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June 19, 2007

Financial Accounting Standards Board  
c/o Technical Director – File Reference No. 1530-100  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

**Re: Financial Guaranty Insurance Project**

Dear Chairman Herz:

The Group of North American Insurance Enterprises (“GNAIE”) is pleased to offer our views on the Financial Accounting Standards Board’s (“FASB” or “the Board”) exposure draft, *Accounting for Financial Guarantee Insurance Contracts, and interpretation of FASB Statement No. 60* (the “Exposure Draft”). We believe that the appropriate decision was made to exclude mortgage guaranty and credit insurance from the scope of the Exposure Draft. We do not believe that the model put forth in this Exposure Draft, especially with regard to premium revenue recognition, is consistent with the short duration model described in FAS 60. We do not believe this is appropriate, nor the intent of the Board, to deviate from the FAS 60 revenue recognition model. Below we expand on these comments and offer our views on the Exposure Draft.

**Scope**

We appreciate that the Board decided to exclude mortgage guaranty and credit insurance from the scope of the Exposure Draft in paragraph 5b. However, the statement is made that these contracts are similar to financial guarantee contracts. For these reasons below, mortgage guaranty and credit insurance do not fit the definition intended for financial guaranty insurance and are properly excluded from the Exposure Draft’s scope.

**Douglas Wm. Barnert**  
Executive Director

**GNAIE**

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

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

Credit and payment protection insurance that does not cover default risk is explicitly addressed within Financial Accounting Standard No. 60, *Accounting and Reporting by Insurance Enterprises* (“FAS 60”). Credit Insurance (life and disability) is a purely voluntary coverage elected by the borrower to provide default protection on a loan solely due to specific insurable events (such as death, illness, disability, or unemployment). A credit insurer will not pay a claim for general default, unless a specified insurable event occurs.

Mortgage guarantee insurance is different from bond financial guarantee for many reasons, including:

Default Event: Financial guarantee defaults typically relate to shortfalls in cash flows from operations (bonds) or cash flows from assets (asset-backed notes). Mortgage guarantee contracts default from unemployment, death or illness, divorce or rising interest rates on adjustable rate mortgages, and other events.

Ability to Monitor Default Risk: Underlying mortgage loans are almost always issued and administered by 3<sup>rd</sup> party financial institutions. As a result, mortgage guarantee insurers often do not have information available, or access to information, to monitor individual loan default events. In most cases, even the 3<sup>rd</sup> party financial institutions have little, or no, information, about individual borrowers after the initial underwriting stage. Financial guarantee insurers are able to obtain information to monitor the insured company’s financial strength and asset values and therefore estimate default probabilities. As well, rating agencies provide “shadow ratings” in most cases, periodically indicating the rating the bonds or notes would have absent insurance.

Home Collateral: Home price appreciation and property values play a large role in whether a mortgage guarantee contract will result in a claim and, if so, the amount of the claim. As a result of home collateral, the exposure for mortgage guarantee insurance is not solely debt service.

Further, for both mortgage guarantee and credit insurance, the financial statements and accounting practices are well understood by users, as issuers have consistent accounting practices in premium revenue and claim recognition, as well as deferred acquisition costs.

### **Unearned Premium Revenue**

We support the recognition of an unearned premium liability at the inception of a contract, consistent with practice today for prepaid premiums. We also note that applying a discount rate that reflects the policyholder’s credit standing at contract inception for a premium receivable asset may be practicable in this situation. However, as it relies heavily on access to credit information related to the policyholder, we note that it is impracticable for other kinds of insurance.

## **Premium Revenue Recognition**

We believe premium revenue should be recognized as the insurer is released from risk under an insurance contract, consistent with FAS 60 as clarified by FASB Technical Bulletin No. 90-1. That risk is the general financial stability and well-being of the issuer and is not directly related to the insured financial obligation. Accordingly, the contractual payment of the insured financial obligation is not the most appropriate measure of exposure in a financial guarantee insurance contract. The passage of time is the primary element of risk reduction and, accordingly, we believe it is the appropriate basis to recognize premium revenue.

## **Claim Liability**

We agree with the Board's views on the timing of recognizing a claim liability. Generally, we do not support the discounting of non-life insurance liabilities, because future cash flows, especially for long-tail lines of business are subject to significant variability with respect to timing and amount. Under U.S. GAAP, discounting of claim reserves for short duration insurance contracts is only permitted if certain conditions are met, one of which is that "the payment pattern and ultimate cost are fixed and determinable on an individual claim basis." As the timing and amount of contractual payments associated with the underlying insured obligation are fixed and determinable, we agree that discounting is appropriate in this particular circumstance. However, the credit standing of an entity should not be considered in the valuation of insurance liabilities. Decreasing a liability when a company's rating is lowered leads to a misleading and confusing result. In addition to being inappropriate, insurance regulations and other mechanisms in most jurisdictions guarantee payments to policyholders. A policyholder would not accept less than the contractual or face amount owed. The insurance industry guarantee mechanisms provide greater security to policyholders than bondholders or other debt holders. Since policyholder interests are met before debt holders (debt is subordinate to policyholder obligations), even in an insolvency, companies are often able to pay all their policyholder obligations while debt holders may receive substantially less than the face value of their investments, if they receive anything.

We also note that the concept of a surveillance list is one generally not utilized in insurance outside of financial guarantee contracts.

We hope these comments are of assistance to the Board in their discussions. Moreover, we would be happy to make ourselves available to discuss our comments and recommendations.



GNAIE consist of the Chief Financial Officers of the leading North American insurance companies including life insurers, property and casualty insurers, and reinsurers. GNAIE members are the largest global providers of insurance and substantial multi-national corporations. All are major participants in the United States and international markets.

The goals of GNAIE are to influence accounting standards to ensure that they result in high quality accounting standards for insurance companies, and, to that end, to increase communication between insurers doing business in North America and accounting standard setters. GNAIE works to meet its goals through modeling of proposed accounting standards, analysis, comment, and coordination with various end users of financial reports.

Respectfully submitted,  
The Group of North American Insurance Enterprises

A handwritten signature in black ink that reads "Douglas Wm. Barnert". The signature is written in a cursive, flowing style.

Douglas Wm. Barnert  
Executive Director

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