



NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

August 24, 2006



**EXECUTIVE HEADQUARTERS**

2301 MCGEE STREET  
SUITE 800  
KANSAS CITY MO  
64108-2662  
VOICE 816-842-3600  
FAX 816-783-8175

Technical Director  
Financial Accounting Standards Board  
File Reference 1325-100  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

LETTER OF COMMENT NO. 34

**GOVERNMENT RELATIONS**

HALL OF THE STATES  
444 NORTH CAPITOL ST NW  
SUITE 701  
WASHINGTON DC  
20001-1509  
VOICE 202-624-7790  
FAX 202-624-8579

Technical Director:

Thank you for the opportunity to comment on the Invitation to Comment (ITC), *Bifurcation of Insurance and Reinsurance Contracts for Financial Reporting*. On behalf of the Statutory Accounting Principles Working Group and the Property and Casualty Reinsurance Study Group of the National Association of Insurance Commissioners (NAIC), I am pleased to provide you with comments on the Invitation to Comment.

**Purpose for NAIC Comment**

As you may know, during 2004 and 2005, United States regulators devoted a great deal of time and resources discussing issues related to Finite Reinsurance. In 2005, the NAIC adopted enhanced disclosures to increase the transparency of reinsurance contracts that contain certain features commonly associated with Finite Reinsurance. Also in 2005, United States regulators of insurance companies required additional assurances from senior management in the form of a Certification included in financial statement filings that all reinsurance contracts are properly accounted for using the principle based requirements of SSAP No. 62, *Property Casualty Reinsurance Contracts* (U.S. Statutory Accounting Principles Counterpart to FAS 113). Senior management must also certify that proper internal controls exist to further ensure compliance with accounting and reporting standards. In addition, the actuarial profession, on behalf of United States regulators, surveyed the insurance industry to gather further information or practices in this area of risk transfer.

**SECURITIES VALUATION OFFICE**

48 WALL STREET  
6<sup>TH</sup> FLOOR  
NEW YORK NY  
10005-2906  
VOICE 212-398-9000  
FAX 212-382-4207

United States' regulators came to several conclusions as a result of this survey, and although the NAIC received a proposal from the New York Insurance Department to require bifurcation of reinsurance contracts, that proposal has been set aside so regulators can focus on some of the more immediate solvency concerns related to Finite Reinsurance. The New York Department deferred this bifurcation proposal due in part to the fact that United States regulators acknowledge virtually all reinsurance contracts incorporate financing, and that pricing of reinsurer contracts is a function of other elements in addition to current interest rates and the actuarially determined best estimate of expected level of losses. The price of a reinsurance contract also includes the amount the provider of the insurance protection is able to demand and the amount the insurance company is willing to pay.

**WORLD WIDE WEB**

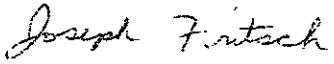
[www.naic.org](http://www.naic.org)

Because the NAIC is still studying various solvency issues related to Finite Reinsurance, we cannot at this time support the adoption of required bifurcation as contemplated in this invitation to comment. The NAIC distributed a survey concerning the ITC to insurance regulators in the U.S. and received comments although no clear consensus was apparent from the comments.

As you know, Phase II of the International Accounting Standards Board's Insurance Contracts Project is underway at present. The NAIC recommends that the FASB await developments in this modified joint project (which we understand may possibly become a full joint project) rather than making significant alterations to US GAAP at this stage.

We appreciate the opportunity to comment on the Invitation to Comment, *Bifurcation of Insurance and Reinsurance Contracts for Financial Reporting*. Should you have any questions, please contact me at (212) 480-2299, or Bryan Fuller (NAIC Staff) at (816) 783-8139.

Sincerely,

A handwritten signature in cursive script, reading "Joseph Fritsch", enclosed within a rectangular box.

Joseph Fritsch  
Chair, NAIC Statutory Accounting Principles Working Group & NAIC Property &  
Casualty Reinsurance Study Group

## Background and NAIC Process

*Formed in 1871, the NAIC is a voluntary organization of the chief insurance regulatory officials of the 50 states of the United States of America, the District of Columbia, American Samoa, Guam, Puerto Rico and the Virgin Islands. The mission of the NAIC is to assist state insurance regulators, individually and collectively, in serving the public interest in a responsive, efficient and cost-effective manner, consistent with the objectives of its members.*

*In fulfilling this mission, the NAIC has developed significant experience and expertise in the development of meaningful accounting principles for use in the financial statements of insurance enterprises. The NAIC has the responsibility to establish and interpret statutory accounting principles. The codification of statutory accounting principles by the NAIC produced a comprehensive guide for use by insurance departments, insurers, and auditors.*

*The fundamental concepts upon which these principles were promulgated are conservatism, consistency and recognition. While these principles are not identical to the framework used by the FASB, which govern general-purpose financial statements, the NAIC has developed expertise with general-purpose financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP). The NAIC reviews all U.S. GAAP pronouncements to determine their relevance for statutory accounting purposes.*

*These comments have been prepared by the SAPWG of the NAIC. As part of the NAIC's due process procedures, these comments have also been shared with interested parties to the SAPWG, all of whom were given an opportunity to contribute to the SAPWG's deliberations of these issues. However, the SAPWG does not wish to imply that these comments are shared by all of the SAPWG interested parties.*