

July 22, 2005

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street, First Floor
London EC4M 6XH

Originally sent by email

Dear Sir David:

While the IASB's Insurance Working Group continues to consider different elements of an insurance contracts accounting standard, we thought it might be of value to present a set of basic principles agreed to by the companies and associations listed below.

We are supportive of the move towards a global accounting standard for insurance contracts; a standard that reflects the business model and unique features of insurance contracts.

The principles attached are a foundation on which we believe that the Phase II insurance project should build on. Work on these principles continues, as does development of additional principles. We recognize this is not a complete set as there are several issues still under discussion.

We would be pleased to discuss these principles with you and the Board at any time. They already form the basis for our comments at the Insurance Working Group and our ongoing discussions with the staff.

Group of North American Insurance Enterprises

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Sadao Kato, Managing Director,
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Yoshio Yamamoto, Senior Managing Director,
Meiji Yasuda Life Insurance Company

Koji Hanaoka, Managing Director
Sumitomo Life Insurance Company

Initial Measurement

- 1.0 At initial measurement, there should be no gain or loss unless a loss recognition test would indicate otherwise.**
- 2.0 A policyholder intangible should be recognized as an asset limited to the amount of the upfront acquisition costs.**

Consistent with the “release from risk” model for subsequent measurement, the initial measurement is based on the consideration charged to the policyholder. This is consistent with the initial measurement criteria under IAS 39. It also recognizes the fact that an active observable market does not normally exist for insurance contracts against which any initial gain could be reliably measured as required under IAS.

For certain lines of insurance contracts particularly those where premiums are paid periodically, the expenses incurred in acquiring the relationship with the policyholder can significantly exceed the initial consideration received. A policyholder intangible should be permitted that recognizes the contractual benefits of acquiring this relationship, but should be limited to avoid the possibility of a gain at inception.

If the loss recognition test at inception indicates that the contract is loss-making, then this should be recognized immediately.

Subsequent Measurement

- 3.0 Gains and losses should be recognized in line with the release from risk.**

The entity should recognize profits as it is released from risks. This recognizes the fact that in insurance, premiums are received in advance of the provision of insurance service.

Risk and Uncertainty

- 4.0 Insurance liabilities should reflect the inherent risk and uncertainty of future cash flows.**
 - 4.1 It should not require a single estimation technique.**
 - 4.2 Allowing for risk and uncertainty does not require calculating a risk margin.**
- 5.0 Non-life insurance claims liabilities should not be discounted with the exception of those liabilities that have highly predictable annuity-like payment patterns, such as workers compensation insurance. Life reserves should be calculated on a discounted basis.**

The accounting model should recognize the inherent uncertainty within insurance contracts. The accounting model should clarify the objective of providing an appropriate allowance for risk and uncertainty but it should not prescribe a single estimation technique.

Review of assumptions

6.0 Assumptions underlying the measurement of insurance liabilities and intangible assets should be periodically reviewed and unlocked if appropriate.

The periodic review of assumptions will require management to consider the appropriateness of the assumptions relative to emerging experience.

Financial Options and Guarantees

7.0 Liabilities should reflect the value of all financial options and guarantees.

Financial options and guarantees should be recognized within the valuation. The measurement may be based on deterministic or stochastic techniques and no particular technique should be prescribed due to the wide range of options and guarantees offered and the different models used in practice. The reported value of options and guarantees should reflect realistic expectations and constraints on policyholder's behavior.

Value Based Measures

8.0 An entity may disclose a value-based measurement in the notes to the financial statements or in the Management Discussion and Analysis.

8.1 The methodology and assumptions used to estimate the value-based measurement should be disclosed.

Users of accounts have diverse needs and the relevant information that could be provided includes information on value added, financial strength, dividend paying capacity and cash flows. As no single model can be developed to satisfy all these needs, an entity may choose to further disclose "value added" information

Own Credit Standing

9.0 The credit standing of an entity should not be considered in the valuation of insurance liabilities.

Credit standing should not be reflected in determining how an entity's liabilities are measured given its lack of realizability.

Unit of Account

10.0 Measurement should be based on portfolio.

The pooling of risk is a fundamental feature of insurance business. Measurement of insurance contracts should be based on book of insurance contracts and not on individual contracts.

Policyholder behavior

11.0 Policyholder behavior should be reflected in the measurement of liabilities.

12.0 Renewal options or provisions that obligate the insurer to continue to provide coverages should be recognized to the extent they are included in the contract.

Policyholder behavior assumptions encompass actions such as lapses, withdrawals, transfers, recurring deposits, benefit utilization, option election. Behavior formulas may have both rational and irrational components as it is inappropriate to assume that all policyholders act in a financially rational manner only. Renewal options that obligate the insurer to continue to provide coverage should be recognized to the term of the contract allowing for cancellation although the measurement of the contract should extend to the term of the liability, etc.

Asset-Liability Measurement

13.0 Entities should have the ability to measure assets and liabilities on a consistent basis.

13.1 This allows reflection of the way companies manage risk

13.2 This would create symmetry in the measurement of assets and liabilities.

This principle recognizes the importance of asset liability management within the insurance business. The proposal should seek, where appropriate, to eliminate or significantly reduce a measurement or recognition mismatch, (referred to as “accounting mismatch”) but should not seek to deliberately eliminate the recognition of an economic mismatch in the financial statements. This means that the linkage between assets and liabilities must be considered.

This issue could be addressed through either the asset or liability side or both. This may mean adjustments need to be made to the existing mixed measurement model under IAS 39.

Assumptions for future investment experience should recognize the linkage between assets and liabilities as appropriate.

Corresponding changes in the value of assets and liabilities should be reported consistently. This will need to be considered further as part of the performance reporting project.