AMERICAN ACADEMY of ACTUARIES

November 16, 2007

Financial Accounting Standards Board (FASB)
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116
File Reference No. 1540-100
Via email to:director@fasb.org

Re: Invitation to Comment, An FASB Agenda Proposal: Accounting for Insurance Contracts by Insurers and Policyholders, Including the IASB Discussion Paper, *Preliminary Views on Insurance Contracts*

On behalf of the International Financial Reporting Standards Task Force of the American Academy of Actuaries[1], I am submitting these comments on the FASB Agenda Proposal: Accounting for Insurance Contracts by Insurers and Policyholders.

Ultimately, it is the actuary who is largely tasked with measuring the insurance liabilities of an insurer. Even for those circumstances where management as a whole has the ultimate responsibility for setting the level of the aggregate insurance liability, it is the actuary's calculations that primarily form the basis for that determination. Accordingly, we have a crucial concern that whatever insurance accounting standards are established are both theoretically sound and practical to implement.

For many years, US GAAP, particularly for life insurance and similar health coverages, has been subject to a patchwork approach to adjusting to changes in products. In some cases, development of those products with innovative structures was partly motivated by favorable apparent accounting treatment that was only corrected by issuing an additional piece of GAAP guidance. The most recent example of this patchwork approach is AICPA SOP 05-1, which has caused actuaries and accountants alike considerable implementation difficulty.

For many short-term non-life coverages, there tends to be much less concern about the basic accounting model among actuaries since the contract structure tends to be reasonably similar even if the coverages are different. On the other hand, recent trends in product designs for short-term health insurance coverages have raised an increasing number of accounting questions, making this an opportune time to reconsider the basic accounting model. In fact, US GAAP for non-life coverages is quite similar to current accounting worldwide.

[1] The American Academy of Actuaries is a national organization formed in 1965 to bring together, in a single entity, actuaries of all specializations within the United States. A major purpose of the Academy is to act as a public information organization for the profession. Academy committees, task forces and work groups regularly prepare testimony and provide information to Congress and senior federal policy-makers, comment on proposed federal and state regulations, and work closely with the National Association of Insurance Commissioners and state officials on issues related to insurance, pensions and other forms of risk financing. The Academy establishes qualification standards for the actuarial profession in the United States and supports two independent boards. The Actuarial Standards Board promulgates standards of practice for the profession, and the Actuarial Board for Counseling and Discipline helps to ensure high standards of professional conduct are met. The Academy also supports the Joint Committee for the Code of Professional Conduct, which develops standards of conduct for the U.S. actuarial profession.

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We respond to each of your questions below. We also offer to help provide any educational input concerning industry practice and actuarial concepts that might be needed should the Board decide, as we recommend, to take this on as a joint project.

Sincerely,

Henry Siegel

Henry Siegel
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Risk Management and Financial Reporting Council
American Academy of Actuaries

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Responses to Questions:

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

As noted above, current GAAP accounting for life and similar health insurance coverages largely reflects a patchwork of guidance that requires close attention to detailed instructions rather than focus on getting the proper measurement. We believe the time has come for developing a standard structure that will avoid the considerable complexity that currently exists.

For non-life insurance, we are less concerned about the current GAAP guidance but believe there are potential improvements to be had from a comprehensive review of all GAAP for insurance contracts. In particular, the 25 years that have elapsed since the issuance of FAS 60 have seen considerable evolution in and growth of the U.S. health insurance market, and it may be helpful at this juncture to develop a single set of GAAP accounting guidance that clearly pertains to all health insurance contracts without regard to the legal structure of the entity writing the contract.

a. What aspects of existing U.S. GAAP accounting for insurance contracts could be improved or simplified and how pervasive are these issues?

We discuss above our primary concern for the patchwork nature of life insurance guidance. We believe that it would be better to focus on a measurement goal for liabilities and the impact of that measurement goal on the income statement and allow actuaries to set guidance for how those measurements should be performed rather than to continually patch the current quilt of guidance.

b. How important is the development of a common, high-quality standard used in both the U.S. and IFRS jurisdictions?

Many of the largest insurers in the world are international businesses. When it comes time to produce consolidated income statements for such entities, differing accounting standards cause additional expenses for those companies and increase the possibility of error in the statements. Furthermore, training of staff in multiple accounting systems is difficult and expensive. It would therefore be of considerable help to the industry to have a common standard between the US and IFRS jurisdictions (or to at least minimize the extent of any differences, perhaps to only those that are necessary due to jurisdictional differences in products and/or legal environments).

As actuaries, we observe that having consistent accounting standards worldwide would be of benefit to users worldwide but that such concerns are better addressed by users of financial statements. However, we also observe that care should be taken to assure that the desire for consistency does not inadvertently create a situation where the adopted accounting guidance is incongruent with unique aspects of the U.S. insurance market.

***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?**

We have considerable concerns about the preliminary views contained in the IASB's Discussion Paper. We have expressed those views separately in our comments to the IASB, a copy of which is attached for your reference. Our concerns include: the likelihood of gains at issue; the limitations on measurements of liabilities, such as, for recognizing favorable policyholder behavior and for recognizing policyholder dividends and other non-guaranteed elements; and the requirement for discounting and adding a risk margin for all non-life coverages. Nevertheless, we believe that the Discussion Paper is a reasonable place to begin the project.

a. Do you believe the preliminary views would be feasible to implement? If not, what aspects of the preliminary views do you believe could be difficult to apply and why?

We have some concerns that specific language in the Discussion Paper will be particularly difficult to implement. Perhaps most importantly, determining a risk margin for insurance coverages may be quite difficult to implement. Furthermore, language in the Discussion Paper that appears to require stochastic analysis for all calculations and all risks will require clarification since it would not be possible to implement that for most situations other than financial risks.

Comments on these problems and others are included in more detail in our comments to the IASB.

b. Are there other alternatives to improve or simplify U.S. financial reporting for insurance contracts that you would recommend? What would be the benefits of those alternatives to users of financial statements?

There are no alternatives that we are aware of at this time that we would recommend.

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 don't believe that there is a need to combine these two issues. While accounting for policyholders will need to be addressed, requiring that it be done simultaneously may only serve to slow down the development of the basic accounting model for insurance liabilities.   We would suggest that this project wait until the exposure draft for insurance contracts has been issued. Given the considerable lead time that implementation of the insurance contracts guidance will require, it should be possible to finish the policyholder guidance at roughly the same time as the standard for insurance liabilities becomes effective.

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?**

It would be helpful, but not required, for papers on revenue recognition and liabilities and equity to be finished before the insurance contract guidance is finished. However, it seems that the insurance contract has served as a good practical example for the Board to use as a discussion point in those projects and we don't object to having them work in parallel. However, we believe that the insurance contracts paper should not be issued until it can be reasonably assured that it is consistent with the near-certain outcome of those other projects.