

As we discussed in our letter dated May 16, 2012 to Jennifer Weiner, we continue to believe that the premium allocation approach (“PAA”) does not align with the Board’s revenue recognition model for insurance products with long-duration claim payment patterns that meet the requirements of the PAA method. Examples of contracts which are impacted are group disability insurance, workers compensation insurance, or coverages which include bodily injury, malpractice, or natural disasters. These types of insurance coverages typically have a contract period of one year or less, but usually have a claim payment period which significantly exceeds the contract coverage period. As a result, these types of contracts have hybrid characteristics which qualify for use of the PAA and the building block approach (“BBA”). These particular types of contracts meet the definition in paragraph 834-10-25-18 of the proposed standard in that they a) have a coverage period that is typically for one year, and b) at contract inception, it is unlikely that during the period before a claim is incurred there will be significant variability in the expected value of the net cash flows required to fulfill the contract. However, it is probable that after the claim incurral date, the expected value of the net cash flows required to fulfill the contract will change due to claim severity related to morbidity, mortality, or other factors experienced during the claim payout period. Because of the risk of changes in the ultimate cost for incurred claims for these types of contracts, we believe the liability for remaining coverage should be recognized over the coverage period and the claim paying period, similar to the BBA. Doing so would bring increased consistency between the PAA and the revenue recognition model regarding the alignment of revenue recognition with the release of risk concept. The example below illustrates our concern with the proposal as currently written.

Example A: PAA revenue recognition model for a contract that qualifies for PAA with long-duration claim tail.

Assumptions:

- Group long-term disability policy for one year of coverage
- Expected premiums from the contract are \$12,000 for the year, or \$1,000 per month.
- Expected claims from the contract are \$10,000 and are expected to be incurred ratably over the contract period, but experience is as outlined below.
- Expected margin on the contract is \$2,000.
- For purposes of this example, discounting, policy administration, and deferred acquisition costs have been excluded.

Example A: PAA revenue recognition model for a contract that qualifies for PAA but has a long claim tail.

PAA:	Time	Inception	Q1'00	Q2'00	Q3'00	Q4'00	Q1'01	Q2'01	Q3'01	Q4'01	Q1'02	Q2'02	Totals
	Premiums	12,000	3,000	3,000	3,000	3,000	-	-	-	-	-	-	12,000
	Claims	10,000	1,250	1,500	1,400	1,200	1,150	1,050	900	800	600	150	10,000
	Margin	2,000											
	Insurance contract revenue - PAA		3,000	3,000	3,000	3,000	-	-	-	-	-	-	12,000
	Underwriting margin		500	500	500	500	-	-	-	-	-	-	2,000
BBA:	Time	Inception	Q1'00	Q2'00	Q3'00	Q4'00	Q1'01	Q2'01	Q3'01	Q4'01	Q1'02	Q2'02	Totals
	Premiums	12,000	3,000	3,000	3,000	3,000	-	-	-	-	-	-	12,000
	Claims	10,000	1,250	1,500	1,400	1,200	1,150	1,050	900	800	600	150	10,000
	Margin	2,000											
	Insurance contract revenue - BBA		1,500	1,800	1,680	1,440	1,380	1,260	1,080	960	720	180	12,000
	Underwriting margin		250	300	280	240	230	210	180	160	120	30	2,000

In the preceding example, the insurer would recognize the liability for remaining coverage over the annual contract period in equal amounts of \$3,000 per quarter. As a result, the insurer would recognize underwriting margin of \$500 per quarter during the contract period only if using the PAA. With this type of product, although the claims are incurred during the contract period, the payout of benefits may take place over many years in the future. Our concern with the PAA is that the insurer has recognized all of the related premium and margin during the contract period, when the insurer has only paid claims of \$5,350 and expects to pay additional claim payments of \$4,650. As a result, the insurer has recognized 100% of the margin after servicing approximately 54% of the expected claim liability. Contrasting this with the same policy valued using the BBA, the insurer would instead recognize the premium and margin over the contract and claim payment period as the insurer is released from risk, which in this example is assumed to be in proportion to the amount of expected claim payments in each period.

Contrast the above example with the example below of a typical property and casualty (“P&C”) insurer where the typical claim for a P&C insurer is settled and paid in full within three to six months after the claim is submitted. All of the assumptions for this example are the same as in the preceding example except that this is a property insurance policy instead of a group disability product.

Example B: PAA revenue recognition for a typical short claim tail property and casualty policy.

PAA:	Time	Inception	Q1'00	Q2'00	Q3'00	Q4'00	Q1'01	Totals
	Premiums	12,000	3,000	3,000	3,000	3,000	-	12,000
	Claims	10,000	2,750	2,400	2,300	1,900	650	10,000
	Margin	2,000						
	Insurance contract revenue - PAA		3,000	3,000	3,000	3,000	-	12,000
	Underwriting margin		500	500	500	500	-	2,000
BBA:	Time	Inception	Q1'00	Q2'00	Q3'00	Q4'00	Q1'01	Totals
	Premiums	12,000	3,000	3,000	3,000	3,000	-	12,000
	Claims	10,000	2,750	2,400	2,300	1,900	650	10,000
	Margin	2,000						
	Insurance contract revenue - BBA		3,300	2,880	2,760	2,280	780	12,000
	Underwriting margin		550	480	460	380	130	2,000

In this example, the P&C product has a shorter claim payout period. As a result, the possibility of the insurance contract liability materially changing after the incurred date is much lower. Additionally, the PPA and the BBA approximate each other due to the short-duration claim paying period on P&C products. Note that there is only \$130 of underwriting margin recognized after the contract boundary period using the BBA as compared to the PAA.

We believe that the revenue recognition misalignment could be resolved if the Board required that for products which meet the criteria for the PAA but also have an expected claim settlement period that is substantially longer than the contract period, the liability for remaining coverage is to be recognized over both the premium and claim payment period as the insurer is released from risk. This would be similar to the revenue recognition model under the BBA. By doing so, the PAA would produce revenue recognition that is very similar to the BBA. The change would not impact P&C insurers since those claims are generally settled within the contract period. Insurers with products with long-duration claim payment periods, such as group disability, workers compensation or coverages which include bodily injury, malpractice, or natural disasters, would have a better alignment of the premium and margin recognition with the expected claim payments and reduction in risk.

In developing our recommendation for consideration, we considered the Board's basis for conclusions in paragraph BC116. We note that the Board believes that the PAA is a separate measurement model from the BBA even though the measurement model is similar in both approaches. We also note that the Board believes that the practical expedients that have been allowed for the PAA would produce different results under the BBA. One of those practical expedients which results in a difference between the PAA and the BBA was to exempt insurers from the requirement to discount liabilities if the impact was determined to be immaterial under the PAA. However, due to the long duration of the claim liabilities, disability insurers will need to discount future claim payouts to appropriately value the resulting liabilities. Likewise, if the insurer were to also recognize revenue in proportion to the release from risk of fluctuation over the expected claim payment period, then the results under the suggested hybrid PAA would be very similar to the BBA. One small difference that would exist between the two approaches is that the premium is typically not discounted because it is expected to be received within a one year period, rendering the impact of premium discounting immaterial.

We also considered the Board's decision that under the PAA an entity should not record a margin to defer profit until the uncertainty in the cash flows is reduced. We agree with the Board that this is a significant difference from the BBA. We believe that this is an inappropriate concept in the PAA and is the reason why it does not align with the revenue recognition model under either the BBA or with the Board's proposed revenue recognition standard. By failing to recognize revenue over both the premium and claim paying period, the insurer recognizes the entire margin during the contract period when there is still a probability that the estimated claims liability may significantly change. Therefore, the revenue recognition model for these types of contracts should be constructed such that not all of the margin or premium is recognized before the insurer is released from that risk.

We believe that the concepts above are supported by the Boards basis for conclusions in paragraph 197 in which "the margin represents the expected profit for an insurance contract at its inception." We

agree with the Board that the expected profit in its entirety is at risk because of the uncertainty as to whether the actual cash flows will be the same as the expected cash flows. We also agree with the Board in that the entity cannot reliably determine the ultimate profit to recognize until the risk inherent in the contract has diminished. As the Board noted, this is an important distinction because it establishes the two primary underpinnings for the margin approach.

We also noted that the IASB PAA model accounts for the uncertainty in the claim payment period through the application of a risk margin. However, Unum supports using a single-margin approach as opposed to an explicit risk adjustment and a contractual service margin as proposed by the IASB. We agree with the Board's basis for conclusion in paragraph 197 and believe that that a single margin is easier for the financial statement reader to understand, however, we appreciate the points of the risk margin, especially when one considers it with insurance products such as group long-term disability. As we outlined above, even though these types of products would qualify for the PAA, there is still risk to the insurer after the contract period for incurred claims due to several factors that might affect the ultimate claim liability. For this reason, we believe that there is merit to the IASB's two margin approach. The risk margin under the IASB model accounts for the risk that is inherent to changes in the liability amounts even after the claim has been incurred.

However, we believe that recognizing the liability for remaining coverage over the contract period and claim payment period as the insurer is released from risk under the PAA when the claim payment period is expected to extend significantly past the contract period would account for the risk that is inherent in the claim tail and better align the revenue recognition models under the BBA and PAA.

Premium Allocation Approach – required use for contracts of one year or less

While we appreciate that the Board intended for the PAA to be a separate valuation model which would be mandatory if the contract is one year or less, we do not believe that insurers should be required to use the PAA, even if they qualify for its use. There are situations in which the economics may be similar for two different products, but the products would be subject to different valuation models due solely to the duration of the contract. We believe that the insurer should be able to use the valuation model that most appropriately aligns with the risks and characteristics of the contract, considering all factors including, among others, nature of the risk, duration of the contract, and materiality.

Locked single margin

Based on review of the proposed standard and several modeling scenarios, we disagree with the Board's decision to lock the single margin except when there is a contract modification as discussed in paragraph 834-10-35-20. Changes in the expected premiums, claims, and/or expenses will result in a change to the margin that the insurer will ultimately realize. The question becomes how to appropriately report changes in the expected margin to be realized. The Board's decision to lock the single margin creates a very complex reporting model when there are changes in future estimated cash flows. An example of the complexity that results from future changes in cash flows is in paragraph 834-10-55-168 (see following example). In this example, the insurer has recognized a change in the future estimated cash flows of \$647. This amount is appropriately recognized in the period that the change in estimate occurs.

However, because the single margin is locked, the insurer is required to recalibrate the portion of premium attributed to expected death benefits to ensure that the change in assumption does not create a situation where earned premium is greater than the premium expected to be received over the life of the contract.

FASB example (834-10-55-168)							
	Policyholder Age						
	40-44	45-49	50-64	55-59	60-64	Aggregate	
Revenue, consisting of:							
Death benefits	\$ 819	\$ 1,234	\$ 1,720	\$ 2,975	\$ 3,252	\$10,000	
Maintenance and benefit expense	\$ 180	\$ 180	\$ 180	\$ 180	\$ 180	\$ 900	
Margin release	\$ 738	\$ 820	\$ 1,230	\$ 820	\$ 492	\$ 4,100	
Insurance contract liability	\$ 1,737	\$ 2,234	\$ 3,130	\$ 3,975	\$ 3,924	\$15,000	
Claims	\$ 819	\$ 1,234	\$ 1,860	\$ 3,217	\$ 3,517	\$10,647	
Maintenance and benefit expense	\$ 180	\$ 180	\$ 180	\$ 180	\$ 180	\$ 900	
Change in estimates of future cashflows	\$ -	\$ -	\$ 647	\$ -	\$ -	\$ 647	
Reversal of changes in estimates	\$ -	\$ -	\$ (140)	\$ (242)	\$ (265)	\$ (647)	
Underwriting income	\$ 738	\$ 820	\$ 1,090	\$ 578	\$ 227	\$ 3,453	
Adjustment to earned premium for change:							Revenue to be earned
Expected Claim expense	\$ 819	\$ 1,234	\$ 1,860	\$ 2,570	\$ 3,517	\$10,000	\$ 7,947
Change in expected claim expense	\$ -	\$ -	\$ -	\$ 647	\$ -	\$ 647	
Revised Expected Claim expense	\$ 819	\$ 1,234	\$ 1,860	\$ 3,217	\$ 3,517	\$10,647	\$ 8,594
"Recalibration" amount	\$ -	\$ -	\$ (140)	\$ (242)	\$ (265)	\$ (647)	
"Recalibrated" Earned Premium	\$ 819	\$ 1,234	\$ 1,720	\$ 2,975	\$ 3,252	\$10,000	

There are several key issues with the FASB example which highlight the complexity of a locked single margin. The first is the recalibration of the earned premium for the portion of revenue attributable to death benefits. When there is a change in forward assumptions, the insurer is required to recalibrate the earned premium. The resulting issue is that the earned premium calculation will no longer align with the future expected cash flows that are being derived in the reserve valuation system. Similarly, the insurer will only realize \$3,453 in margin over the lifetime on this particular portfolio of contracts. However, because the single margin is locked, the portion of earned premium attributable to the margin will remain locked at \$4,100, even though the true margin is only \$3,453. The ultimate effect of the change in future cash flows is an erosion of the margin by \$647.

The proposed reporting model is overly complex and it will likely appear to users of financial statements that the revenue adjustment is somewhat arbitrary and difficult to understand the specifics driving the change. It also creates a reconciliation problem with the reserve valuation system and adds unnecessary complexity to the development of a valuation system that has the capabilities to perform the recalibration exercise. Additionally, we believe that the proposed reporting model in its current form will not provide the financial statement reader with useful information or be understood by the reader.

Our second key concern with the Board's proposed reporting model is the complexity of tracking numerous changes in future cash flows. We believe that a change in future cash flows will occur in every reporting period due to changes in inventory from persistency. At each occurrence of a change in future cash flows, the current proposal will require the insurer to maintain an inventory of each change and the related recalibration calculations. Considering that most life insurers have products that persist for as many as twenty years or longer and that the insurer may have to update assumptions every

reporting quarter, or will have differences in persistency, this could theoretically result in 80 different changes in future cash flow layers over the life of a single portfolio of contracts.

We believe that the Board could simplify this model by unlocking the single margin to allow the insurer to reflect adjustments to the expected cash flows in the margin. This would simplify the complex proposal by allowing the earned premium to be adjusted to reflect the revised expectations as to cash flows for expected premiums, claims, expenses, and margin. Once the revised cash flows have been reflected in the insurance contract asset/liability and margin, then the remaining margin is recognized as the insurer is released from risk under the revised cash flows. Additionally, this more simplified approach would eliminate the need for inventorying the different layers of forward assumption changes and would eliminate the line item in the income statement which shows the turnaround impact or the amount of the change in future cash flows that is attributable to the current reporting period. We believe that this line item is very confusing to the reader and does not provide any relevant information. We believe it would be more meaningful to provide users of financial statements the remaining margin expected to be realized over the life of the contract. By making this change, the Board will also resolve a problem with the onerous contracts discussed as follows. However, we believe that the recalibration process will still be necessary if the portfolio is determined to be onerous so as to prevent recognizing more premium than is expected to be received.

Onerous contracts – losses followed by gains

One concern we have with the current proposal as it pertains to onerous portfolio is a result of the locked single margin as discussed in the preceding section. In a situation where an insurer may have increased its reserve levels over a long period of time, but never to the level in which the portfolio is determined to be onerous, it is possible that the next incremental reserve increase could trigger an onerous portfolio. If this were to occur, it would result in the insurer recognizing a gain at the time the onerous portfolio occurs. An example of this situation follows:

Extract from Rollforward	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total	
Premiums Received	1,200	1,200	1,200	1,200	1,200	1,200	12,000	
Expected claims	223	395	569	741	914	1,086	10,000	
Extract from the Statement of Financial Position	Inception	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
Expected cash inflows (PV)	12,000	10,800	9,600	8,400	7,200	6,000	4,800	
Expected claims and benefits	10,000	9,777	9,382	10,713	9,872	8,838	7,622	
Insurance Contract Asset/(Liability)	2,000	1,023	218	(2,313)	(2,672)	(2,838)	(2,822)	
Margin release		45	79	95	140	1,642	-	
Margin recognized to date		(45)	(124)	(218)	(359)	(2,001)	(2,001)	
Remaining single margin (PV)	(2,000)	(1,955)	(1,876)	(1,782)	(1,642)	-	-	
Net Asset/Liability	-	(932)	(1,658)	(4,095)	(4,314)	(2,838)	(2,822)	
Earned Premium Calculation (EXPECTED)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total	
Expected claims and benefits	223	395	569	692	1,519	908	10,000	
Release of margin (locked)	45	79	95	140	1,642	-	2,000	
Earned Premium /Insurance Contract Revenue	268	474	664	832	3,161	908	12,000	
Earned Premium Presentation (ACTUAL)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total	
Insurance contract revenue	268	474	664	832	3,161	908	12,000	
Claims incurred	(223)	(395)	(569)	(841)	(2,034)	(1,216)	(12,900)	
Changes in estimates of future cash flows	-	-	(1,900)	-	(1,000)	-	(2,900)	
Unwind of previous changes in benefits	-	-	-	149	515	308	2,900	
Underwriting margin	45	79	(1,805)	140	642	-	(900)	

Note that in the preceding example, it is expected that this portfolio of ten year contracts will have a margin of \$2,000 at contract inception date. However, in year three, there is a change in the assumptions and the related future cash flows. At this point, the portfolio is not onerous when compared to the margin at inception, but the reserve liability has been increased by \$1,900. In year five, the insurer determines that the reserves should increase by another \$1,000. This results in the portfolio becoming onerous when compared to the margin at inception since the expected cash outflows related to claims and benefits now exceed the expected cash inflows or premium to be received. As a result, the remaining margin of \$1,642 is recognized in income, but the reserves are only increased by \$1,000 since they had already previously increased \$1,900. As a result, the company recognized income of \$642 during the period in which the portfolio was determined to be onerous. Recognizing income at the point that a portfolio is determined to be onerous seems to be counterintuitive since there is no longer any remaining margin to be recognized.

The proposal that was included in the Board Meeting handout from September 5, 2012 (in Example 2) in which the margin is unlocked at the point that a contract becomes onerous provided a better representation of financial outcome. In that example, the insurer had a change in assumptions in year three, increasing the expected cash outflows. At the time the contract was determined to be onerous, there was some margin remaining to be recognized. Under the current proposal, the insurer would increase the earned premium by the remaining margin and recognize a charge equal to the remaining margin recognized plus any additional amount needed to bring the insurance contract liability to the appropriate amount. However, if the insurer followed the example in the Board Meeting handout, the margin would be reduced to zero, and the insurance contract liability would be increased by the amount of single margin remaining to be recognized. The insurer would then record an additional charge to increase the insurance contract liability to the required amount. This approach results in what we believe is a more faithful representation of the economics of the transaction and does not complicate

the income statement with a “gross-up” of income. The reduction of the remaining margin and the increase in the reserve will be disclosed in the portfolio roll forward.

Onerous contracts – level at which test is performed

While we appreciate the Board’s intention that the unit of account be at the portfolio, we have concerns that the onerous contract test is required to be applied at the portfolio level. We believe that the Board’s principles of grouping insurance contracts that are subject to similar risk and priced similarly relative to the risk assumed and that have similar duration and similar expected patterns of release from risk is an appropriate principle for grouping insurance contracts, but the application of the onerous contract test appears to be too prescriptive and should allow for additional groupings of contracts. We agree in principle to the proposed approach, although we believe the grouping of contracts for the onerous contract test should primarily be based on our interpretation of “similar risk” as we have noted in the appendix to this letter as our response to question 8. Other factors could be a consideration but not a stated requirement for determination of the groupings. One example of what we consider excessively defined segmentation is the requirement to perform an onerous contract test for a single quarter of issuance. We have interpreted the standard to essentially require that the portfolio level would likely be limited to quarters for a public company because of the reporting requirements of locking the single margin and recording changes in liability values resulting from changes in discount rates in other comprehensive income. It is important to note that the above interpretation is shared by several other insurers as well as two of the major accounting firms with whom we have discussed this matter. Our concern with this is that it results in applying the onerous contract to a very small population of business issued within a single quarter. By applying the onerous contract to such a small population, it disregards the definition of portfolio as being subject to similar risk and priced similarly relative to the risk insured, as it is very likely the risk and pricing will not change from quarter to quarter. The use of quarterly portfolios may lead to tracking many small portfolios that become onerous due to the simple volatility of experience results.

We encourage the Board to provide guidance that would continue to apply the principles of a portfolio but allow for testing of onerous contracts at a higher level based on consideration of multiple factors versus a strictly defined segmentation. At a minimum, we believe that the onerous contract test should be applied to annual portfolios, even though the use of quarterly portfolios will be necessary for measurement purposes of determining the single margin as well as changes in the liability balance due to movements in discount rates.

Transition, implementation efforts and cost

Given the complexity of the proposed standard and the necessary modifications to reserving systems and financial reporting, as well as data storage and metric development that will be necessary to adopt the proposed standard, transition is expected to be very time consuming and costly. During the comment period, several of the major accounting firms have stated publicly that they expect the implementation of this proposal to be even more expensive than the efforts that European insurers incurred in adopting IFRS. In most cases, companies that adopted IFRS spent several million dollars to comply with the new accounting basis. Using the costs that we have incurred in preparing for Solvency

If, we would expect the costs to be incurred for adoption of this proposed standard to range between \$5 to \$15 million dollars. Adding to the complexity and cost of implementation is the fact that we will have to effectively adopt two different insurance standards for our UK subsidiary unless convergence of the standards is achieved.

The efforts to implement the proposed standard are expected to be monumental and to take more than a few years. Although we do not have a final standard, we believe that we need to begin now to prepare for adoption due to the significant amount of actuarial changes that will have to be implemented and the efforts that will be necessary to work through the transition implications. Complicating this is the fact that there are limited resources available to fill positions internally or through the use of consultants. We expect strain on actuarial and financial resources over the next few years regarding compliance with other regulatory requirements. We do not believe it is possible to adequately prepare for adoption with an effective date prior to 2018 or possibly 2019. This timing is also dependent on how quickly the Board issues the final standard and how certain issues within the proposed standard are resolved.

We also believe that it is imperative that both the FASB and IASB perform full testing of all of the different insurance products under the proposed standard to ensure that it actually works and produces intuitive financial results. Only after this testing has been completed should a final standard be issued. If the Boards were to issue final standards prior to full testing, the issues that may result during the implementation phase will require individual companies to work with their auditors and/or other insurers to resolve interpretation and application issues.

Disclosures

We appreciate that the proposed standard will increase the level of disclosure related to the reserve liabilities and believe that the roll forward schedules that are outlined in the proposal will provide users of financial statements with useful information regarding the movement in the reserves each period. However, we feel that some of the proposed disclosures will be repetitive in that similar information is already disclosed in the Management's Discussion and Analysis ("MD&A") of Forms 10-K and 10-Q. Specifically, we believe that the market risk disclosures in Item 7A for foreign currency and interest rates as well as some of the sensitivity disclosures around key reserve assumptions which are disclosed in the critical accounting estimates section in our Form 10-K overlap with the proposed disclosures. Additionally, we have concerns that certain disclosures may potentially provide competitive information to other insurers. We ask that the Board consider the current disclosures already provided as part of the MD&A and ensure that the disclosures are not repetitive or so detailed as to result in the release of sensitive information that may be anti-competitive.

Communication and education

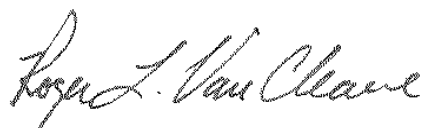
There will be a significant education process not only internally for our employees, management, and Board of Directors, but externally for the investing public, rating agencies, and analysts. The proposed financial statements differ greatly from those currently used and common performance metrics that financial statement users are familiar with, such as benefit ratios and expense ratios, will no longer be

readily available. We strongly encourage the Board to also provide education to users of financial statements, outlining the changes and explaining the revenue concepts and underwriting margin concepts under the final standard, when issued.

Our responses to the questions for all respondents and preparers of financial statements are included within the Appendix.

Thank you for your consideration of our responses.

Sincerely,

A handwritten signature in cursive script that reads "Roger L. VanCleave".

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Appendix

The following represents our comments to the questions for all respondents and preparers of financial statements.

Questions for All Respondents

Scope

Question 1: Do you agree with the scope and scope exceptions of this proposed guidance, including its applicability to contracts written by noninsurance entities? If not, what types of contracts or transactions also should be included or excluded from the scope and why?

Unum Response: We generally agree with the scope and scope exceptions of the proposed guidance, including its applicability to contracts written by noninsurance entities.

Recognition

Question 2: Do you agree with the requirements included in this proposed Update for when noninsurance components of an insurance contract, including embedded derivatives, distinct investment components, and distinct performance obligations to provide goods or services, should be separately accounted for under other applicable Topics? If not, why?

Unum Response: We are generally supportive of the requirements in the proposed guidance that would limit the “unbundling” of embedded derivatives, distinct investment components, and distinct investment performance obligations to provide goods and services that would require separate accounting under the applicable standard.

Measurement Approaches

Note: Questions 3 and 4 are for Users and therefore not applicable for Unum.

Question 5: Do you agree that entities should apply different approaches to contracts with different characteristics, described as the building block approach and the premium allocation approach? If not, which model do you think should apply and do you think there should be any changes made to that model?

Unum Response: We generally agree that entities should apply different approaches to contracts with different characteristics either under the BBA or the PAA. However, we agree with the IASB in that we see the PAA as a proxy for the BBA and believe that they should produce similar results as to how the single margin is recognized. As outlined above, we believe that the FASB’s PAA does not align with the principles of revenue recognition in that even after the contract period has ended, the insurer still has a liability to the claimant which must be fulfilled unless the obligation is transferred to another party. As a result, the revenue recognition process has not been fully completed at the end of the insurance contract period. Accordingly, we believe that the premium should be allocated over both the contract and claim payment period for certain contracts which have a long claim payment period in proportion to the release of risk, similar to the BBA. As outlined above, group long-term disability and workers

compensation are examples where the contract boundary may only be a one year period, but a claim under a group contract could result in payments for several years past the contract boundary period. Under the current PAA, we would recognize one hundred percent of the premium during the contract boundary period. However, as can be seen in our example above, there could be a material portion of the premium which should not be recognized at the end of the contract boundary when we have an insurance product with a long claim payment period. We encourage the Board to re-evaluate the proposed PAA and would recommend that insurance products which qualify for the PAA, but have a claim payment period that is substantially longer than the contract period, should recognize the premium from the contract over both the contract and claim payment period as the insurer is released from risk of the claim liability. We believe that if the Board were to make these changes, then the PAA would actually provide results that are similar to the BBA and more closely align with the Board's revenue recognition proposal.

Question 6: Do you agree that entities should be required to apply the premium allocation approach if the coverage period of the insurance contract, considering the contract boundary guidance, is one year or less? If not, what would you recommend and why?

Unum Response: As noted earlier, we do not agree with the Board's proposal that the PAA is required if the coverage period is one year or less. We believe that the insurer should have the option to use the BBA, even if the insurance contract qualifies for the PAA. There are situations in which the economics may be similar for two different products, but would fall under different valuation models due solely to length of contract. We believe that the insurer should be able to use the valuation model that most appropriately aligns with the risks and characteristics of the contract considering multiple factors including, among others, nature of the risk, length of contract and materiality.

Question 7: Do you agree that entities should be required to apply the premium allocation approach if, at contract inception, it is unlikely that during the period before a claim is incurred there will be significant variability in the expected value of the net cash flows required to fulfill the contract? If not, what do you recommend and why?

Unum Response: We believe that the expectation of a lack in significant variability prior to claim incurrals is an appropriate criterion for use of the PAA. However, as noted in our response to question 6, we do not feel that the PAA should be required.

Questions for Preparers and Auditors

Portfolio and Contract Boundary

Question 8: Do you agree with the definition of a portfolio of insurance contracts as included in this proposed Update? If not, what do you recommend and why?

Unum Response: Yes, we agree with the definition of a portfolio of insurance contracts as proposed, subject to our interpretation of the terms in the definition. We believe that the Board's principles of grouping insurance contracts that are a.) subject to similar risk and priced similarly relative to the risk assumed, and b.) have similar duration and similar expected patterns of release from risk is an appropriate principle for grouping insurance contracts. However, we have interpreted the principle of "similar risk" to mean insurance risk such as mortality and morbidity. We have interpreted the principle

of “priced similar relative to the risk assumed” to mean that regardless the age of the insured or term of the contract, the contract has been priced to provide the same or similar amount of underwriting margin. Additionally, we believe that the second criteria of “similar duration and similar expected patterns of release from risk” is closely tied to the first criterion of “similar risk and priced similarly relative to the risk assumed”. Theoretically, we do not believe that contracts that are of different durations, such as a policy issued to a 20 year old versus a 60 year old would necessarily result in creation of two separate portfolios providing both policies have similar risk (i.e. insurance risk as defined above) and priced appropriately to provide the same or similar amounts of underwriting margin. We have also interpreted this to indicate that, at least for long duration life type products, that the valuation of the liability and resulting margin would probably need to be performed at a seriatim level to insure that the margin and recognition of the margin is appropriately determined and recognized for contracts that are different in duration. As a result, the seriatim calculations obviates the need to incorporate similar duration in determination of portfolios. If this was not the Board’s intention, then we agree with other members of the industry that the proposed language should be clarified.

Question 9: Do you agree with the requirements included in this proposed Update on contract boundary (that is, the requirements that establish how to identify the future cash flows that will arise as the insurer fulfills its obligations)? If not, what do you recommend and why?

Unum Response: Yes, we agree with the requirements included in the proposed guidance on contract boundary.

Fulfillment Cash Flows

Question 10: Do you agree with the types of cash flows that would be included in the measurement of the fulfillment cash flows, including embedded options and guarantees related to the insurance coverage under existing insurance contracts that are not separated and accounted for as embedded derivatives? If not, what cash flows do you think also should be included or excluded and why?

Unum Response: We do not agree that the FASB definition of fulfillment cash flows should exclude cash flows such as deferred acquisition costs and premium taxes that are paid to third parties. We believe that these costs are integral to determining the true margin under the building block model and should be included within the fulfillment cash flows in order to provide a more accurate measure of the margin. Also, as noted in question 28, we do not agree that the direct acquisition costs presented with the margin should include only the costs directly related to the entity’s selling efforts that result in obtaining the contracts in the portfolio and that all other acquisition costs should be recognized as expenses when incurred. We believe that all costs incurred for both successful and unsuccessful efforts should be considered in determining the margin on a portfolio of contracts. We believe that inclusion of all costs provides a more accurate view of the margin on a portfolio of business. This is consistent with the IASB’s point of view as outlined in BCA53 in which they recognized that an entity typically prices an insurance contract to recover not only incremental costs, but also other direct costs and proportion of indirect costs that are incurred in originating insurance contracts. As the IASB noted, these costs are typically managed at the portfolio level rather than at the individual contract level.

Additionally the FASB’s definition of fulfillment cash flows in paragraph 834-10-55-79 seems to provide less latitude in including fixed and variable overhead as fulfillment cash flows than the IASB definition in

paragraph B66(i). We believe that these costs are integral to determining the true margin of the portfolio and should be included as part of the fulfillment cash flows.

Question 11: Do you agree that the assumptions used in the measurement of the fulfillment cash flows should be updated each reporting period? If not, what do you recommend and why?

Unum Response: Yes, we agree that the assumptions used in the measurement of fulfillment cash flows should be updated each reporting period.

Question 12: Do you agree that the fulfillment cash flows for contracts measured using the building block approach and the liability for incurred claims for contracts measured using the premium allocation approach should be based on an explicit, unbiased, and probability-weighted estimate (that is, the mean) of the future cash flows, as of the reporting date, expected to arise as the entity fulfills the contract, adjusted to reflect any contractual linkage between the contract and any underlying assets? If not, what do you recommend and why?

Unum Response: We agree with the concept of mean cash flows, but we believe that in practice there will be a variety of methods employed depending on the type of liability to implement the mean cash flow concept. In some cases a single central estimate will be used rather than multiple outcomes with probability weighting, and that central estimate will be an estimate of the mean outcome. This might be appropriate when the outcomes are symmetrical around a most likely value, or when there is a narrow range of outcomes, or when the drivers to cash flows are not related to financial markets. For other liabilities multiple possible outcomes might be measured and then probability weighted to arrive at the mean. This might be more appropriate when the outcomes are not symmetrical, when the outcomes vary significantly from period to period or when the outcomes are driven by financial market related variables.

Questions for All Respondents

Question 13: Do you agree with the approach in this proposed Update to recognize changes in estimates of cash flows (other than the effect of changes in the liability arising from changes in the discount rates) in net income in the reporting period? If not, what do you recommend and why?

Unum Response: No, we do not agree with the approach in the proposed Update that recognizes changes in cash flows (other than the effect of changes in the liability arising from changes in discount rates) in net income in the reporting period. As discussed above in the section on *locked single margin*, we believe the margin should be “unlocked” for changes in estimates of all future fulfillment cash flows (other than the effect of changes in the liability arising from changes in discount rates or from past experience). Specifically, the measurement of the liability will not provide a faithful representation of the unearned profit that would be recognized over the remaining coverage period if the margin is not adjusted to reflect changes in future fulfillment cash flows after inception. For favorable developments, unlocking the margin would also be consistent with the prohibition to recognize gains at inception.

Discount Rates and Discounting

Question 14: Do you agree that the discount rates used by the entity for nonparticipating contracts should reflect the characteristics of the insurance contract liability and not those of the assets backing that liability? Why or why not?

Unum Response: We agree with the approaches to the discount rate that are described in the exposure draft which are based on the characteristics of the liability and not of the assets backing the liability. We do see that there are interpretations to both the top down and bottom up approaches that will need to be made in implementing either approach.

Question 15: For contracts measured using the premium allocation approach, do you agree that an entity should discount the liability for incurred claims? Do you agree that an entity should be allowed to elect not to discount portfolios when the incurred claims are expected to be paid within one year of the insured event? Why or why not? If not, what would you recommend and why?

Unum Response: Yes, we agree that an entity should be allowed to elect not to discount portfolios when the incurred claims are expected to be paid within one year of the insured event because the effect of discounting is likely to be immaterial. However, we refer you back to our comments at the beginning of the letter under *Premium Allocation Approach – Revenue Recognition*, in which we point out that the proposed PAA model does not provide for appropriate revenue recognition due to the risk that is inherent to the claim liabilities after the incurral date and prior to payment. As we discussed, we believe that the liability for remaining coverage should be recognized over the premium receipt and claim payment period as the insurer is released from risk due to the uncertainty in the ultimate servicing of those liabilities.

Question 16: Do you agree that an entity should segregate the effects of underwriting performance from the effects of changes in discount rates (which would reverse over time) by recognizing changes in the present value of the fulfillment cash flows due to changes in the discount rates in other comprehensive income? If not, do you think that the effect of changes in the discount rates should be presented in net income? Please explain your reasoning.

Unum Response: Yes, we agree that an entity should segregate the effects of underwriting performance from the effects of changes in discount rates (which would reverse over time) by recognizing changes in the present value of the fulfillment cash flows due to changes in the discount rates in other comprehensive income. However, we are concerned with this proposal when compared with the FASB's proposed standard on financial instruments - classification and measurement. Because changes in liability values that result from discount rate changes will be reported through other comprehensive income ("OCI") under the proposed standard for insurance contracts, we believe in some situations the reporting of changes in asset values will not be aligned with the reporting of changes in liability values thus creating volatility in the income statement due to interest rate movements in the market. Most insurers with long-duration products such as Unum have a business strategy wherein the asset and liability cash flow match and duration match are actively managed to limit interest rate risk. We typically hold securities for significant periods of time, although not always until maturity. We currently classify those securities as available-for-sale, or what would be the equivalent of fair value through OCI ("FV-OCI"). Based on our understanding of the proposed guidance for financial instruments, we believe that several of these securities would be classified as fair value

through net income (“FV-NI”). We are opposed to the Board’s current proposal in which the business model is considered after the characteristics of the investment cash flows. We believe the current proposal could be detrimental to companies such as Unum that have applied a business strategy that is based on matching asset and liability cash flows. If the Board does not modify the proposed language, it is likely that insurers such as Unum may alter their investment strategies to avoid the income volatility, thus allowing accounting to drive economic decisions. We do not believe this would be beneficial to policyholders or investors, nor would it provide users of financial statements with improved financial information. We are not proposing that the insurance accounting standard be changed, but we are requesting the Board to reconsider its proposal regarding financial instruments to ensure the standards are aligned in the reporting of interest rate changes.

Question 17: Because the proposed guidance includes the approach under which changes in the insurance liability arising from changes in the discount rates should be recorded in other comprehensive income, do you think that a test should be required to trigger recognition in net income of some or all of the amounts in accumulated other comprehensive income (that is, a loss recognition test based on asset-liability mismatches)? Why or why not?

Unum Response: No, we do not believe that a separate test should be required to trigger recognition in net income of some or all of the amounts in accumulated other comprehensive income. To do so would over complicate an already complex standard and complicate the calculation of OCI for changes that automatically reverse over time.

Question 18: Do you agree that the method for calculating the discount rates should not be prescribed? Is the proposed guidance on determining the discount rates understandable and operable? If not, what do you recommend?

Unum Response: Yes, we agree that the method for calculating the discount rates should not be prescribed and we feel that the proposed guidance on determining the discount rate is understandable and operable.

Question 19: Do you agree that interest expense generally should be based on the discount rates determined at the date the portfolio of contracts was initially recognized? Why or why not? If not, what do you recommend?

Unum Response: Yes, we agree that the interest expense should be based on the discount rates determined at the date the portfolio of contracts was initially recognized because theoretically, the changes in the liabilities due to movements in interest rates recorded in other comprehensive income should align with the changes in the financial instruments due to movements in market interest rates which are also generally recorded in other comprehensive income provided they will pass the SPPI test under the financial instruments proposed standard. This underlying matching of assets and liabilities is fundamental to insurance companies.

Question 20: Do you agree that upon any change in expectations of the crediting rates used to measure the insurance contract liability for insurance contracts with discretionary participation features, the interest accretion rates should be reset in a manner that recognizes any changes in estimated interest crediting and related expected cash flows on a level-yield basis over the remaining life of the contracts? If not, what do you recommend?

Unum Response: Unum does not have insurance products that are directly linked to asset returns and we have not been able to allocate as much time to understanding the proposed standard for these types of contracts. However, our understanding is that the FASB “mirroring” model appears to be less complex and easier to implement than the IASB’s proposal, but we understand that there are also concerns with the FASB model. We would encourage the Board to re-evaluate the current proposal to ensure that the guidance is clarified. Additionally, we would encourage the IASB to work with the FASB to try and develop a converged “mirroring” model to facilitate implementation.

Margin for Contracts Measured Using Building Block Approach

Question 21: Do you agree that an insurer should not recognize a gain at initial recognition of an insurance contract (such a gain would arise when the expected present value of the cash outflows is less than the expected present value of the cash inflows) but, rather, should defer that amount as profit to be recognized in the future? Why or why not?

Unum Response: Yes, we agree that an insurer should not recognize a gain at initial recognition of an insurance contract but, rather, should defer that amount as profit to be recognized in the future as the insurer is released from risk for the same reasons that the Board outlined in their basis for conclusions in paragraph 197 of the proposal. However, as we mentioned in our opening remarks as well as to question 13, we believe that the single margin should not be locked.

Question 22: Do you support using a one-margin approach, as is included in this proposed guidance, or an explicit risk adjustment and a contractual service margin (as the IASB proposes)? Please explain the reason(s) for your view.

Unum response: Unum supports using a single-margin approach, as is included in the proposed guidance, as opposed to an explicit risk adjustment and a contractual service margin as proposed by the IASB. The reason is that we agree with the Board’s assessment in the basis for conclusion, paragraph 197 which states “that expected profit, in its entirety, is at risk because of the uncertainty in the expected cash flows (that is, the actual cash flows will not be the same as the expected cash flows)”. We believe that that a single margin is easier for the financial statement reader to understand, however, we appreciate the points of the risk margin, especially when one considers it with insurance products such as group long-term disability. As we outlined in the first section of this letter, even though these types of products would qualify for the PAA, there is still risk to the insurer after the contract period for incurred claims due to several factors that might affect the ultimate claim liability. As we discussed previously, and as the Board agreed in their basis for conclusions in paragraph 197, there is risk to the ultimate profit due to uncertainty in the expected cash flows. For this reason, we believe that there is merit to the IASB’s two margin approach. The risk margin under the IASB model accounts for the risk that is inherent to changes in the liability amounts even after the claim has been incurred. As we have previously stated, recognizing the liability for remaining coverage over the contract period and claim payment period as the insurer is released from risk under the PAA when the claim payment period is expected to extend significantly past the contract period would account for the risk that is inherent in the claim tail and better align the revenue recognition models under the BBA and PAA.

Question 23: If you support a risk adjustment and a contractual service margin, do you agree with the IASB’s approach to adjust the contractual service margin for changes in estimates of cash flows? Why or

why not? Do you agree with the IASB's approach to not specify acceptable approaches to determine the risk adjustment? Why or why not?

Unum Response: We agree that the financial statements will provide relevant information if differences between the current and previous estimates of the present value of future cash flows related to future coverage and other future services are reflected as an adjustment to the contractual service margin, until there is no remaining margin.

We also agree with other insurers that changes in the risk adjustment related to future coverage and other future services should also be recognized against the contractual service margin. We believe it is possible to disaggregate the changes in the risk adjustment between changes related to incurred claims, changes related to the expiration of risk and changes related to future coverage. We believe that recognizing the changes in the risk adjustment for future coverage against the contractual service margin is conceptually consistent with adjusting the contractual service margin for changes in expected future cash flows, which would be more reflective of the estimated unearned profit in a contract.

We agree with the IASB's approach to not specify acceptable approaches to determine the risk adjustment primarily because we do not necessarily believe that one method works for all products due to the inherent risks in each product.

Question 24: Do you agree that a loss at initial recognition of a portfolio of insurance contracts should be recognized immediately in net income (such a loss would arise when the expected present value of the cash outflows exceeds the expected present value of cash inflows)? Why or why not?

Unum Response: Yes, we agree that a loss at initial recognition of a portfolio of insurance contracts should be recognized immediately in net income and that recognition of the expected loss is consistent with the general loss recognition criteria utilized through U.S. GAAP. However, we do have concerns with the interpretation of portfolios as it pertains to determining whether or not there is an onerous portfolio. As we discussed in the section on *Onerous contract – level at which test is performed*, we would encourage the Board to provide guidance that would continue to apply the principles of a portfolio, but allow for testing of onerous contracts at a higher level than on a quarterly basis. At a minimum, we believe that the onerous contract test should be applied to annual portfolios, even though the use of quarterly portfolios will be necessary for measurement purposes of determining the single margin as well as changes in the liability balance due to movements in discount rates.

Questions for Preparers and Auditors

Question 25: Do you agree with the proposed method(s) of recognizing the margin (that is, as the entity is released from risk under the insurance contracts as evidenced by a reduction in the variability of cash outflows)? If not, what do you suggest and why?

Unum Response: Yes, we agree with the proposed method(s) of recognizing the margin.

Question 26: Do you agree that interest should be accreted on the margin and therefore affect insurance contract revenue? If not, why?

Unum Response: Yes, we believe that interest should be accreted on the margin. However, we believe that the interest accretion on the margin should be combined with the interest accretion on the other building block cash flows and reported as interest expense. This will then provide the financial statement reader with the spread between interest revenue on the investments and interest expense on the insurance liabilities.

Question 27: Do you agree that if the expected cash outflows (including qualifying acquisition costs) of a portfolio of insurance contracts will exceed the expected cash inflows, an entity should recognize the remaining margin immediately in net income? Why or why not?

Unum Response: No, we do not agree that if the expected cash outflows (including qualifying acquisition costs) of a portfolio of insurance contracts will exceed the expected cash inflows, that an entity should recognize the remaining margin immediately in net income. As discussed in the *Onerous contracts* section above, we believe it is counter-intuitive to recognize a gain (or the remaining margin) at a point in time in which the contract has actually been determined to be onerous. As we have discussed previously in this letter, we believe that a more appropriate manner to reflect changes in forward cash flows is to unlock the single margin. By unlocking the single margin for changes in future cash flows, the financial statements present a clearer picture of what has occurred without the confusing recalibration of earned premium.

Acquisition Costs

Question 28: Do you agree that the direct acquisition costs presented with the margin should include only the costs directly related to the entity's selling efforts that result in obtaining the contracts in the portfolio and that all other acquisition costs should be recognized as expenses when incurred? If not, what do you recommend and why?

Unum Response: We do not agree that the direct acquisition costs presented with the margin should include only the costs directly related to the entity's selling efforts that result in obtaining the contracts in the portfolio and that all other acquisition costs should be recognized as expenses when incurred. We believe that all costs incurred for both successful and unsuccessful efforts should be considered in determining the margin on a portfolio of contracts. We believe that inclusion of all costs provides a more accurate view of the margin on a portfolio of business. This is consistent with the IASB's point of view as outlined in BCA53 in which they recognized that an entity typically prices an insurance contract to recover not only incremental costs, but also other direct costs and a proportion of indirect costs that are incurred in originating insurance contracts. As the IASB noted, these costs are typically managed at the portfolio level rather than at the individual contract level.

Additionally, we believe this was an area where the two Boards could converge. As we have mentioned before, implementing two different versions of the standard, including different DAC models, for U.S. GAAP reporting and for IFRS reporting is an onerous process that could be simplified if the Boards could agree on a few key concepts such as DAC.

Question 29: Do you agree that the measurement of the margin for contracts measured using the building block approach and the liability for remaining coverage for contracts measured using the premium allocation approach should be reduced for direct acquisition costs incurred? If not, what do you recommend?

Unum Response: We agree that the measurement of the margin for contracts measured using the building block approach and the liability for remaining coverage for contracts using the premium allocation approach should be reduced for direct acquisition costs incurred. However, we disagree with the method in which the margin is adjusted under the building block approach for direct acquisition costs. While we appreciate that the Board believes that there is a distinction between costs to fulfill the contract and costs to obtain a contract, we believe that the resulting “gross margin” and “net margin” concepts are over complicated. We believe that the direct acquisition costs should be included along with the fulfillment cash flows to determine one margin. We believe this is consistent with the portfolio concept and eliminates complexity from the actuarial and financial reporting models. Additionally, including DAC as part of the fulfillment cash flows in determining the margin allows the insurer to more easily report variances in current period expenses as well as changes to future DAC amounts. As the standard is currently proposed, it is unclear how to report a variance in DAC amounts when it is a component of the single margin.

Question 30: Do you agree that an entity should recognize acquisition costs as an expense in net income in the same pattern that it recognizes the margin for contracts measured using the building block approach or in the same pattern that it reduces the liability for remaining coverage under the premium allocation approach? If not, why not?

Unum Response: Yes, we agree that an entity should recognize acquisition costs as an expense in net income in the same pattern that it recognized the margin for contracts measured using the building block approach or in the same pattern that it reduces the liability for remaining coverage under the premium allocation approach. We believe that this method of recognition aligns with the revenue/expense matching concept.

Insurance Contract Revenue

Questions for all Respondents

Question 31: Do you agree that users of financial statements would obtain relevant information that faithfully represents the entity’s financial position and performance if, in net income, for all insurance contracts, an entity presents insurance contract revenue and incurred expenses, rather than only information about changes in margins (that is, the net profit)? If not, why not?

Unum Response: Yes, we agree that the users of financial statements obtain more relevant information that represents the entities financial position and performance if an entity presents insurance contract revenue and incurred expenses, rather than only information about changes in margins.

Question 32: Do you agree that, for all contracts, revenue should exclude any amounts received that an entity is obligated to pay to policyholders or their beneficiaries regardless of whether an insured event occurs and that expenses should exclude the corresponding repayment of those amounts? If not, what do you recommend? Please specify whether your view depends on the type of contract.

Unum Response: Yes, we agree that revenue should exclude any amounts received that an entity is obligated to pay to policyholders or their beneficiaries regardless of whether an insured event occurs and that expenses should exclude the corresponding repayment of those amounts.

Question 33: For contracts measured using the premium allocation approach, do you agree that if the contract has a financing component that is significant to the contract, an entity should adjust the liability for remaining coverage to reflect the time value of money and recognize the accretion of interest with insurance revenue? Do you agree with the practical expedient that an entity should not be required to reflect the time value of money in measuring the liability for remaining coverage (that is, if the entity expects, at contract inception, that the time period between when the policyholder pays all or substantially all of the premium and when the entity provides the corresponding part of the coverage is one year or less)? If not, what do you recommend and why?

Unum Response: Yes, we agree that it is appropriate to reflect the time value of money and recognize the accretion of interest with insurance revenue if there is a financing component. We also agree with the practical expedient.

Questions for Preparers and Auditors

Question 34: For contracts measured using the building block approach, does this proposed Update contain sufficient guidance on how to determine insurance contract revenue in accordance with the principle that it should be allocated between reporting periods as performance obligations are satisfied over time (that is, to allocate consideration between periods by reference to the relative value of the services provided in each period)? If not, explain what additional guidance is necessary.

Unum Response: Yes, the proposed Update contains sufficient guidance as to how to determine insurance contract revenue in accordance with the principle that it should be allocated between reporting periods as performance obligations are satisfied over time.

Reinsurance

Question 36: Do you agree that a cedant should record a margin if the expected present value of the cedant's future cash inflows exceed the expected present value of the cedant's future cash outflows (thus prohibiting the recognition of a gain at inception upon entering into a reinsurance arrangement) for (a) retrospective reinsurance contracts accounted for using either the building block approach or the premium allocation approach and (b) prospective reinsurance contracts accounted for using the building block approach? If not, what do you recommend and why?

Unum Response: We agree that for prospective reinsurance contracts that the approach proposed provides a consistent picture of the economic transactions that are occurring. The proposal requires that gains or losses determined at inception be amortized into income over the life of the business. We believe that this appropriately allows for the recognition of the impact of the reinsurance over the period the coverage is being provided. However, we believe that when the assumptions change, the impact should be to adjust the margins that were created at time zero since the changes in assumptions do not impact current earnings, but would rather appear over time.

We also believe that a practical expedient is needed for transition of existing reinsurance policies when data is not available to construct a BBA cash flow model, such as on old ceded indemnity reinsurance contracts where the reinsurer administers the business. In this example, the ceding company has limited data to construct a BBA model, and the reinsurer may not be required under the existing

reinsurance contract to provide the data. One recommendation that we have heard which seems reasonable is to provide a practical expedient similar to that found in FIN 46R to allow carryover of pre-transition accounting for these situations.

For retrospective reinsurance the proposal is the opposite of current practice but we understand how this would align with the Board's thoughts on onerous contracts.

Question 37: Do you agree that a cedant should estimate the fulfillment cash flows (including the ceded premium) for a reinsurance contract using assumptions consistent with those used to measure the corresponding fulfillment cash flows for the underlying insurance contract or contracts, without reference to the margin on the underlying contracts? If not, what would you recommend and why?

Unum Response: Yes, we agree that the cedant should estimate the fulfillment cash flows using assumptions consistent with those used to measure the corresponding fulfillment cash flows for the underlying insurance contract without reference to the margin on the underlying contracts.

Insurance Contracts Acquired in a Business Combination

Question 38: Do you agree that entities should record a loss at the acquisition date in the amount by which any excess of the asset and liability balances related to insurance contracts measured in accordance with the guidance in this proposed Update exceeds the fair value of those assets and liabilities? Do you agree that entities should record a margin (not an immediate gain) for the amount that the fair value of the asset and liability balances exceeds those assets and liabilities measured in accordance with the guidance in this proposed Update? If not, do you think an entity should instead increase or decrease goodwill for the differences between the fair value and the measurement in accordance with the guidance in this proposed Update on those assets and liabilities? Why or why not?

Unum Response: Yes, fundamentally we agree with the principles of the proposed standard and believe that it can be applied when a line of business is acquired. However, we believe that it will be more difficult to apply the standard when a company is purchased and the purchase price allocation is performed.

Contract Modifications

Question 39: Do you agree that for a substantial modification (a) an entity should recognize a gain or loss as the difference between the measurement of the modified contract using the current entity-specific price that the entity would hypothetically charge the policyholder for a contract equivalent to the new contract and the carrying amount of the existing contract and (b) that the carrying amount of the existing contract should be derecognized? If not, what do you recommend?

Unum Response: As we understand the proposed guidance, a "substantial modification" that would most likely apply to our products would be defined in paragraph 834-10-55-170 (c) as a change in "the insured event, risk or period of coverage in the kind and degree of mortality risk, morbidity risk, or other insurance risk, if any". However, we believe that it may be difficult to determine if contract changes would meet the "substantial modification" criteria. The key difference in determining how to account for the change is whether the modification is "substantial" or not. If the change is determined to be "substantial", then the insurer must calculate a gain/loss on the modification. If the change is

determined not to be “substantial” then the insurer would treat the change as a new contract and simply add the new margin to the existing margin. Complicating the matter in determining what amount of gain or loss should be recognized when a contract change has been determined to be substantial is the fact that the margin is may be determined at a portfolio level and not necessarily at the individual contract level. As a result, the gain or loss amount would be an estimate. However, we can appreciate that the locked single margin probably precipitated the need to determine if there was a gain or loss on the contract modification. We believe a better alternative would be to unlock the single margin as we have discussed previously thus simplifying any changes in contacts by resulting in changes in future cash flows. This would eliminate the need to try and calculate an imprecise gain or loss on the contract modification.

Questions for all Respondents

Presentation

Question 40: Do you agree with the presentation requirements included in this proposed Update? If not, what would you recommend and why?

Unum Response: With the exception of the locked single margin, we agree that the presentation requirements included in this proposal probably meet the Board’s intent. However, as we discussed earlier, we do not agree with the locked single margin or the resulting “recalibration” of earned premium that will be required every time due to differences in persistency or movements in inventory. We believe this process is overly complex and does not provide the financial statement reader useful information. We believe changes in the underlying reserves are more accurately and understandably explained by adjusting the single margin to be recognized. We also believe that these changes will be adequately captured by the roll forwards that will need to be prepared. The changes to systems and processes to prepare the information necessary for the presentation requirements will not be an easy task and will require significant costs to comply. Complicating this matter is the application of the portfolio concept. As we mentioned earlier, it has been interpreted that quarterly portfolios will be required to comply with the financial statement presentation requirements. As we discussed earlier, we believe that applying the unit of account may result in many more onerous contracts just due to the law of small numbers. Additionally, feedback that we have either received or seen from analysts indicates that the change in presentation is overly complex and will result in costs incurred not only by the insurance companies to comply, but also by the analysts as they will have to revamp their models used for comparison purposes. Also of concern, is the loss of certain key financial measures (loss ratio, expense ratio) that have predominate measures within the insurance industry. There is belief that the use of non-GAAP disclosures will increase as a result of the proposed standard and that insurers will continue to maintain two sets of GAAP books so that they can assess their business on the old GAAP as well as the new GAAP.

Disclosure

Question 41: Do you agree with the disclosure requirements included in this proposed Update? If not, which disclosure requirement(s) would you change and why? Are there any additional disclosures that would provide decision-useful information and why? Do you think that any of the disclosure requirements included in this proposed Update would not provide decision-useful information and should not be required? If so, which ones and why?

Unum Response: We believe that the Boards proposal has effectively considered every possible disclosure that might be imagined. We fully expected that the level of disclosure would expand given the minimal amount of items disclosed in current financials compared to other accounts such as investments. While we believe that some of the disclosure is helpful to the reader, such as the roll forwards of the insurance contract liability, margins and reinsurance. However, we feel that other disclosures, such as the market risk disclosures in Item 7A for foreign currency and interest rates as well as some of the sensitivity disclosures around key reserve assumptions which are disclosed in the critical accounting estimates section are better suited in the MD&A of Forms 10-K and 10-Q for publicly traded companies. We believe that the disclosures related to Expected Cash Flows in paragraph 834-10-50-21 are already included in MD&A and does not need to be repeated in the notes. We are concerned that the level of disclosures around Inputs, Judgments and Assumptions for our product lines may actually give away competitive information. We believe that as long as the level of disclosure is similar to information that is already provided in MD&A, it should be fine, but we have concerns that the more material the line of business to our overall results, the greater the level of detail that will be required in the disclosures. As a result, we feel that this will actually put us at a competitive disadvantage to competitors which have smaller, less materials lines of business. The disclosures around Risks beginning in paragraph 834-10-50-28 seem to replicate the same risk disclosures that are already included as part of the Form 10-K and 10-Q. In order not to be repetitive, is it suggested that only non-public insurers be required to provide this information. Additionally, we have concerns over the auditor's ability to audit such information as this type of information is subjective and may vary from insurer to insurer.

Effective Date and Transition

Questions for Preparers and Auditors

Question 42: The Board will establish the effective date of the requirements when it issues the final amendments. However, the Board is interested in determining the key drivers affecting the timing of implementation. What are those key drivers? How do those drivers affect the time it will take to implement this proposed guidance?

Unum Response: There are several key factors that will affect the timing of implementation. Most importantly will be the development of models which are capable of projecting cash flows for contracts under the building block approach. Additionally, there are changes that will be necessary to the financial reporting model, close process and internal control processes. All of these changes will require time and the use of internal or external resources. The determination of the transition of the in-force block is expected to be a significant estimation process which will require a considerable amount of time. Additionally, there is the detail assessment that will be necessary to evaluate the difference of key financial and valuation drivers under existing and proposed GAAP. It will be necessary to consider the business implications of the change in accounting principal as well as the education of both internal and external parties. While we will continue our efforts to understand and to prepare for transition as much as possible between now and when the final standard is issued, there is only so much that we can do realizing that there will be some changes. We believe that it will take at least three to five years from the date of the final standard. It could possibly take longer given the other significant changes that might occur as a result of new accounting standards or other regulatory efforts. Additionally, the availability of resources, especially in the actuarial field, will significantly impact the ability to prepare for adoption. We also believe that it is imperative that both the FASB and IASB perform full testing of all of the different insurance products under the proposed standard to ensure that it actually works and

produces intuitive financial results. Only after this testing has been completed, should a final standard be issued. If the Board's were to issue final standards prior to full testing, the issues that may result during the implementation phase will require the individual companies to work with either their auditors, or other insurers to try and interpret and deal with any issues that were not appropriately considered by the Boards.

Question 43: Do you think the effective date should be the same for both public and nonpublic entities? Do you think the effective date should be the same for regulated insurance entities and other entities that issue insurance contracts within the scope of this proposed guidance? Why or why not?

Unum Response: Yes, we believe the effective date should be same for public and nonpublic entities. We also believe that the effective date should be the same for regulated insurance entities and other entities.

Question 44: Do you agree that the practical expedients relating to transition included in this proposed guidance are sufficient for retrospective application (that is, are the transition provisions in this proposed guidance operable)? If not, what would you recommend and why?

Unum Response: Based on our understanding of the practical expedients, we believe that they are sufficient for retrospective application. However, due to the high degree of good-faith estimates that will need to be utilized to transition blocks of business that have existed since the 1920s and 1930s, we have concerns regarding the accounting firms' audit of those estimates. We believe more field work will be necessary to better appreciate the complexity the required estimates. Additionally, we believe that unlocking the single margin could actually make retrospective adoption easier and allow insurers to use the benefit of hindsight when determining the amount of margin that remains in the business and the expected recognition of that margin.

Question 45: For business combinations that occurred before the transition date, is the requirement included in this proposed Update on reallocating the fair value of the asset and liability balances related to insurance contracts between the expected fulfillment cash flows and the margin operable? Why or why not? If not, what would you recommend and why?

Unum Response: We believe that the guidance is probably operable, but we have not been able to perform any testing to validate that it is operable.

Note: Question 46 is for users and auditors and therefore not applicable to Unum.

Questions for Preparers

Question 47: Describe the nature of the incremental costs of adopting the guidance in this proposed Update, distinguishing between one-time costs and ongoing costs. Explain which aspects of the guidance in this proposed Update are driving those costs and include ideas to make the proposal more cost effective.

Unum Response: As we mentioned before, Given the complexity of the proposed standard and the necessary modifications to reserving systems and financial reporting, as well as data storage and metric development that will be necessary to adopt the proposed standard, transition is expected to be very

time consuming and costly. During the comment period, several of the major accounting firms have stated publicly that they expect the implementation of this proposal to be even more expensive than the efforts that European insurers incurred in adopting IFRS. In most cases, companies that adopted IFRS spent several million dollars to comply with the new accounting basis. Using the costs that we have incurred in preparing for Solvency II, we would expect the costs to be incurred for adoption of this proposed standard to range between \$5 to \$15 million dollars. Adding to the complexity and cost of implementation is the fact that we will have to effectively adopt two different insurance standards for our UK subsidiary unless convergence of the standards is achieved.

Even after we adopt the proposed standard, we believe that there will still be on-going costs associated with maintaining legacy systems for comparison purposes along with statutory and tax reporting. It is unclear what the additional data storage requirement will be, but given the number of valuations runs that will be necessary as well as the increased number of portfolios, we expect our costs for data storage to increase over current costs. There is also the possibility that additional resources will be necessary to complete the necessary analysis for quarterly and annual reporting timelines. These costs are uncertain at this time but the increase in financial disclosure will increase the amount of analysis that will be necessary each quarter.

Question 48: Describe the nature of the incremental costs of auditing the financial reporting requirements included in this proposed Update, distinguishing between one-time and ongoing costs. Explain which aspects of the model in this proposed Update are driving those costs.

Unum response: While this question was intended for the auditors, we fully expect that this will increase our annual audit fees because of the increased number of disclosures that will have to be audited. Additionally, the additional portfolios that will be created and valued will only increase the auditor's efforts necessary to issue an opinion on the financial statements.