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Via email director@fasb.org

November 30, 2010

Mr. Russell G. Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5166
Norwalk, CT 06856-5116

Re: File Reference No. 1870-100

Dear Mr. Golden:

Thank you for the opportunity to comment on the FASB's Discussion Paper *Preliminary Views on Insurance Contracts (DP)*. I have summarized in the next paragraph my overall view on the DP and following that I have responded to the specific questions posed by the FASB.

Summary Comments

The FASB's Preliminary Views are preferred to the IASB's proposed approach—and in some respects will improve financial reporting for life insurance companies— but they do not represent sufficient improvement in transparency, comparability and decision usefulness to justify issuing new guidance (para. 16). (I have refrained from commenting in detail on the non-life portions of the paper in the hope that those more qualified than I might frame the debate.) I would not favor making targeted changes to U.S. GAAP (Question 32e), as the proposed changes would not improve materially insurance accounting and reporting. I would support a revision of GAAP pursuant to the FASB's views—on the condition that a few fundamental changes are implemented. I support an embedded value approach to insurance accounting—entities should account for the products they sell in the same manner in which they are priced. Let's dispense with the search for unbiased probability-weighted cash flows (we'd need to hire teams of forensic actuaries to send on treasure hunts) and risk-free securities with liquidity characteristics similar to those found in insurance contracts; instead, we should force managers to use the estimates embedded in pricing to measure the results of their endeavors. A deterministic approach based on empirical data is just as reliable as a method that relies on probability-weighted cash flows. A fundamental issue with the DP's approach to valuation, and the IASB approach on which it is modeled, is that it does not represent the economics of insurance contracts on the prevailing bases on which (most) life insurance contracts are developed and priced in the U.S.

Let's also make the proposed changes comprehensive by requiring disclosure of many of the current "non-GAAP" disclosures which are commonly made and requested by the investment community. For example, operating earnings, adjusted book value, and embedded value—just to name a few. Providing a consistent

framework for these “generally accepted non-GAAP” disclosures will improve financial reporting, transparency and disclosure.

Specific Comments on the Questions Posed

1. Question 1 – *Are the proposed definitions of insurance contract and insurance risk (including the related guidance) understandable and operational?*
 - a. The definition of insurance contract is acceptable—but did we learn nothing from the implementation challenges of FAS 113? What is *significant*? Practitioners continue to struggle with the definitions of significant insurance risk and related loss measurements, especially in the context of portfolios of insurance. These conflicting views result in ad-hoc interpretations, including those embedded in more recent AICPA literature such as SOP 03-01.
 - b. To what do the “additional” benefits refer? Perhaps we need only “benefits”? I assume the determination of insurance risk will occur only once—at inception of contract—so why address additional benefits and remaining cash flows? Further, I assume all cash flows are contingent. And how could a scenario that requires payment of significant additional benefits lack commercial substance?
 - c. What accounting model will be used for those transactions that fail to transfer insurance risk? Deposit Accounting? I was a member of the Deposit Accounting Task Force—so I can say the product we produced is not very good (especially for life contracts.)
2. Question 2 – *If the scope of the proposed guidance on insurance contracts is based on the definition of an insurance contract rather than on the type of entity issuing the contract, would financial reporting be improved?*
 - a. The scope of the guidance should be based on the definition of the contract, and not on the type of entity.
3. Question 3 – *Do you agree with the proposed scope exclusions? Why or why not?*
 - a. I see little reason for the scope exclusions – the concepts addressed in the DP should be applied to those transactions that transfer insurable risks from one person or entity to another.
4. Question 4 – *Should benefits that an employer provides to its employees that otherwise meet the definition of an insurance contract be within the scope of the proposed guidance? Why or why not?*
 - a. I see little reason for the scope exclusions – the concepts addressed in the DP should be applied to those transactions that embed insurance risk.
5. Question 5 – *The Board’s preliminary view is that participating investment contracts should not be accounted for within the proposed model for insurance contracts but, rather, should be included in the scope of the proposed model for accounting for financial instruments. Do you agree? Why or why not?*
 - a. I disagree with the exclusion of participating contracts from the accounting model for insurance. The Board’s declaration that participating contracts do not transfer significant

insurance risk to the insurer may be true for certain participating policies—but not all—and so it is preferable to define exclusions based on the nature and extent of the risks transferred (as opposed to nomenclature.)

6. Question 6 – *Do you support the approach for determining when noninsurance components of contracts should be unbundled? Why or why not?*
 - a. Unless the insurance contracts provide material amounts of goods, services or investment opportunities, I would not be in favor of unbundling. It seems the standard would require allocations of costs and benefits which may be arbitrary and subject to manipulation. The theory of unbundling has merit; however, implementation would be impracticable.
 - b. The discussion in 40 a. 2 appears to make assumptions about certain insurance contracts that are not correct.
 - i. Universal life contracts do not require that the credited rate be based on any specific asset pool—in practice, companies consider new money rates, portfolio rates, and competitor rates in determining credited rates. Further, few insurers explicitly consider realized gains or losses in the determination of credited rates (regulators may not permit this as well). Would the FASB require unbundling of UL contracts? The FASB discussion does not give adequate consideration to whether benefits are truly formulaic based on investment indices or segregated pools of assets, or whether the entity retains discretion on amounts credited.
 - ii. Further, I fail to see why specifying a minimum guarantee is acceptable (meaning investment returns are passed to the policyholder), but contracts that contain maximum returns indicate that all investment returns are *not* passed to the policyholder (does the FASB really mean to suggest that investment returns exclude investment losses?)
7. Question 7 – *Do you agree with the use of the probability-weighted estimate of net cash flows to measure insurance contracts? Does that approach faithfully represent the economics of insurance contracts? Is it an improvement over existing U.S. GAAP?*
 - a. While the use of probability weighted cash flow has become common in recently issued FASB guidance, I disagree with the use of probability-weighted estimates of cash flows to measure insurance contracts—largely because they will need to be invented after the insurance contract is priced and sold, and it will be impossible with the passage of time and the observance of actual outcomes to assess the accuracy of the unbiased probability weightings (based on management judgment) which are important inputs to the projections. Most insurance contracts are developed and priced without the benefit of the development of a wide range of possible outcomes—and when sensitivity testing is performed, it is unlikely to be accompanied by unbiased probability weighting. Moreover, for mortality and persistency based insurance, risk is commonly priced using empirical data accumulated by type of risk.
 - b. The approach can hardly represent the economics of insurance contracts when (most) insurance contracts are developed and priced using other paradigms.
 - c. The approach is not a material improvement over existing GAAP.

8. Question 8 – *Do you think that an entity’s estimate of the net cash flows should include a risk adjustment margin?*
 - a. No—the separation of the composite margin into discrete risk and residual margins will merely satisfy a small number of academicians—and will be nothing more than an allocation subject to manipulation. I am aware of no life insurers which attempt to measure risk adjustment margins, let alone reflect them in product pricing.
9. Question 9 – *Is the objective of the risk adjustment margin understandable? If so, do you think that the techniques for estimating the risk adjustment margin (see paragraph 52(b)), faithfully represent the maximum amount that the insurer would rationally pay to be relieved of the risk that that ultimate fulfillment cash flows exceed those expected?*
 - a. The objective of the risk adjustment margin is understandable. The methods for estimating the margin are conceptually comprehensible; but the application to most of the products sold currently by life insurers will likely not be grounded in empirical data that can be subjected to independent validation. Further, most life insurers do not routinely consider the maximum amounts they might pay to be relieved of risks. Reinsurance is purchased to manage surplus levels; reduce earnings volatility; and to reduce risks (on large or challenging risks).
10. Question 10 – *Do you think that the risk adjustment margin would be comparable for entities that are exposed to similar risks?*
 - a. It is unlikely that the risk adjustment margin will be comparable among business units within an entity and within a business unit across time. It would be quite surprising if the margin were to be comparable across entities.
11. Question 11 – *Do you agree with the description of cash flows that should be included in the measurement of an insurance contract? Is the proposed guidance operational?*
 - a. I support the description of cash flows that should be included in the measurement of an insurance contract.
 - b. I believe the proposed guidance is operational.
12. Question 12 – *Do you agree that the carrying amount of all insurance contracts should be discounted if the effect is material? Do you agree with the proposed guidance on the discount rate that should be used to measure the carrying amount of insurance contracts? If not, which discount rate should be used?*
 - a. I vote for consistency-- all contracts should be discounted or all contracts should not be discounted—and the only consequence of the use of a risk free rate is the imposition of a margin (the difference between risk free returns and actual returns) that will emerge in earnings over the lifetime contracts. To the extent we discount cash flows at a risk free rate, at the time of sale insurance contracts will appear to be less profitable than the entity in fact expects (most entities employ asset strategies that contemplate some equity or credit risk—for which they believe they are fairly compensated). This will distort the comparison of entities/lines of business-- those growing quickly will appear to be less profitable than those that are not—this is one problem with current statutory accounting. The use of the risk free

- rate also overstates the value of the obligation in economic terms for most companies. Insurance liabilities are corporate obligations supported by the credit worthiness of the entity which issued the contracts.
- b. And let's dispense with the hunt for risk free securities that have liquidity characteristics that are similar to those of the insurance liabilities—this seems like an academician's dream.
 - c. I would support the use of the rate that is the insurer's expected return (net of expenses and defaults) on the assets in which the reserve funds will be (and are) invested.
13. Question 13 – *Do you think that acquisition costs should be included as one of the cash flows relating to the contract? If not, how would you account for acquisition costs?*
- a. I support the proposed accounting for acquisition costs.
14. Question 14 – *Do you agree that acquisition costs included in the cash flows used in the measurement of the insurance contract should be limited to those that are incremental at the individual contract level? If not, which acquisition costs, if any, would you include in the measurement of the insurance contract?*
- a. I agree that only incremental acquisition costs should be included in the cash flows used in the measurement of insurance contracts. I support the conceptual framework that measures the increment at the level of the individual contract; however, I would support the use of reasonable methodologies to estimate these costs (say sampling), in order to avoid a substantial investment in new information systems to capture the discrete data.
15. Question 15 – *Do you agree with the use of either the composite margin approach or two-margin approach to measure the net insurance contract? Does either approach faithfully represent the economics of insurance contracts? Is either approach an improvement over the measurement used in current U.S. GAAP?*
- a. The composite margin (calculated using pricing assumptions) is the expected profit on a contract. I prefer recognition of the composite margin at issue and remeasurement of the composite margin at each reporting period. This approach might enable users to understand what insurers expected at the time of contract sale, and what in fact is occurring (including insurers' revised assumptions about the future). I could support a composite margin approach that deferred day one gains, and though it would be a meaningful improvement over existing GAAP, it is not clear it is worth the implementation effort.
16. Question 16 – *Do you think that the composite margin should be recognized in earnings in subsequent periods using the ratio described in paragraph 83? If not, how would you recognize the composite margin in earnings?*
- a. I was confused by paras 82 and 88—if exposure to risk is embedded in the composite margin, why should it not be remeasured regularly? Why lock in the margin at issue and amortize ratably?
 - b. I would recognize the composite margin (and changes therein) each period based on then best estimate assumptions. It will produce volatility in earnings, which is fair – the risks insurers

- assume produce volatile cash flows; the balance sheet accounts then will be closer (than under existing GAAP) to representing estimates of expected cash flows.
- c. Para 92 makes clear that some FASB members endorse the composite margin approach as it eliminates day one gains. This does not seem to be an intellectually powerful argument for accounting. Not surprisingly, most insurers expect to generate profits when they sell products (though some would be challenged to demonstrate the reasonableness of their assumptions). If the FASB wants profits to emerge over a risk period, then perhaps we ought to stick with existing literature and ensure that the various provisions for adverse deviation are explicitly measured and disclosed—and released over time (in effect, ensure compliance with FAS 60). Alternatively, the FASB's proposed methodology to recognize the composite margin on a prorated basis over the risk period would be our preferred approach if deferral is the overriding principal selected.
17. Question 17 – *Do you agree that interest should not be accreted on the composite margin? Why or why not?*
- a. As a user of financial statements, I would deem irrelevant the question: to accrete or not to accrete?
18. Question 18 – *Do you think that all insurance contracts should be recognized and measured using one approach or that some insurance contracts should be recognized and measured using an alternative approach (for example, the modified approach)? Why or why not?*
- a. I prefer limiting the choices available to insurers unless there is compelling evidence that the single prescriptive is clearly inappropriate (in this case less is more.) I favor approaches that enhance the comparability of financial statements and I am unaware of empirical data which might support the assertions behind the rationale for the modified approach.
19. Question 19 – *If an alternate approach is required for some insurance contracts, what recognition, measurement, and presentation provisions should be applied (including those items noted in paragraph 106)?*
- a. I pass-no comment.
20. Question 20 – *Do both the building-block approach and the modified approach (with the latter approach applied only to certain short-duration contracts) produce relevant and decision-useful information? Why or why not?*
- a. I believe the building-block approach will produce useful information, including data on expected profitability, changes in estimates, and actual versus expected performance.
21. Question 21 – *How should the scope of insurance products for each approach be defined (for example, duration of coverage period, duration of claims payment period, or type of insurance)?*
- a. I favor a single model—so there is no need to define the scope of insurance products. Each of the definitions proffered is prone to abuse and misapplication.
22. Question 22 – *Are there specific types of insurance contracts for which the approaches would not provide decision-useful information?*

- a. I have not conducted an exhaustive search, so perhaps the approaches may not produce particularly useful information for certain contracts—but the approaches likely will provide decision-useful information for most contracts. And besides, we can find lots of current accounting guidance that produces limited useful information.
23. Question 23 – *What are the implications of the recent U.S. healthcare reform to the application of the proposed contract boundary principle, including whether health insurance contracts written under the new reforms would meet the conditions in the proposed guidance to be accounted for under the modified approach?*
- a. While it is unclear whether I am qualified to comment on most aspects of the DP, my ignorance of the implications of U.S. healthcare reform on the application of the proposed contract boundary principle is unquestionable.
24. Question 24 – *What other changes should be considered to both improve and simplify U.S. GAAP for short-and long-duration insurance contracts?*
- a. And I thought you'd never ask! Might I suggest we default to something closer to embedded value reporting—and materially enhance disclosures about products/risks/pricing/assumptions/performance of the contracts insurers sell.
25. Question 25 - *What are the incremental costs of adopting the alternatives described in this Discussion Paper? Please separately describe one-time costs and ongoing costs.*
- a. The ongoing costs of adopting most of the alternatives described in the DP will not be meaningful for well managed companies; they will, however, be burdensome (but tolerable) for most.
26. Question 26 – *The scope of the proposed guidance includes reinsurance contracts that an insurer issues or acquires. However, insurance contracts held directly by other policyholders would be excluded from the scope of the proposed guidance. Do you agree with this exclusion? Why or why not?*
- a. I can't find the rationale for excluding insurance contracts held directly by other policyholders.
27. Question 27 – *Should there be symmetry between the recognition and measurement of reinsurance contracts and the underlying contract ceded?*
- a. I have yet to conceive a rationale to support asymmetry in the recognition and measurement of the effects of reinsurance contracts and the underlying contracts. I assume the FASB does not equate symmetry and equality—the principles and paradigms ought to be the same—but the actual reported amounts will certainly not (that would be a strange coincidence).
28. Question 28 – *The margin presentation approach highlights the changes in the insurance liability, rather than the current approach in U.S. GAAP, which presents, among other items, premium revenues, benefits paid, operating costs, and changes in loss estimates. Would this change improve your understanding of the performance of an entity that provides insurance (for some types of insurance or for all)? Please explain.*

- a. I would combine the current approach (premiums et al) with the margin approach—this will permit investigation of cash flows and profitability; and changes therein over time.
 - b. Para 120—I observe that users value premiums because we haven't given them anything better.
 - c. Para 122 c – I am pleased to see some relevant and useful information
29. Question 29 – *Should insurance contracts measured under the building-block approach be presented using a margin presentation approach or a premium presentation approach that would require a true-up amount as described in paragraph 119 (for example, the written allocation presentation approach or the allocated premium presentation approach)?*
- a. I support a combined presentation.
30. Question 30 – *Should short- and long-duration (or nonlife and life) contracts be presented in a similar manner even if such contracts are measured under different approaches?*
- a. I do not support the use of different approaches to measure and report insurance contracts.
31. Question 31 – *Do you agree with the proposed disclosures in the IASB's Exposure Draft? Why or why not? If not, what would you recommend and why?*
- a. The proposed disclosures are a good start—but we need to ensure consistent disclosure of risks and estimates—and how important estimates change period to period.
32. Q32 – *After considering your views on the specific issues contained in this Discussion Paper and the IASB's Exposure Draft, what do you think would represent the most appropriate improvement to U.S. GAAP?*
- a. *Pursue an approach based on the IASB's Exposure Draft?*
 - b. *Pursue an approach based on the IASB's Exposure Draft with some changes? Please explain those changes.*
 - c. *Pursue an approach based on the Board's preliminary views in this Discussion Paper?*
 - d. *Pursue an approach based on the Board's preliminary views in this Discussion Paper with some changes? Please explain those changes.*
 - e. *Make targeted changes to address specific concerns about current U.S. GAAP (for example, items included in paragraph 7)? Please describe those changes.*
- a. I pick option d—pursue Board's preliminary views, with the following changes:
 - i. Use best estimates
 - ii. Recognize gains and losses at issue
 - iii. Reconcile each period actual to expected
 - iv. Reconcile each period changes in assumptions and measure impact on equity

Mr. Russell G. Golden
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I hope to receive an invitation to participate in the roundtable discussions. I am available to discuss this letter at your convenience.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Chris".

Chris C. Stroup
Chairman & CEO