ALLIED WORLD ASSURANCE COMPANY

October 24, 2013

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2013-290 – Proposed Accounting Standards Update, *Insurance Contracts (Topic 834)*

Allied World Assurance Company Holdings, AG ("Allied World," "we," "us," or "our") appreciates the opportunity to comment on the Proposed Accounting Standards Update, *Insurance Contracts (Topic 834)* ("Proposed ASU" or "Proposal"). We support the efforts of both the Financial Accounting Standards Board ("FASB") and the International Accounting Standards Board ("IASB") in developing a comprehensive standard addressing measurement, presentation and disclosure of those products deemed to be insurance with the objective of promoting consistency and comparability amongst those entities that have products accounted for as insurance contracts. While this standard can apply to any entity, not just insurance companies, we also appreciate the massive effort undertaken by both Boards to address consistency and comparability of insurance companies around the world. As we all know, the Proposed ASU will be a fundamental change for the global insurance industry, and that is why the final standard needs to be vetted, debated and well understood as we enter these unchartered waters.

Allied World is a global property and casualty insurance and reinsurance company, with revenues of $2.2 billion for the year ended December 31, 2012, and as such we will focus our responses to the questions included in the Proposed ASU to those that we believe will have the most significant impact to our operations. Appendix A provides our detailed responses to the questions contained in the Proposal. In our responses we have, where applicable, provided suggestions on how to improve the Proposed ASU or have asked for additional clarity be added to the final standard. Appendix B provides additional observations not specifically addressed in the questions provided. Below is a summary of our most significant observations:

- We strongly encourage the FASB and IASB to continue to work together to eliminate differences between their respective standards on insurance contracts, and therefore, have one globally consistent standard. The operational burden and related cost of maintaining financial statements for our international insurance operations that report under International Financial Reporting Standards and then having to convert those financial statements to U.S. Generally Accepted Accounting Principles ("U.S. GAAP") would be significant and without any incremental benefit to our overall financial reporting. We believe that convergence, through compromise, outweighs having two different standards that the Boards believe are the "conceptually" correct accounting consequence.

- While this Proposed ASU has sound theoretical accounting merit, we believe overall, this standard significantly increases the complexity in recording insurance contracts each reporting period as well as understanding the performance of our business. Examples of such complexity that does not exist today include the potential of having multiple measurement models for our business, unbundling components of our insurance contracts, applying explicit, unbiased, probability weighted cash flows for determining the fulfillment cash flows as it relates to the liability for incurred claims, the use of discounting and the related changes in discounting, determining estimated returnable amounts, and the overall increased disclosure burden. While we recognize the Board has attempted to carefully consider the balance between the conceptual accounting merit of measuring certain items with the practical application, we feel strongly that the the points noted in our detailed responses will help foster additional consideration around the complexity of some of the provisions included in this Proposal.

- In an environment where there is constant pressure to provide financial information to the users of our financial statements faster than ever, this Proposed ASU would, in our estimation, add significant time to our current closing process, and therefore delay our ability to provide timely financial information compared to what we have done historically.

- As currently drafted, the implementation of this Proposed ASU at Allied World would be at a significant cost. Our initial cost estimate to implement this Proposed ASU is over $5.0 million. That cost estimate does not include internal resources that will be committed to the implementation, nor does it include the cost of adopting other accounting standards (e.g., financial instruments). Please see our response to question 47 for additional details.

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Thank you for the opportunity to present our views. Please contact me at (646)794-0587, or kent.ziegler@awac.com, or Joe Roesler at (646)794-0674, or joseph.roesler@awacservices.com, if you have any questions, and if you would like us to participate in any roundtable discussions you intend to have.

Very truly yours,

Kent W. Ziegler

Kent Ziegler
Senior Vice President and Chief Accounting Officer
Allied World Assurance Company Holdings, AG

cc: Tom Bradley
Executive Vice President and Chief Financial Officer
Allied World Assurance Company Holdings, AG

Joseph Roesler
Vice President, SEC and GAAP Reporting
Allied World Services Company

APPENDIX A

RESPONSES TO FASB QUESTIONS ON PROPOSED ASU

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 type of contracts or transactions also should be included or excluded from the scope and why?

We believe that the scope of this Proposed ASU should be limited to those entities that are regulated as insurance entities in the jurisdictions in which they provide insurance protection. Broadening the scope of insurance to also include non-insurance regulated entities will not increase comparability, but will only cause confusion in understanding the financial statements of those entities. We believe that the insurance industry has unique characteristics (e.g., the long-term nature of indemnifying the policyholder) that have historically required its own specialized accounting and that specialized accounting continues with this Proposed ASU. Including other non-regulated insurance entities within the scope of a standard that is a form of specialized accounting does not promote consistency and comparability across a broad spectrum of different industries. We recommend consideration be given to those products that are issued by non-regulated insurance entities that meet the definition of an insurance contract to determine whether they are better suited to be accounted for under the proposed standards on revenue recognition, financial instruments or other more applicable guidance.

Paragraph 834-10-55-17 in the Proposed ASU states, "Financial statements should reflect the economic substance of the contracts and not merely the legal form." We agree with this statement and we agree with the proposed guidance on determining which contracts meet the definition of insurance, but we believe the application of this standard should be limited to those entities that are regulated as insurance entities. Ideally all entities would apply Topic 606, which would achieve one of the Board's objectives of reducing industry specific guidance, but as noted in BC 11, "The Board observed that the revenue recognition guidance might provide decision-useful information for some insurance contracts, but not for all of them. Therefore, the Board decided to address accounting for insurance contracts in a separate project." Including within the scope of the Proposed ASU other entities that offer products that may meet the definition of an insurance contract only adds to the use of industry specific guidance. Furthermore, the notion of "primary business purpose of the entity" is referenced in the proposed ASU related to scope exceptions for guarantees between related parties or entities under common control (see 834-10-55-42). We recommend the notion of "primary business purpose of the entity" could also be applied in general for whether this Proposed ASU is applicable to others that are not regulated as insurance entities. It is not clear why the Board decided to use the notion of "primary business purpose of the entity" just for guarantees and not for other aspects of applying the Proposed ASU.

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?

We agree in principle with the requirements to separately account for noninsurance components of an insurance contract, but have the following additional observations:

- The Proposed ASU could be enhanced to make clearer as to when an entity would determine whether the contract meets the definition of an insurance contract. Meaning, is that assessment done before or after the noninsurance components are separated from the insurance contract? If the assessment is done before the noninsurance components are separated it would appear then cashflows unrelated to fulfilling the insurance obligation would be used to determine whether a contract meets the definition of an insurance contract. It would seem to us that it is more appropriate to separate the noninsurance components first and then determine whether the insurance components meet the definition of an insurance contract using the implementation guidance contained in the Proposed ASU. We realize that paragraph 834-10-25-10 makes clear that an insurance contract is what remains after you separate the noninsurance components, but we believe for ease of use that guidance should be moved to the beginning of the "Recognition" section of the Proposed ASU so as to avoid confusion on how to assess if an insurance contract contains significant insurance risk.

- In certain of our insurance contracts we provide certain services to the insured (e.g., engineering surveys or a review of hospital beds to determine optimal admittance) that are implicit in the premium we charge. We do this as a way to differentiate our service to compete on a basis other than pricing. The offering of these "additional benefits" changes from time to time and is predicated on prevailing market conditions, and as such are not always offered or offered with different terms and conditions. We are concerned, based on the guidance in paragraphs 834-10-25-5 to 25-7 that in certain periods these additional services would be separated from the insurance contract, while in other periods they would not. The primary reason is that in some periods we rely on those additional services as an input in the underwriting of the policy, while in other periods we do not. We believe once this guidance is applied our underwriting income will be distorted from period to period. This may also have the unintended consequence of limiting our ability of offering these additional services, and therefore competing just on price. As a result, we will need to assess whether we continue to write this type of business. We recommend that the guidance related to performance obligations be clear, or practical expedient be added, that states services included in property and casualty insurance contracts related to loss or risk mitigation services are considered to be integrated into the insurance contract irrespective of whether it is an input to produce the output specified in the insurance contract.

Measurement Approaches

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?

Yes, we believe there should be different measurement models for property and casualty insurance contracts and life and retirement contracts, which are best suited for the premium allocation approach ("PAA") and the building block approach ("BBA"), respectively. The timing and amount of indemnity payments for property and casualty insurance contracts are different than life and retirement contracts. In general, the timing and amount of indemnity payment for property and casualty insurance contracts are variable over the life of the contract and predicated on the insured event occurring and the magnitude of the loss, which may not be known for many years after it may have occurred. Whereas, in general, life and retirement contracts will pay a fixed amount (e.g., death benefit) either when someone dies or when a scheduled retirement payment is due to the policyholder. Since the purpose of insurance is to provide compensation for risks covered, the accounting models applied should recognize the distinctions in how that insurance protection is provided. Please refer to our responses to questions 6 and 7 for additional considerations regarding the application of the PAA.

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, is one year or less? If not, what would you recommend and why?

We agree as a starting point for determining which contracts are best suited for the PAA, insurance contracts with coverage periods of one year or less should apply the PAA. This would allow a significant number of property and casualty insurance contracts to be accounted for under the PAA. However we also have a significant portion of our business that has coverage periods greater than one year. We do not believe that reporting a portion of our business under PAA and another portion under BBA provides decision-useful information to the users of our financial statements. One reason for that is that we believe it is unlikely that we would use the BBA as the management measure of underwriting performance for those insurance contracts accounted for as such and would treat those insurance contracts accounted for under the BBA as if they applied the PAA. As a result, we could potentially have a management reporting structure that reports under a different basis than we report externally. It would also potentially cause our segment results to be on a different basis than our consolidated results with the necessary reconciliation between the two. If management does not rely on the BBA measurement model for assessing the performance of its insurance contracts, it would seem that users of our financial statements would place less reliance on it as well.

Another concern with the application of this requirement is the consistency of using the PAA and BBA from period-to period. Using an example, if in one period we write an insurance contract with a coverage period of twelve months we would account for that under the PAA, but then when the same contract is renewed the following year the coverage period is for three years. Assuming the coverage provided stays the same (i.e., the same risks are being insured), but for a longer period of time, there is a potential that the same contract would be measured under the BBA. We do not believe this inconsistency from period-to-period provides decision useful information to the users of our financial statements and we envision having to provide additional disclosures so that users can better understand why there is a shift from PAA to BBA from period-to period. See our response below to Question 7 for suggestions in how to improve the requirements to apply the PAA or BBA.

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?

We do not believe the proposed guidance in paragraph 834-10-25-18(b), along with the application guidance in paragraphs 834-10-55-52 to 55-53, is sufficiently clear enough for us to implement on a consistent basis. Below are some of the practical issues with the proposed guidance:

- It would appear that the determination of whether 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 to fulfill the contract is performed at the contract level, not at the portfolio level. We believe this would necessitate changes to our front-end underwriting systems to identify certain characteristics for each insurance contract that would then allow us to determine if the insurance contract should be measured under the PAA or BBA. This would not only create a significant cost to make changes to our front-end systems, but it would also add time to our financial close process as we would need to make a judgment as to whether an individual contract should be accounted for as PAA or BBA and then we would need to design a process that then takes those contracts accounted for as PAA and measure them under the proposed guidance and do the same process for contracts accounted for as BBA (this assumes most policies are bound at the end of the reporting period; see next bullet below for additional considerations). We also believe this will increase the amount of audit work as our auditors would need to review our judgments each reporting period.

- Assuming that the determination noted above is performed at a contract level, we do not think it is practical to perform that assessment at contract inception. Assuming that contracts are bound throughout the reporting period, finance personnel would be required to review individual characteristics of each contract to determine if it should be measured under the PAA or BBA. That would require additional headcount to perform that assessment throughout the year. In commercial insurance, there can be a significant amount of renegotiations when contracts are renewed, and therefore consideration of whether BBA or PAA is applicable, so we believe this incremental work would be significant.

- It is not clear to us the distinction between “significant variability in the expected value of the net cash flows” and “significant insurance risk” as defined in paragraph 834-10-55-9. We believe one could argue that if an insurance contract is determined to have “significant insurance risk” then it would always have to have “significant variability in the expected value of the net cash flows”. The question then really becomes in applying paragraph 834-10-25-18(b) whether that variability is likely to occur before a claim is incurred or not.

- The indicator noted in paragraph 834-10-55-52(b) could lead to more insurance contracts being accounted for under the BBA when, during an underwriting cycle, the pricing is going from a hard market (i.e., prices are increasing relative to the risk covered) to a soft market (i.e., prices are decreasing relative to the risk covered) and vice versa when the underwriting cycle is going from a soft market to a hard market. For example, when there has been a sustained period of very little loss activity for a particular policy or class of business, pricing will typically start to fall relative to the risk exposure as the insured looks to recoup some of the previous premiums “given away” as there were no or minimal losses. In applying the criteria in 55-52(b), if we were to determine that pricing going forward, assuming no or minimal losses, was to significantly decrease the next renewal period it would appear that we would need to account for the contracts currently being written under the BBA. We do not believe this particular scenario should be an indicator in determining which measurement model to use. Please note that if in the above example those contracts were all measured under the PAA, we believe that in a period of transition from a hard market to a soft market the onerous contract test would provide for any additional liabilities to the extent the premium charged was insufficient.

- The indicator noted in paragraph 834-10-55-52(c) while in principle makes sense; it is difficult to interpret and may lead to bright-line indicators as practice evolves.

- There are examples provided in paragraph 834-10-55-53 that include insurance contracts with coverage periods of one year (e.g., personal automobile insurance contract, catastrophe insurance contract and directors and officers insurance contract). It is not clear to us why these examples are provided as it would seem that these contracts would automatically be measured under the PAA based on the requirements in paragraph 834-10-25-18(a). To the extent possible, we suggest providing the same type of examples but for contracts that have coverage periods greater than one year.

We believe an appropriate alternative to the guidance in paragraph 834-10-25-18 for determining which measurement model to use is to use the criteria for determining a portfolio of insurance contracts noted in paragraphs 834-10-55-46 to 55-50. It would seem that a group of insurance contracts that are included in a single portfolio should have the same measurement model. We believe this would reduce the complexity of attempting to assess significant variability in expected value of the net cash flows for individual contracts and provide consistency between the measurement model used and how the insurance liability is measured. We also believe that an insurance contract that is written on a one year basis or, for example, on a two year basis would have a similar risk profile and priced similarly relative to risk exposure, and therefore would have the same measurement model. Our recommendation is then to change the measurement model criteria to be based on how the portfolios are determined and management will make a determination of whether that portfolio is better measured as PAA or BBA. We believe you will find that there will be consistency in the determination of the appropriate model for product types across the insurance industry. This recommendation would also necessitate additional disclosure that describes management process for determining the appropriate measurement model as well as details on what portfolios are measured under the BBA versus the PAA. See our response to question 8 below for additional observations on the definition of a portfolio of insurance contracts.

Portfolio and Contract Boundary

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

Yes, in principle we agree with the definition of a portfolio of insurance contracts as that is consistent with how we group our insurance contracts currently to calculate management's best estimate of loss reserves, however we have the following observations:

- We think that the notion of "priced similarly relative to the risk taken on" as noted in paragraph 834-10-55-46(a) should be defined further beyond the guidance provided in paragraph 834-10-55-49. It is unclear whether it is the price that we ultimately sell the contract at or the price we model the contract at. There are instances where we price a particular contract at a certain premium relative to the risk exposure, but due to market conditions (e.g., competition) the price we ultimately charge is less than or more than the price we modeled at. We suggest the guidance should be clear that the requirement in 834-10-55-46(a) should be based on the price that was modeled as that is the price that aligns with management's expectation of the risk exposure.

- It would appear that paragraph 834-10-55-48 is providing very prescriptive guidance on how management should determine its portfolio of insurance contracts. For example, paragraph 834-10-55-48(d) seems to imply that we should group insurance contracts at the lowest geographic area, which may not be necessary to estimate what we think the ultimate cost of fulfilling our obligations are. We recommend that there should be a principle that the portfolio of insurance contracts should be at a level that provides management with sufficient granularity to determine the best estimate of its fulfillment obligations that should be recorded in its financial statements and that the guidance in 834-10-55-48 can be used as indicators to consider in making that determination. As a result this would allow companies to group contracts that are consistent with how it manages its business and ties into our recommendation in question 7 regarding how to determine the appropriate measurement model.

Question 9: Do you agree with the requirements included in the 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?

Yes, in principle we agree with the requirements to determine the contract boundary. Consistent with current practice today, we view the contract boundary to be the end of the coverage period as stated in the policy or reinsurance contract. Below are some additional practice issues to consider:

- It is unclear how to define the contract boundary of a claims-made insurance policy with an extended reporting endorsement. Typically, these claims-made insurance policies have coverage periods of one year, but the policyholder has the option to elect, for an additional premium, additional time to report the claim to the insured for loss events that occurred prior to the end of the coverage period. In assessing the "substantive rights" of the policyholder, should we consider the policyholders ability to extend the reporting to then extend the boundary of the contract? If we will be required to extend the contract boundary to the end of the extended reporting period how do we determine what model these types of contracts should be measured under? This is particularly challenging since the determination of whether an insurance contract is PAA or BBA is assessed at the beginning of the coverage period and the policyholder will not have elected whether it wants to purchase the extended reporting endorsement at that time. We recommend that in this type of situation a criteria be added to paragraph 834-10-25-14 that states if the risk protection provided (i.e., limit of loss) does not change, but the policyholder has a right to extend its ability to report a claim that was incurred during the coverage period no substantive right has been transferred and the contract boundary would not include the extended time to report the claim.

- Also related to the above bullet, we believe that the guidance should be clear about whether endorsements or other changes in coverage should be reflected in the contract boundary. We note that on page 385 of the Proposed ASU, it states, "Expectations of future changes in coverage, such as endorsements or reductions of coverage, should not be considered." This guidance is not included in the guidance related to contract boundary and we recommend that it be included.

- It is unclear how an assumed reinsurer would apply the contract boundary guidance in this Proposed ASU when it writes proportional reinsurance. Currently, we record our best estimate of what the ultimate premiums will be at the beginning of the coverage period and earn those premiums over the coverage period, while also truing-up our estimate to the actual policies being assumed under the reinsurance contract. This is done since there is a reporting lag between when the ceding company provides details of the policies ceded and when the assuming company reports its financial statements. Using the guidance in paragraph 834-10-25-16(a), the assuming reinsurer would not record anything for the reinsurance contract until such time as it received details from the ceding company, which does not coincide when the reinsurance contract is effective. Additional consideration should be made in the Proposed ASU to allow assuming reinsurers the ability to estimate their ultimate premium at the inception of the reinsurance contract, which may differ from what has been recorded by the ceding company. See Appendix B for additional details on this point.

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 should be included or excluded and why?

Yes, we agree that the cash flows identified in paragraph 834-10-55-79 should be included in the measurement of the fulfillment cash flows with the exception of the costs identified in paragraph 834-10-55-79(f). Those types of costs, such as premium billing, are not costs that are required to fulfill our obligation under the insurance contract and are not specifically chargeable to the policyholder. We believe those costs are best reported as period costs, since those costs are predominantly salary related costs, otherwise we would need to develop a process to track those costs each reporting period and include them in the insurance contract liability balance. Also it is unclear to us why you need to establish probability weighted cash flow assumptions for these types of costs.

We also recommend that the guidance in 834-10-55-79 should be worded in such a way that allows the flexibility for other costs that are not specifically identified to at least be considered as potentially being included in the fulfillment cash flows. As currently worded, “Therefore, the relevant cash flows include all of the following:” implies that only those cash flows identified can be considered. For instance, based on the scope of the Proposed ASU, certain contracts that were not considered to be insurance currently will be treated as such and they might have cash flows that are not necessarily reflective in the categories listed in paragraph 834-10-55-79, as those categories are specific to traditional insurance. We recommend that a sentence be added that allows preparers to consider other cash flows that are consistent with the principle noted in paragraph 834-10-55-78.

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?

We recommend that only market variables be updated each reporting period and non-market variables (e.g., probability weighted assumptions) be updated when it is determined by management that there has been a significant change in a non-market variable, or at minimum, annually. To the extent a market variable is correlated with a non-market variable, then the non-market variable would need to be updated to ensure consistency.

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?

As it pertains to the liability for incurred claims for contracts measured using the PAA, we do not see the need to change the fundamental way actuaries determine these liabilities. The notion that we measure property and casualty insurance contracts based on explicit, unbiased, and probability weighted cash flows implies a level of precision that obscures the fact that both the timing and amount of the ultimate loss for an individual contract or a portfolio of contracts is uncertain. Given that the uncertainty in the amount and timing of a loss is a fundamental aspect of the property and casualty insurance business model, the actuarial profession has developed the means by which to estimate what the ultimate fulfillment cost will be. Switching to an unproven method of determining probability weighted cash flows without substantial field testing and validation poses a significant risk to our business. One would have expected that over the course of the past several decades, the use of explicit, unbiased, probability weighted cash flows as a means to estimate the liability for incurred claims would have been considered a legitimate alternative to existing methods that the accounting standards would evolve to codify that practice. No different than the basis for the issuance of Statement of Financial Accounting Standards No. 60, "*Accounting and Reporting by Insurance Enterprises*" ("FAS 60") which was to codify specialized accounting practices that already existed. For us, the fundamental question is whether it is appropriate to have a single way of determining an estimate for financial reporting. For instance, there is no single way to estimate fair value for an asset or liability under U.S. GAAP. In fact using discounted cash flows to determine fair value, which is the closest method to measuring the liability for incurred claims as explicit, unbiased probability weighted cash flows is only one way of determining fair value, not the only way. If there are other appropriate methods for determining the liability for incurred claims (i.e., current practice of applying different actuarial methods), why would the FASB seek to eliminate them? Especially, when as noted before, there has been no field testing or validation that has proven the use of explicit, unbiased, probability weighted cash flows is a better method than current practice.

Given the fact that it is clear in the Proposed ASU there are two distinct models for recognizing profit (i.e., over the coverage period for PAA and over the coverage and claim settlement period for BBA) then it would seem appropriate that methods to determine the insurance contract liability do not have to be consistent between the PAA and BBA. Meaning, there does not have to be the same requirement for measuring the fulfillment cash flows under the BBA and PAA, since the Board acknowledges that the PAA and BBA are two distinct models. In some regards, this is no different than how FAS 60 is structured as the guidance is different for short-duration and long-duration insurance contracts. If the Board is willing to accept that there are two models than we do not see the necessity to require the liability for incurred claims to be measured based on the BBA fulfillment cash flow requirements.

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?

Yes, we agree that changes in the estimates of cash flows should be reflected in net income in the period they occur. This is consistent with current practice related to loss reserves for property and casualty insurance companies. See our response to question 15 regarding the use of discounting under the PAA.

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?

Yes, we agree in principle that a discount rate should reflect the characteristics it is being used to measure. However, it will be difficult for us to determine an appropriate yield curve given that we do not utilize an asset/liability matching program. Isolating the discount rate for a portfolio of property and casualty insurance contracts will be difficult, in particular trying to quantify a liquidity premium. We recommend that an additional alternative be added to paragraph 834-10-55-95 that provides prepares the ability to use the risk-free yield curve to determine the discount rate. Since claim payments on property and casualty insurance contracts are not dependent on changes in interest rates we do not see the need to add undue cost and complexity of determining the discount rate for those types of liabilities. See our response to question 15 regarding the use of discounting under the PAA.

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?

No, we do not think that the liability for incurred claims should be discounted. While we believe the time value of money concept is important to sound financial reporting, we believe the use of discounting should be applied in situations where the cash flows are reasonably fixed and determinable. As stated in our response to question 12, this Proposed ASU implies a level of precision that we do not believe truly exists. For example, over the past five years we have had significant variability in our liability for incurred claims as measured by the amount of net favorable reserve development on prior year reserves. The table below shows the net favorable prior year reserve development for each of the last five years and as a percentage of net income for the same period.

$ in millions

Year Ended December 31,	Net Favorable Prior Year Reserve Development	Net Favorable Prior Year Reserve Development as a Percentage of Net Income
2012	$ 170.3	34.7%
2011	$ 253.5	92.3%
2010	$ 313.4	47.1%
2009	$ 248.0	40.9%
2008	$ 280.1	152.6%

As the table illustrates, the variability in our loss reserves based on adjustments made to reserves established in prior years is a significant driver of our overall profitability. If we were to discount those same reserves and update the impact of the changes in the loss reserves for (1) changes in discount rates and (2) changes in the expectation of the amount we will ultimately pay we would decrease the level of transparency that is currently seen in our financial statements by showing the impact of the changes in the discount rate in other comprehensive income, showing adjustments to the interest accretion due to the change in the ultimate amount we expect to pay outside of underwriting margin, while still showing the changes in expectations of our estimate in our underwriting margin. We will have gone from showing the impact of changes in expectations from one item in the income statement (and separately disclosed in the footnotes) to having to understand three different balances (other comprehensive income, interest accretion and incurred losses). We believe the additional complexity noted above and the cost of developing and maintaining a system to track the discount rate and the related changes outweighs the perceived benefit of introducing the time value of money to all property and casualty insurance contracts that do not meet the practical expedient.

We also think the inclusion of discounting for the liability for incurred claims will artificially overstate underwriting margin as compared to current U.S. GAAP. Since the liability for incurred claims will be recorded in the income statement after the impact of discounting, the incurred loss expense will be lower (with the offset recorded in interest expense), and therefore underwriting margin will be higher. We do not believe this will help users of our financial statements understand one of the core performance metrics of our operations, which is the underwriting margin. For example, it is unclear to us how rating agencies will view these “new results” in their rating determinations. We believe the volatility caused by discounting to our liability for incurred claims will increase the perceived financial risk and could potentially cause rating agencies to downgrade the financial strength ratings of insurance companies. This would cause a severe impact to our ability to write insurance business as many commercial risk managers will only secure business with insurance companies that maintain a certain financial strength rating or higher. And likewise, insurance companies will only cede business to reinsurers that maintain a certain financial strength rating or higher.

Based on our initial assessment, we believe very few of our insurance contracts would meet the practical expedient requirements of not requiring discounting on the liability for incurred claims.

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 discount rates should be presented in net income? Please explain your reasoning.

Notwithstanding our response to question 15 above, we agree that the effects of underwriting performance should be shown separate from the changes in the present value of the fulfillment cash flows, especially for insurance contracts that are not interest rate sensitive like property and casualty insurance contracts. However, we do recommend that in the scenario where an entity applying this Proposed ASU accounts for all, or nearly all, of its investments at fair value through net income it can elect to also account for changes in the discount rate through net income as well. Otherwise it would create an accounting mismatch similar to what the Proposed ASU is attempting to eliminate for entities that account for their investments at fair value through other comprehensive income. Note we currently account for all of our investments at fair value through net income.

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?

No, we do not believe a loss recognition test is necessary since, in theory, any change in discount rate on the liability should be offset to some extent by the change in the fair value of the investment assets held. Furthermore, an insurance contract is impaired when it is onerous which is a function of the cash inflows being less than the cash outflows, so having an additional loss recognition test just for the amount of discount on the insurance contract liability seems duplicative.

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?

See our response to question 14 regarding alternative guidance for determining the discount rate.

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

Yes, that would be the most efficient basis for determining the discount rate and the related change in discount rate. However, we will need to develop a system that can track, what is expected to be, a large volume of data points to calculate the accretion of the discount rate, changes in the discount rate due to updating the discount rate each reporting period and changes in the discount rate for underlying changes in the cash flows. We also expect that this will add significant time to our financial close process.

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?

Yes, we agree acquisition costs should only include those costs directly related to the entity's selling efforts that result in obtaining the contracts in the portfolio. We believe the costs identified in paragraph 834-10-55-104 are consistent with the costs that are deferrable under current U.S. GAAP. However, we recommend that entities applying this Proposed ASU be allowed to defer those they deem necessary (e.g., only commissions and premium taxes) as long as their policy on what the treat as acquisition costs is disclosed. Otherwise we would need to do one of two things: (1) develop system that tracks the activities of those people directly involved in the selling efforts and determine what costs related to successful efforts or (2) elect the practical expedient that would allow us to expense any acquisition cost related to a contract that has a coverage period of one year or less. We do not believe either alternative is optimal as alternative (1) would require upfront cost and continual involvement which will add time to our financial close process and alternative (2) would be inconsistent with how management views the profitability of its business from period to period and would distort quarterly results as the revenue is still deferred as part of the liability for remaining coverage, and therefore, we could potentially show large losses in a particular quarter as the costs are not matched with the revenue. Alternative (2) is also not ideal since we could potentially have insurance contracts accounted for under the PAA that have coverage periods greater than one year for which we would need to expense consistent with how the liability for remaining coverage is released. This would create an inconsistency within the PAA and may necessitate additional non-GAAP disclosures to present the results under the PAA for all coverage periods in a consistent manner.

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? If not, what do you recommend?

We believe that direct acquisition costs should be shown as a separate asset on the statement of financial position. If the principle is that these costs provide economic benefit, which they do because they are incurred to obtain new policies which generate revenue, and therefore are capitalized, then it would seem appropriate to consider these assets just like a typical pre-paid asset. Furthermore, the amortization of acquisition costs will be presented as a separate line in the income statement, so it would seem to be consistent to show the related balance on the statement of financial position separately as well.

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?

Yes, we believe that is the most appropriate way to match the recognition of revenue and the related matching of expenses.

Insurance Contract Revenue

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?

Yes, it is more transparent to show the drivers of the net profit on the face of the income statement, rather than just the net profit.

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

The conceptual basis for excluding amounts received and related repayments for cashflows that are received/paid regardless of whether an insured event occurs makes sense. As stated in paragraph BC274(a), cashflows that pass from one entity to another regardless of whether an insured event occurs cannot by its nature have insurance risk. We are concerned however that this guidance will have unintended business consequences. Meaning that certain provisions within property and casualty insurance/reinsurance contracts may no longer be offered since the outcome will be that premiums will be lower as a result. For example, no-claims bonuses may no longer be offered as a result of this Proposed ASU. Furthermore, the separation of premiums for the estimated returnable amounts distorts what we believe is the appropriate amount charged for the risk we are taking on. We price our insurance contracts taking into account all relevant rights and obligations within the contract. By removing a portion of the premiums from revenue the following consequences will occur:

- Our overall profitability will decrease relative to what we report today. This is due to the fact that while the premium amounts will have decreased the amounts we pay in acquisition costs and incurred losses will not change. As an example, if an assuming reinsurer where to apply this guidance the revenue reported by the reinsurer would be lower but since the acquisition cost that is not contingent on losses would be classified as a deduction to revenue not as an expense the revenue would appear even lower. Furthermore, if there was a full limit loss, that loss would be reflected fully in the statement of comprehensive income but the related revenue would lower due to a portion of the premiums classified an estimated returnable amount.

- There will be more instances of onerous contracts. If the premium related to estimated returnable amounts are excluded from premiums then it would seem those cash inflows would be removed from the onerous contract test, and therefore the likelihood of an onerous contract liability would increase. We recognize that the guidance in paragraph 834-10-35-14 states that the related claim and benefit expense is also excluded, but if we are measuring the liability for incurred claims based on the expected loss ratio of the total premium charged, it is unclear to us how we would adjust the expected cash outflows in the onerous contract test for the estimated returnable amount.

- This will lead to increased use of non-GAAP measures as we believe users of our financial statements will want to see the total amount of premiums we bound in a given period. While this will be disclosed elsewhere in the footnotes to the financial statements, we believe users will want to have that information as part of our press release related to the quarterly results.

- It would appear that the conceptual basis for estimated returnable amounts is why the Proposed ASU has a provision that states that the ceding commission paid or received on assumed or ceded reinsurance, respectively, would be shown net of the premiums received or paid since regardless of an insured event the commissions will be paid or received. We believe treating commissions on assumed and ceded reinsurance differently than commissions on direct insurance (i.e., a reduction of revenue versus an expense) will make a comparison between our direct insurance segments and our reinsurance segment less meaningful.

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?

Yes, we agree in principle that to the extent an insurance contract has a significant financing component the liability for remaining coverage should reflect the time value of money. However, we believe this requirement adds unnecessary cost and complexity to our financial statements. We will have to develop a process that identifies all contracts that have coverage periods greater than one year, that are measured under the PAA, and determine if they have a financing element or not. Also it is unclear whether contracts that have settlement provisions that allow for a final true-up of premiums after the coverage period has ended would be considered to have a financing component or not. Examples of this include audit premium adjustments and adjustments on reinsurance contracts based on the actual activity of the underlying insurance contracts. We recommend that the guidance address situations where premiums are received/returned after the expiration of the coverage period. Our view is this is not a financing component, but a mechanism to settle the contract given the lag in reporting premiums. The contract will typically stipulate the exact timing of when the final premium adjustments have to be reported.

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 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?

Yes, we believe that no insurance or reinsurance contract should have any gain at initial recognition. Under any insurance or reinsurance contract, services are rendered (i.e., risk protection) throughout the coverage period so recording any gain at initial recognition seems inappropriate.

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?

We believe that the estimate of the fulfillment cash flows for cedants should be done without reference to the margin of the underlying contracts when the reinsurance contract is nonproportional (e.g., excess of loss), but should reference the margin for proportional reinsurance. For example, we purchase facultative reinsurance for individual risks on a proportional reinsurance basis. In purchasing the facultative reinsurance we consider the profitability (i.e., the margin) of the individual contract and therefore the fulfillment cash flows that are estimated on the ceded reinsurance should consider the margin of the underlying contract.

Presentation

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

We have the following recommendations as it relates to the presentation requirements for the statement of financial position:

- As noted in our response to question 29, we believe qualifying acquisition costs should be presented as a separate asset including qualifying acquisition costs for assumed reinsurance. Also to be consistent with the above, unearned ceding commission income on ceded reinsurance should be presented as a separate liability.

- The presentation of the insurance contract liability should include those portfolios that are in an asset position, with parenthetical disclosure of the amount included in the insurance contract liability related to portfolios in an asset position. We believe that there could be significant fluctuations in the insurance contract asset and insurance contract liability, from period-to-period, as portfolios move from net asset positions to net liability positions, and vice versa. It is unclear to us why that presentation is meaningful to the users of our financial statements, since we need to determine if our total liabilities accrued are sufficient to cover our expected obligation, which includes those portfolios that are in an asset position.

- The estimated returnable amounts should be presented as a separate asset or liability.

We have no incremental recommendations regarding the statement of comprehensive income other than what we previously stated above in our response to question 32 that commissions and related fees that are not dependent on losses related to assumed and ceded reinsurance be presented as part of the amortization of qualifying amortization cost and not as a reduction to insurance contract revenue.

One item that was not clear to us in our review of the Proposed ASU is whether the presentation requirements contained in Article 7 – Insurance Companies of Regulation S-X as promulgated by the Securities and Exchange Commission will be amended to reflect the proposed changes in presentation.

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 the proposed Update would not provide decision-useful information and should not be required? If so, which ones and why?

At this time it is difficult to assess whether the disclosure requirements contained in the Proposed ASU are appropriate or not. One of the main constraints in making that assessment is the level at which we would need to provide quantitative and qualitative disclosure. For example, if major product lines are determined to be the appropriate level of disaggregation then, based on our disclosures in our most recent Form 10-K, we would be providing disclosures on fourteen different categories. Assuming we would provide the proposed disclosures using fourteen categories, the incremental cost and time of compiling and reporting the information would be significant, not to mention the increased cost and time related to auditing the disclosures.

We suggest that a phased-in approach to disclosures may be more appropriate. Meaning, the disclosure requirements should first be done at a consolidated level for the first three years after the effective date of the Proposed ASU and then disaggregated at the segment level for the following two years and then disaggregated at a lower level, if necessary, thereafter. It would allow (1) entities to better understand the nuances and complexities of providing such disclosures and (2) provide feedback from users of our financial statements if the consolidated disclosures are satisfactory or not.

Effect Date and Transition

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?

For us as a property and casualty insurance company, the most significant drivers that will affect the timing of implementation are as follows:

- Whether the use of our current actuarial methods for estimating the liability for incurred claims will be appropriate under the Proposed ASU. If those methods do not approximate "the mean" as defined in the Proposed ASU, we will have to develop a new way of determining our liability for incurred claims that is based on explicit, unbiased, probability weighted cash flows.

- The determination as to whether some of our insurance contracts will be measured under the BBA. As we do write policies that are greater than one year, there is a potential that some of our insurance contracts may be measured under the BBA, based on the requirements in the Proposed ASU. We would need to develop new processes for handling contracts measured under the BBA as currently our systems, for example, are only programmed to earn premiums over the coverage period. Also, we would need to assess whether writing such contract going forward makes sense relative to the allocation of capital. Meaning if the return on capital for our insurance contracts measured under the BBA will have a longer time horizon, compared to insurance contracts measured under the PAA, we may consider whether that is the optimal use of capital.

- Developing a number of incremental systems that we currently are not required to maintain to prepare our financial statements. Examples of new systems include a system for calculating the discount on the liability for remaining coverage and the liability for incurred claims, a system for tracking internal costs directly related to selling insurance contracts, enhancements to systems in order to track certain characteristics of contracts in order to be able to determine if there are any estimated returnable amounts, if components of the insurance contract should be separated, or if a contract should be measured under the BBA or PAA.

Given the above key drivers, it is imperative that the Board give preparers impacted by the Proposed ASU sufficient time to develop and enhance the necessary systems and process so that these systems and processes will be in place while preparers go through retrospective adoption during transition. We are concerned that there will not be sufficient time to have these systems and processes in place during transition that we will have to do much of the retrospective adoption manually.

We believe a minimum of three years is required to implement this Proposed ASU, as currently worded.

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?

We agree the practical expedients included in the Proposed ASU will help with the retrospective application. We recommend that one additional practical expedient be added to the Proposed ASU. To the extent insurance contracts that are currently measured as short-duration insurance contracts under U.S. GAAP will be measured using the BBA, a practical expedient should be added that will allow the margin to be estimated using the guidance in paragraph 834-10-65-1(i)(2).

There should also be a practical expedient added to the transition guidance consistent with our recommendation in question 16, that to the extent there is a scenario where all, or nearly all of, an insurance company's investment portfolio is measured at fair value through net income the change in the discount rate on the insurance contract liability be recorded as part of the cumulative effect adjustment in retained earnings upon transition not as a component of other comprehensive income as required in paragraph 834-10-65-1(h).

Costs and Complexities

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.

As previously discussed throughout our comment letter, we believe some of the significant one-time costs will be:

- Creation of new systems such as one for calculating the discount rate and related changes, a system for tracking internal costs for purposes of determining qualifying acquisition costs, a system that calculates the explicit, unbiased, probability weighted cash flows, a system for calculating the margin for those contracts measured under the BBA.

- Enhancement to systems such as a remapping of our general ledger and downstream systems to ensure the new balances are properly recorded, adding data fields to our front-end systems that would help identify if insurance contracts should be measured under the BBA, whether an estimated returnable amount exists and whether certain components of an insurance contract should be separated, and changing our budget and planning system to handle the new accounting basis.

- Changes to our process related to reporting insurance activity to our insurance regulators. Currently, there are many balances that are accounted for similarly under U.S. GAAP and what we report to our various insurance regulators. We do not expect our insurance regulators to adopt similar accounting guidance included in the Proposed ASU in their statutory reporting rules, and as such we will need to change our process for how we prepare financial information for our insurance regulators.

- Developing reports and related analysis needed to prepare the required disclosures. The incremental disclosures required by the Proposed ASU are significant and we will need to develop processes and reports that can be utilized to prepare the disclosures.

- The use of external consultants to assist in the retrospective adoption. We believe that we will need to use consultants to assist in analyzing the changes to our financial statements up through the transition date. We are concerned that there will be a shortage of available external resources during the implementation that some entities, possibly us, will not have the necessary manpower to assess the retrospective adoption impact.

- An unknown cost is whether investors will leave the insurance sector as a viable investment alternative given the uncertainties around the accounting for insurance contracts, as well as the education needed to understand performance and trends, which could lead to a lower valuation of the company.

- Assessing the appropriate classification and measurement of our investment portfolio to ensure accounting mismatches are not created. As we stated previously our investment portfolio is measured as fair value through net income. That measurement basis will need to be reassessed not only during the implementation of the financial instruments standard but also in relation to this Proposed ASU.

Our initial cost estimate to implement this Proposed ASU is over $5.0 million. That cost estimate does not include internal resources that will be committed to the implementation, nor does it include the cost of adopting other accounting standards (e.g., financial instruments).We believe some of the ongoing costs related to this Proposed ASU are as follows:

- We believe there will be a need to increase headcount in the finance, actuarial and information technology departments to comply with the new measurement and disclosure requirements. As an example and as previously stated in our comment letter, we may need to dedicate resources to determining which insurance contracts should be measured under the PAA or BBA.

- There is a possibility that we continue to maintain financial statements under existing U.S. GAAP for internal management purposes. At least early on after adoption of the new standard, there might be a reluctance by management to convert to the new measurement basis and a desire to see results based on existing U.S. GAAP. This would also have the potential impact of presenting our segment disclosures, which is a management view, based on existing U.S. GAAP and then reconciling those profitability measures to what is reported in the consolidated statement of comprehensive income under the Proposed ASU.

- Assisting the users of our financial statements in interpreting our results under the Proposed ASU. For obvious reasons, analysts and investors understand our results when we publish them and have specific questions about trends and new developments so they can better assess us as a going concern (i.e., determine an appropriate valuation of the company). However, with the implementation of the Proposed ASU, we believe we will need to spend significant time assisting analysts and investors on what our results mean. This could lead to additional non-GAAP performance measures being utilized to reconcile to financial measures analysts and investors are accustomed to. This cost also applies to our Board of Directors and senior management.

We have not, as of yet, quantified what the incremental ongoing costs will be, but we expect the cost to be significant.

APPENDIX B

ADDITIONAL OBSERVATIONS ON THE PROPOSED ASU

Premium Allocation Approach

1. It is our view, the Proposed ASU has an implicit assumption that for insurance contracts measured under the PAA (e.g., property and casualty insurance contracts) premiums are fixed at the inception of the policy. However there are instances where the premiums are not fully known until after the coverage period ends. An example of this relates to assumed reinsurance. As noted in our response to question 9 of Appendix A, assumed reinsurers need to estimate what the premiums will be at the inception of the coverage period. Under current U.S. GAAP for non-proportional reinsurance (e.g. excess of loss reinsurance), we often use the contractual deposit premium as stated in the reinsurance contract as our best estimate of the ultimate premium assumed at the inception of the contract and then make adjustments to that estimate as more facts are known. For proportional reinsurance (e.g., quota-share reinsurance), we estimate what the premiums will be at inception using information from the cedant, as well as input from our underwriters as to what they believe the ultimate premiums ceded will be then make adjustments to that estimate as more facts are known (e.g., the cedant sends the reinsurer a bordereaux detailing actual activity). Assuming a reinsurance contract is measured under the PAA, it is unclear from the guidance what we would record as the liability for remaining coverage at the inception of the reinsurance contract. Using the guidance in paragraph 834-10-25-16, it would seem that if the assumed reinsurance contract was a proportional reinsurance contract then we would need to wait until the cedant sends us the actual activity before recording any amount in our financial statements, but for non-proportional reinsurance we would record an amount in our financial statements before the cedant sends us the actual activity, which may occur after the coverage period has expired.

   We recommend that a practical expedient be added to the proposed guidance that for insurance contracts measured under the PAA for which the ultimate premium is not known, but reasonably estimable at the inception of the insurance contract, the insurance entity shall record the liability for remaining coverage based on what it expects the ultimate premium to be and the ultimate premium is adjusted each reporting period as new facts arise. This could potentially result in reinsurers recording revenue for proportional reinsurance before the cedant records the related expense, but given that there is a timing difference as to when the cedant knows it has written a direct policy to which proportional reinsurance has attached and when that information is communicated to the reinsurer, we believe revenue recognition for the reinsurer as outlined in the practical expedient above is appropriate.

Onerous Contract Test

2. We have the following observations as it relates to the onerous contract test:
   - In paragraph 834-10-55-134 it is noted that an indication that an onerous contract may

exist if the “combined loss ratio” for the current year in-force business exceeds 100 percent. Where the “combined loss ratio” is the function of incurred claims and incurred expenses, including claims adjustment expenses and other underwriting expenses, divided by premiums earned. It is unclear whether this indicator of an onerous contract is (1) net of reinsurance or gross of reinsurance and (2) whether the “premiums earned” are net of ceding commissions and other fees that are not contingent on losses. We believe the indicator could be clarified as to avoid diversity in practice. For instance, we believe as currently worded, the combined loss ratio of portfolios in our assumed reinsurance business would have artificially higher indicators of an onerous contract because the premiums earned will be lower due to the netting of the ceding commission.

- We disagree with the example noted in paragraph 834-10-55-136 that indicates that we would record an additional onerous contract liability in the current period for what we believe the expected value of a loss to be that will not have occurred as of the balance sheet date. We believe that this would be misleading to the users of our financial statements given the artificial volatility in our results (i.e., showing an onerous contract liability one period and a reversal of that amount the next period). It is worth noting that the current practice for events similar to the example noted in paragraph 834-10-55-136 is for companies to issue a press release with its best estimate of what they believe the loss will be. The example implies that insurance entities will have a reasonable assumption of what the ultimate cost of the large loss event will be at the balance sheet date, but it is unrealistic to assume that since insurance companies need to send claim adjusters to the site to determine a reasonable estimate of what the loss will be. This delay is exacerbated for assumed reinsurers as they are relying on information from the cedants, and therefore, will not have the benefit of any information as of the balance sheet date.

- We believe the example included in paragraph 834-10-55-136 contradicts the guidance contained in paragraph 834-10-55-77, which addresses how fulfillment cash flows should take into account future events. Paragraph 834-10-55-77 states, “However, an entity should not take into account future events that occur after the reporting period, such as a change in enacted legislation, that would change or discharge the present obligation or create new obligations under the existing insurance contract…. Accordingly, the occurrence or nonoccurrence of a possible event after the statement of financial position date does not provide evidence a condition that existed at the end of the reporting period. As a result, the occurrence of an event after the end of the reporting period is a nonadjusting event applying Topic 855 on subsequent events.” We believe the guidance in paragraph 834-10-55-77 is the appropriate guidance not only for fulfillment cash flows but also for the onerous contract test, and therefore we recommend the onerous contract test refer to the guidance in 834-10-55-77.