



April 27, 2010

Mr. Robert Herz, Chairman  
Financial Accounting Standards Board

*Sent via email*

Sir David Tweedie, Chairman  
International Accounting Standards Board

Dear Sir David and Mr. Herz:

According to the March 2010 IASB *Update* and the minutes from the March 22, 2010 joint Board meeting that are posted on the FASB web site, the Boards tentatively decided to use the current definition of an insurance contract in IFRS 4 in the exposure draft for an insurance contracts standard; and both Boards voted unanimously that compensation rather than indemnification should be used in the definition of an insurance contract in describing the benefit provided to the policyholder.

An insurance contract (according to the definition in IFRS 4) is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. We are concerned that the term *compensation* does not completely and correctly describe the benefits provided to the policyholder in typical non-life insurance contracts. In such contracts, the insurer does accept significant insurance risk, and does provide payment and/or services if a specified uncertain future event occurs that adversely affects the policyholder. But at least in the U.S., the insurer's obligations under such contracts are to indemnify and defend the policyholder in the event that a covered loss occurs during the contract term (coverage period). In contrast, the benefits provided by typical life insurance contracts could correctly be described as *compensation* for the covered loss. But such life insurance benefits do not *indemnify* the beneficiary for the loss.

Because of the differences in the contractual obligations described above, we suggest that the insurance contract standard should contain different definitions for life and non-life insurance contracts, or should contain a single definition that clearly and correctly specifies the nature of the benefits provided by each type of contract. The following are two approaches that could be considered if a single definition is used in the standard.

- 1) Add the words "and/or indemnify" to the definition in IFRS 4 (i.e., an insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate *and/or indemnify* the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder). And/or

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- 2) Add a clarifying paragraph *within the standard, and preferably immediately after the definition*, which states explicitly that payments or services provided to indemnify or defend the policyholder for a covered loss are considered to be *compensation* within the terms of the definition. We do not think it would be sufficient to include such a statement in implementation guidance or other material that supports the standard, because such guidance or material would not have the formal authority of the standard.

We note in the most recent overview of previous IASB and FASB discussions in the insurance contracts project (which is in the appendix to the Insurance Contracts Cover Note paper for the April 2010 joint Board meeting, IASB agenda reference 3 and FASB memo reference 43) that the Boards tentatively decided that the objective for measuring an insurance contract should refer to value rather than cost. While we have no objection to characterizing the objective in such a manner, we believe that the definition of an insurance contract should refer to the benefit cost. For life insurance, the cost is typically a stated policy benefit amount that is paid if the covered loss occurs. For non-life insurance, the cost is typically the amount the insurer is obligated to pay to indemnify the policyholder for the covered loss, including cost to defend the policyholder against counterclaims and litigation. Thus for non-life insurance, the policyholder should expect no more (and no less) value from the insurance contract than to be indemnified for the covered loss, up to the limits that are specified in the contract.

We also note that existing US GAAP clarifies the nature of insurance contracts in paragraph 944-20-05-40 of the *FASB Accounting Standard Codification* as follows: "Insurance provides indemnification against loss or liability from specified events and circumstances that may occur or be discovered during a specified period. In exchange for a payment from the policyholder, an insurance entity agrees to pay the policyholder if specified events occur or are discovered." We believe that the converged international standard for insurance contracts should also state clearly that insurance contracts do (or can) provide such indemnification against loss or liability.

We hope these comments are useful to you. We would be happy to discuss this subject with you further or to provide you with additional information in advance of your finalization of the exposure draft.

Sincerely,

A handwritten signature in black ink that reads "Kevin Spataro". The signature is written in a cursive, slightly slanted style.

Kevin Spataro  
Chairman, GNAIE Accounting Convergence Committee

cc: Mel Anderson, Chair, NAIC International Accounting Standards Working Group  
Rob Esson, Chair, IAIS Insurance Contracts Subcommittee  
Peter Windsor, Secretariat, IAIS Insurance Contracts Subcommittee

KAS:KK:cll