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Ms. Leslie F. Seidman, Acting Chair Financial Accounting Standards Board 401 Merrit 7 Norwalk, CT 06856-5116

RE: File Reference No. 1870-1000, Preliminary Views on Insurance Contracts

Dear Ms. Leslie Seidman:

Protective Life Corporation (the "Company" or "Protective") appreciates the opportunity to provide the Financial Accounting Standards Board ("FASB" or "Board") with our perspective on certain aspects of the Board's Discussion Paper, Preliminary Views on Insurance Contracts. Protective, through its subsidiaries, is a group of domestic insurance companies that market retirement savings, investment, and asset protection products such as life insurance, annuities, guaranteed investment contracts, funding agreements, credit insurance and extended service contracts.

The decisions reached by the Board and the resulting guidance as it relates to insurance products will have a significant impact on our financial statements.

The Company supports the Board's objective to improve, simplify and converge the accounting guidance of U.S. GAAP with International Financial Reporting Standards ("IFRS"). As it relates to accounting for insurance contracts, the Company would prefer the FASB to take a targeted approach to improving the accounting model for United States insurers. We believe that current U.S. GAAP for insurance entities is a result of years of deliberation between the Board, industry and users. We do not believe that a complete overhaul, as proposed, of U.S. GAAP for insurance enterprises achieves the Board's goal to improve, simplify and converge the financial reporting requirements for insurance contracts and provide users with decision-useful information. The Company supports certain improvements to the current guidance for insurance contracts (see response to question #32), but believes these improvements would



provide a greater benefit to financial statement users at a lower cost if accomplished through a targeted approach.

In the SEC's first progress report on the "Work Plan for the Consideration of Incorporating IFRS in the Financial Reporting System for U.S. Issuers" dated October 29, 2010, they recognized that there are differences between IFRS across jurisdictions based on the jurisdiction's approach to incorporation. In light of the fact that there will always be differences between jurisdictions, we believe that the goal of material convergence, as opposed to complete convergence, with IFRS would be consistent with the goal of producing a single set of global accounting standards. We believe that material convergence can be accomplished through the board focusing on the desired improvements in paragraph 7 of the discussion paper with modification for our views expressed in this letter. Additionally, the Company suggests that any modifications to U.S. GAAP be made effective after the SEC has completed its work plan and provided certainty as to the direction of the U.S. Financial Reporting System; whether it is complete conversion to IFRS or continued effort toward convergence through the coordinated effort of the FASB and the International Accounting Standards Board ("IASB").

Though the Company supports a more targeted approach to improving U.S. GAAP we would like to express our concerns with the proposed guidance. The Company's primary concerns with the discussion paper are:

- Discount rate limited to risk free rate plus an illiquidity adjustment
- Acquisition costs definition is inconsistent with current U.S. GAAP and is inconsistent with the portfolio approach to insurance contracts
- Transition –IASB's proposed transition guidance would create comparability issues

Discount rate

The proposed use of the risk free rate plus an illiquidity premium as the only discount rate permitted does not reflect the economics of long-duration insurance contracts. We believe that the economics of the contracts should be taken into consideration when determining the discount rate. The economics of long-duration insurance contracts are a significant component of product pricing and development. Products are priced based on a myriad of assumptions and studies. One of those assumptions relates to the earned rate of the assets backing the policies. When considering the economics of long-duration contracts one must consider the assets in conjunction with the associated obligation. The IASB rejected the asset-based discount rate because they purport that those rates are "irrelevant for a decision-useful measurement of the liability, unless the cash flows from the assets affect the cash flows arising from the liability." To assert that asset-based discount rates are "irrelevant" is to ignore the fact that insurance companies have successfully managed their businesses using such rates since the advent of the insurance industry through sound asset/liability matching practices. We continue to believe that the economics of the liability cannot be separated from the economics of the assets which is evident in the way insurers price the contracts and manage the business. The use of such a prescriptive discount rate is in conflict with the underlying economics of the business. We do not believe that one discount rate would be an appropriate representation of all insurance contracts.

Additionally, we are concerned that discounting insurance contracts using a risk free rate with an adjustment for illiquidity could create losses at inception on contracts that are expected to be economically profitable, and have been historically. We believe that this approach would misrepresent the insurer's performance to the users of the financial statements. We propose a principles-based approach to determining the discount rate that allows for a range of permissible methods depending on the circumstances. Of those permissible methods we would support the following:

- Asset earned rate less expected defaults
- A benchmark rate (i.e. high quality corporate bond portfolio rate, etc.)
- o Risk-free rate with an adjustment for illiquidity
- o Risk-free rate

Acquisition costs

The Company supports the inclusion of acquisition costs in the expected cash flows used to measure of the liability. We believe this appropriately reflects the way insurers view and manage their business. However, the Company is concerned with the proposed definition of incremental acquisition costs and what costs would be included in the measurement of the liability. The discussion paper proposes that only incremental acquisition expenses identified at the level of an individual insurance contract be included in the measurement of the insurance liability. In paragraph BC140 of the IASB's basis for conclusion the IASB proposes to align the definition of acquisition costs with those in IAS 39 and IFRS 9 for determining transaction costs of financial instruments. IAS 39 and IFRS 9 do not include internal administrative costs as incremental to the contract which could lead to the exclusion of underwriting, medical and other administrative costs associated with policy acquisition. This definition fails to recognize a fundamental difference between insurance contracts and other financial instruments. Unlike other financial instruments, insurance contracts are not economically feasible on an individual contract level. The economic feasibility of insurance contracts relies on the concept of pooling risks by grouping similar contracts into a portfolio. The Company proposes that the board modify the definition of acquisition costs to reflect the unique nature of insurance contracts by identifying incremental costs as those that are incremental to the portfolio of contracts.

The Company supports a definition of incremental acquisition costs that is consistent with the definition in Accounting Standard Update No. 2010-26 – Financial Services – Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts ("Update" or "ASU No. 2010-26"). The Update defines incremental direct costs of contract acquisition as expenses related to underwriting, policy issuance and processing, medical and inspection, sales force contract selling, certain advertising costs and other costs related directly to the insurer's successful acquisition of insurance contracts. This definition does not limit the

identification of incremental direct costs of contract acquisition to those experienced at the individual contract level.

Additionally, we are deeply concerned that the U.S. insurance industry will be unduly burdened with transition costs as a result of adopting ASU No. 2010-26 and the subsequent adoption of a standard that is not consistent with ASU No. 2010-26. These costs would be significant and provide no incremental value to financial statement users. Due to the flawed nature of the proposed definition and the significant transition costs that would be incurred by U.S. insurers, we strongly support the modification of the proposed standard to be aligned with ASU No. 2010-26.

Transition guidance

Though the Board has not exposed transition guidance we would like to express our concern with the IASB's transition proposal. The current transition guidance proposed by the IASB requires the residual margin to be set to zero. We do not support the two margin approach, and strongly prefer the composite margin approach preferred by the Board. Additionally, we do not support the one time use of the risk adjustment margin to determine the composite margin upon transition. Setting the residual margin to zero creates several problems. The IASB noted in paragraph BC248 of its basis for conclusion that insurers will not recognize residual margins as income in subsequent periods for current in-force on the date of adoption. However, insurers will recognize the release of residual margins as income for contracts issued after the adoption date. The proposal to set the residual margin to zero on the adoption date will result in reported income in subsequent periods that does not properly reflect the operating performance of insurers.

Additionally, setting the residual margin to zero creates considerable comparability issues between companies. When comparing the reported results of two insurers, one with a large mature portfolio of in-force contracts at adoption date and the other with a smaller, less mature portfolio of in-force contracts the comparison of the two companies' results will be misleading as they do not accurately represent the inherent differences between the contracts. Additionally, companies that issue contracts of a longer duration are at a disadvantage to companies that issue contracts of a shorter duration. Insurers that issue longer duration contracts will have very little residual margins for many years while insurers that issue contracts of a shorter duration will have residual margins on a large percentage of their contract liabilities within a shorter period of time.

We propose that the Board consider adopting an approach similar to the IASB staff proposed as expressed in paragraph BC249 of the IASB's basis for conclusions. We propose a modified approach to BC249 that considers the related deferred acquisition costs in the measurement of the carrying amount of the insurance liability prior to adoption and does not include the risk adjustment margin in the fulfillment cash flows. Our proposal would be to measure the composite margin upon transition as the difference (but not less than zero) between (a) the carrying amount of the insurance liability, net of related deferred acquisition costs and intangible assets arising from insurance contracts acquired, immediately before transition and

(b) the present value of the probability-weighted estimate of net cash flows on the adoption date. We believe to include deferred acquisition costs and intangible assets arising from insurance contracts acquired in the carrying amount of the pre-adoption carrying amount of the insurance liability will more closely align the transition accounting with the accounting for insurance contracts issued after the adoption date.

The IASB stated in BC 249 that it "rejected that approach because the resulting residual margins would not have been comparable with residual margins for subsequent contracts and would have depended significantly on the pattern of income recognition under previous accounting models, which are not uniform." We believe that the comparability concerns regarding residual margins upon transition does not outweigh the benefits of our proposal. Since the entire residual margin will be reflected in shareholders equity on transition, insurers will not recognize any profits on the in-force business in subsequent periods, which misrepresents the true performance of the business. We believe comparability can be achieved through disclosures related to the composite margin recorded upon transition and the run-off method applied to the margin.

We have attached our answers to selected questions in the discussion paper. We have reprinted the question followed by our response for your convenience.

We appreciate the opportunity to comment on the discussion paper and be part of the standard setting process. If you have any questions regarding this letter or you wish to discuss further, please contact me at (205) 268-6775 or Charles Evers, Vice President, Corporate Accounting (responsible for accounting policy matters) at (205) 268-3596.

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Sincerely,

Steven G. Walker

Senior Vice President, Controller and Chief Accounting Officer

Response to Selected Questions: FASB Discussion Paper – Preliminary Views on Insurance Contracts

The Company has participated with the American Council of Life Insurers ("ACLI") in the development of their comment letter. We have provided answers to certain questions (below) to clarify our position or reiterate support for the position taken by the ACLI.

Definition and Scope

3. Do you agree with the proposed scope exclusions? Why or why not?

Unsure. We suggest the Board clarify the wording in the scope exclusion in paragraph 28(e) of the discussion paper. We believe the intent was to ensure that fixed fee service contracts provided by the actual service provider not create an undue burden on businesses that are not insurers – with which we agree. The use of the words "primary purpose" could create confusion as it requires interpretation by the financial statement preparer.

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?

No. We believe that benefits an employer provides to its employees should not meet the definition of an insurance contract.

Recognition and Measurement

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?

Though we believe that probability-weighted cash flows may be appropriate for the measurement of certain insurance contracts we do not agree with such a prescriptive approach to measurement. Probability weighted cash flows are not available for all products. We would support principles-based guidance with descriptions of various acceptable measurement methods. Though probability weighting is one acceptable method, we do not believe the guidance should be so prescriptive. We believe that a cost approach similar to current U.S. GAAP for certain traditional long-duration insurance products, such as term life insurance, would provide users with more decision-useful information and better represent the economics and performance of the contract and should be one of the acceptable methods.

Regarding the contract boundary, the discussion paper requires the recognition of the policy liability at the earlier of the contract effective date and the date on which the insurer is first exposed to risk under the contract. We do not believe that the "earlier of" criteria benefits financial statement users in a way that would justify the cost of compliance. The resulting liability that would be recorded between the "on risk" date and the contract effective date would in most cases be immaterial to the financial statements, yet the cost of compliance would be significant. We propose that the recognition date be based on the coverage effective date.

8. Do you think that an entity's estimate of the net cash flows should include a risk adjustment margin?

No. We do not believe an explicit risk adjustment margin is the most appropriate approach to measuring insurance contract obligations. We believe the explicit risk adjustment margin would not provide understandable and useful information to financial statement users. Company management will be responsible for explaining changes from period to period to analysts, investors and other users. The complex nature of the risk adjustment margin does not lend itself to simple and understandable reconciliation between periods. The oversimplification of the risk margin in an effort to understand and communicate results will contribute to an overall lack of understanding of the measurement approach.

Additionally, we believe overreliance could be placed on the risk adjustment margin as it would be perceived as a precise measurement of risk, but in fact is very subjective. If the goal is to convey information regarding risk inherent in the liability we believe that would be more appropriate in the notes to the financial statements rather than in a single statistically based number.

We believe that the primary objective for the risk adjustment margin is to align the guidance for GAAP/IFRS financial statements with the needs of regulators. We do not believe this objective is consistent with the accounting framework or the GAAP definition of a liability.

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 the ultimate fulfillment cash flows exceed those expected?

No, the objective of the risk adjustment margin is not clearly understandable. The notion that the "maximum amount that the insurer rationally would pay to be relieved of the risk" inherent in the insurance liability is inconsistent with the fulfillment notion. This notion seems to imply a fair value or exit value notion, which we believe is not useful information to the users of financial statements as there isn't an observable market for an insurer to be relieved of the contract obligations.

10. Do you think that the risk adjustment margin would be comparable for entities that are exposed to similar risks?

No. We do not believe the risk adjustment margin would result in comparability across entities that are exposed to similar risks.

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?

We generally agree with the description of cash flows that should be included in the measurement of an insurance contract. We support a modification to the definition of incremental acquisition costs so that it is aligned with ASU No. 2010-26. Additionally, we believe that the Board should address the treatment of policy loans in the measurement of the contracts.

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?

We support the discounting of long-duration insurance contracts. We do not agree with the proposed discount rate. We believe the prescribed use of the risk free rate plus a illiquidity premium does not represent the way the contracts are priced and managed. We believe to deny the use of an asset-based discount rate is fundamentally flawed and does not appropriately reflect the economics of long-duration insurance contracts. Discounting cash flows using a risk free rate with an adjustment for illiquidity would create losses at inception for many contracts that are expected to be economically profitable, and have been historically. We believe the current proposal will create a significant mismatch between insurance liabilities and the assets that support those liabilities. Such a mismatch will cause significant volatility in reported results which could cause significant market disruptions. Additionally, such volatility is not reflective of the insurers business. We believe that this approach would misrepresent the performance of the insurer to the users of the financial statements. We support a principles-based approach to determining the appropriate discount rate that describes a range of acceptable methods (depending on the circumstances) with full disclosure of how the discount rate is determined. We believe the following to be methods that are acceptable:

- Asset earned rate less expected defaults
- A benchmark rate
- Risk-free rate with an adjustment for illiquidity
- Risk-free rate

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?

Yes, we believe that including the acquisition costs in the measurement cash flows is consistent with how insurers view and manage their business.

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?

No. We do not believe that incremental acquisition costs should be determined at the individual contract level. We believe this is not consistent with the economics of insurance contracts. The concept of insurance relies on the pooling of risks within a portfolio of insurance contracts because the contracts are not economically feasible on a standalone basis. The contracts are managed as a portfolio and we believe it would be appropriate to consider incremental acquisition costs as costs that are incremental to the portfolio of contracts. We support an alignment of the proposed standard with ASU No. 2010-26.

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?

Of the proposed approaches, we prefer the composite margin approach. The measurement of the margin should reflect the economics of the business which is best expressed in the price charged the customer/policyholder. The composite margin represents expected future profits on the business and is recognized into income over the life of the coverage period as the insurer fulfills its obligation under the contract. We believe that the composite margin provides relevant, understandable, decision-useful information to the users of the financial statements. We understand the risk adjustment margin provides information related to risk in the reserves, but we believe disclosures regarding risk would be more useful than a single statistical calculation. We are concerned that the expectation that users understand complex statistical models and how the assumptions in those models drive profits is unrealistic and could cause disruption in the market place.

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?

We prefer a principles-based approach rather than a prescribed calculation. We believe the prescribed calculation would be an appropriate approach for some contracts, but we do not believe that one method would be appropriate for all contracts.

17. Do you agree that interest should not be accreted on the composite margin? Why or why not?

Yes. We agree that interest should not be accreted on the composite margin. The accretion of interest would not have a material change in the measurement as it would primarily be an accounting gross-up of revenue and expense. We believe this added complexity does not provide decision-useful information to the users.

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?

We support a mixed attribute model. Regarding the modified approach, we do not support the proposed approach, but one that is similar to current U.S. GAAP for short-duration contracts. We do not believe having a bright line for classification of 12 months is appropriate for short-duration contracts.

25. What are the incremental costs of adopting the alternatives described in this Discussion Paper? Please separately describe one-time costs and ongoing costs.

We would be subject to extensive one-time and ongoing costs.

One-time incremental costs would consist of the development of new modeling approaches, review of current products to determine if products need to be changed or replaced based on projections under the new measurement approach, new projection software and grid capabilities, training, and consulting and auditing fees. We also would expect costs related to unintended consequences that will be discovered during adoption.

Ongoing and one-time incremental costs would consist of, but not limited to, development of probability distributions for product cash flow projections; development of a process to determine illiquidity premium; development and maintenance of processes to monitor, manage and report margins; development of disclosures and sensitivity analysis; fundamental change to risk management methodology; potential for increased capital costs due to lack of understanding in the market place; development of a SOX framework around all new processes and assumptions; and the numerous other indirect costs.

Presentation and Disclosure

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.

We do not believe the summarized margin presentation would be an added benefit to users. We believe the lack of premium revenue, benefits paid, operating costs and other items will be confusing to the users. The collection of premiums and the payment of claims and associated expenses are key aspect of the insurance business. We believe the presentation should include these amounts as well as the measurement of the insurance contract liabilities.

Additional Question for Respondents

- 32. 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.

The Company would support option (e). We propose that the FASB focus on targeted changes to current U.S. GAAP. We would support several of the FASB's improvements described in paragraph 7 with modifications for the concerns we have expressed in this letter.

- We would support a change in orientation from the insurance entity to a contract approach
- We support the change in the definition of an insurance contract to replace the concept of "indemnification" to "compensation."
- We support the inclusion of incremental acquisition costs in the projected cash flows used to measure the contract liability. We support continuity as it relates to the definition and identification of incremental acquisition costs as defined in the recently issued ASU No. 2010-26.