

Insurance Companies of America

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LETTER OF COMMENT NO.

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Re: Preliminary Views on Insurance Contracts Discussion Paper

Ladies and Gentlemen:

Mortgage Insurance Companies of America ("MICA") the national trade association of the private mortgage guaranty insurance industry, respectfully offers these comments in response to the recent invitation to comment issued by the FASB titled An FASB Agenda Proposal: Accounting for Insurance Contracts by Insurers and Policyholders, Including the IASB Discussion Paper, Preliminary Views on Insurance Contracts (the "ITC").

Mortgage guaranty insurance provided by MICA members helps loan originators and investors make funds available to home buyers with as little as 3-to-5 percent down - and even less for qualified borrowers - by protecting these institutions from a major portion of the financial risk of default.

As an insurance industry association, we believe we can offer valuable insight into this proposed agenda item. To facilitate our comments, we have organized this letter to address issues in the sequential order they were included in the ITC. We have only responded to those issues which we feel require a specific response from MICA.

Question 1: Is there a need for the FASB to comprehensively address accounting for insurance contracts? Why or why not?

Products offered by insurance companies consist of

a diverse array of features and mortgage insurance is an example of an insurance product in which a "one size fits all" accounting solution is not appropriate. Particularly, market based valuation of accounting contracts for mortgage guaranty insurance does not make sense when there are only a small group of companies that offer the product, leading to significant difficulty in arriving at clear and appropriate market values.

- a. Existing U.S. GAAP accounting for mortgage guaranty insurance has not been addressed in existing literature. In practice, the accounting methodologies for mortgage guaranty insurance have been well established by the small group of market participants. While new guidance is not necessary, the formalization of the current acceptable methods would provide clarity.
- b. It is important to develop a common, highquality standard to be used in both the U.S. and IFRS jurisdictions to enhance comparability of financial statements. Within the mortgage quaranty insurance industry, there exist no companies within IFRS jurisdictions that do not have a U.S. As discussed above, the U.S. affiliate. companies have a well established approach that is consistently utilized in the industry. Mortgage guaranty insurance is presently not a widely used product in IFRS jurisdictions, and thus establishment of an IFRS methodology for mortgage guaranty insurance that diverges from U.S. GAAP would be detrimental to users of financial statements.

Question 2: Are the preliminary views expressed in the IASB's Discussion Paper a suitable starting point for a project to improve, simplify, and converge U.S. financial reporting for insurance contracts? If not, why not?

a. The preliminary views expressed in the IASB's Discussion Paper are a suitable starting point from which to begin discussions on

improving, simplifying and converging U.S. financial reporting for insurance contracts. All of the significant broad issues are discussed within the IASB's Discussion Paper and time spent by the FASB to develop its own components separate from the IASB's would not enhance the discussion and would slow down However, a market based the process. approach to accounting for mortgage guaranty insurance would result in accounting results that would be difficult for a reader of the financial statements to understand and result in significant swings in profitability due to market values where no active market exists, and when there is no intent of the insurer to sell its portfolio of business.

Question 3: Is there a need to address accounting by policyholders in an insurance contracts project? Why? If yes, should accounting by policyholders be addressed at the same time as the accounting by insurers? Can or should that wait until after the accounting by insurers is completed?

We recommend that the project include accounting by policyholder only in the context of ceded reinsurance. Any discussion of insurance contracts should include reinsurance and the concept of risk transfer. Our reasoning is based upon the conceptual basis that in certain reinsurance contracts (e.g. quota share), the accounting between the insurer and reinsurer should mirror each other. We believe the existing guidance relating to policyholder accounting is currently sufficient. Therefore, we recommend that the accounting by policyholders be deferred until the accounting for insurers is completed.

Question 4: How would you address the interaction between the accounting for insurance contracts and the FASB's other projects on the conceptual framework, revenue recognition, liabilities and equity, financial instruments, and financial statement presentation? Are certain projects precedential?

We acknowledge that the other FASB projects mentioned above are a higher priority at this time. We believe that the timeline that the IASB has proposed of issuing its new standard by 2010 works well at this time.

We hope that the Board will find these comments useful as it continues to deliberate this important subject. We would be happy to make ourselves available to further discuss these responses.

Sincerely,

Suzanne C. Hutchinso