

For more information contact:

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

GROUP OF NORTH AMERICAN INSURANCE ENTERPRISES URGES NAIC TO WEIGH IN ON ACCOUNTING PROPOSAL'S SHORTCOMINGS

NEW YORK, August 22 -- The Group of North American Insurance Enterprises (GNAIE) urged the National Association of Insurance Commissioners (NAIC) to call for changes in the proposed accounting standards as outlined in the Insurance Contracts Discussion Paper issued by the International Accounting Standards Board.

GNAIE identified six major concerns with the proposals:

- It allows for the recognition of significant artificial gains at the inception of a policy before any insurance protection is provided;
- It puts limitations on the way in which liabilities are calculated, resulting in confusion as to the true exposure;
- It requires use of a company's own credit risk in determining liability values, a method which may misrepresent the value;
- It requires the use of so called "market-consistent," not company specific, assumptions, including use of a risk free rate for discounting life insurance liabilities instead on rates linked to company asset performance;
- It requires the use of explicit risk margins and discounting for determining non-life liabilities, which may minimize the true risk; and
- It requires separating or unbundling parts of a policy, a change that has no benefit for financial statement users.

"We believe that the Discussion Paper's accounting proposals are not representative of the way that insurers manage their business and the way users evaluate and analyze our business. As drafted, the insurance contracts discussion paper does not appropriately measure the economic reality of our business and is potentially misleading and open to possible manipulation," Jerry de St. Paer stressed. De St. Paer is chairman of GNAIE and Senior Vice President – Finance of American International Group (AIG). He added, "The methods proposed by the IASB are no more 'market consistent' than many of today's existing practices, especially for non-life, long-tailed liabilities. These proposals disregard key, well understood and valued performance metrics and are difficult to use and interpret."

To influence the development of international accounting and solvency standards to ensure that they result in robust, high quality standards for insurance enterprises.

De St. Paer closed by saying, “The voice of the US insurance regulators is important to the debate. We think implementing the positions reached in the Discussion Paper could have significant unintended consequences for the insurance industry and our policyholders. We urge the NAIC to engage in the debate.”

The NAIC is a voluntary organization of the chief insurance regulatory officials of the 50 states, the District of Columbia and the five U.S. territories.

The Group of North American Insurance (GNAIE) is an insurance trade association that focuses exclusively on financial reporting, accounting and solvency issues. GNAIE assists North American and global standard setters and regulators, in cooperation with the global insurance industry and with insurance and other financial services industry trade associations, to ensure the development of high quality accounting and solvency standards.

More information on GNAIE can be found at www.gnaie.net.

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