



Executive Chair

Jerry M. de St. Paer
Senior VP, Finance
American International
Group, Inc.

Vice Chair

Michael E. Sproule
CFO
New York Life Insurance
Company

Philip Bancroft
CFO
ACE Ltd.

Sam Pilch
Acting CFO
The Allstate Corporation

David B. Greenfield
CFO
AXIS Capital Holdings Ltd.

Patrick B. Kelleher
CFO
Genworth Financial, Inc.

Beth Bombara
Controller
The Hartford

Fredrick J. Crawford
CFO
Lincoln Financial Group

Peter H. Rubenovitch
CFO
Manulife Financial

Sandra J. Peters
Corporate Controller
MetLife, Inc.

Albert Benchimol
CFO
PartnerRe Ltd.

Michael H. Gersie
CFO
Principal Financial Group

Peter Sayre
Corporate Controller
Prudential Financial, Inc.

Richard P. McKenney
CFO
Sun Life Financial Inc.

D. Keith Bell
Senior VP, Corporate
Finance
Travelers Companies, Inc.

Brian Nocco
CFO
XL Capital Ltd.

Douglas Wm. Barnert
Executive Director

GNAIE

Group of North American Insurance Enterprises
40 Exchange Place, Suite 1707
New York, NY 10005
UNITED STATES

April 28, 2008

Mr. Warren McGregor, Chairman
IASB Insurance Working Group
30 Cannon Street
London, EC4M 6XH
United Kingdom

Dear Mr. McGregor:

The Group of North American Insurance Enterprises (GNAIE) consists of sixteen of the leading insurance companies in the United States, Canada and Bermuda. GNAIE members include life insurers, non-life insurers, and reinsurers, and encompass companies who are among the largest global providers of insurance. As you know, we have consistently supported the development of a single global set of high quality insurance contracts accounting standards.

Towards this objective, and to assist the Insurance Working Group and the International Accounting Standards Board in their deliberations and search for alternatives to the accounting proposals contained in the IASB Discussion Paper, *Preliminary Views on Insurance Contracts* of May 2007, we have prepared five of our own discussion papers for your review:

- Settlement Value:
 - Life Insurance Issues
 - Non-Life Insurance Issues
- Field Testing
- Day One Profit
- Risk Margins

While we believe the discussion papers speak for themselves, we can briefly summarize our position with regard to the issues addressed by the papers with the following:

++1-212-480-0808
info@insuranceaccounting.org
www.insuranceaccounting.org

- ***GNAIE supports “contract fulfillment value” (“CFV”) as the measurement attribute for insurance contracts.*** CFV reflects the fact that the insurer intends (and in most cases must) settle the liability by paying policy benefits to the policyholder as they fall due in the normal course of business pursuant to the terms of the insurance contract. Because CFV is based on the settlement of contract obligations by the insurer with the policyholder, it is different from the notion of “settlement value” that is often used by the IASB, which requires a transaction to extinguish the liability as of the measurement date. A measurement attribute based on the Board’s notion of settlement value is necessarily a theoretical construct, because legal constraints in most countries as well as the commercial intent of both insurers and policyholders typically preclude such settlements from occurring.
- ***We do not support the “current exit value” measurement proposed by the IASB.*** A measurement attribute based on transferring the liability to a third party is a theoretical construct, because insurance liabilities rarely are transferred and generally cannot be transferred in this manner. Assumptions based on such a transfer concept cannot be calibrated to reality and don’t represent the true value of the liability.
- ***GNAIE believes that field testing must be an integral part of work on an international accounting standard for insurance contracts, and we would be very pleased to discuss or otherwise assist the IASB in this regard.*** Among the many reasons for doing field testing, IASB preliminary views would require fundamental changes from existing accounting practices. If adopted, these changes would require many preparers to develop methods, models, and hypothetical assumptions that are vastly different from those they use today. We suggest that studies already exist, and that others that could be developed using the resources of the industry, to further assess the potential magnitude of gains at inception and the reasons for such gains. The IASB received over 160 comment letters on its Discussion Paper on Insurance Contracts, most of them including comments on field testing, and virtually all these comments strongly supporting the need for it to occur.
- ***We believe that profits should only be recognized on a release from risk basis.*** Insurance contracts are executory in nature. Accordingly, since there has been no risk released at the inception of an insurance contract, there should be no profit recognized as of that time.
- ***Similarly, risk margins should be released as the insurer is released from risk.*** For life insurance, these margins are explicit. If experience follows the expected path, earnings will equal the margins being released. For non-life insurance, explicit risk margins are generally not needed since appropriate implicit risk margins are included in liabilities measured using the CFV measurement attribute we discuss for that type of business.



Please direct inquires and requests to Doug Barnert, Executive Director of GNAIE, at:

+1-212-480-0808 or doug.barnert@gnaie.net

Sincerely,

A handwritten signature in black ink that reads "Jerry de St. Paer". The signature is written in a cursive, flowing style.

Jerry de St. Paer
Senior Vice President, Finance, AIG
Executive Chairman, GNAIE

CC: Members, IWG

JdSP: JK: cll