



AMERICAN ACADEMY *of* ACTUARIES

January 24, 2005

The Honorable William H. Donaldson
Chairman
U.S. Securities and Exchange Commission
450 Fifth Street N.W.
Washington, D.C. 20549

Re: Tabular Disclosure of Contractual Obligations

Dear Mr. Donaldson:

The purpose of this letter is to provide comments from the American Academy of Actuaries¹ Committee on Property and Liability Financial Reporting ("the Committee") to the Securities and Exchange Commission (SEC) on Financial Reporting Release (FRR) No. 67, requiring tabular disclosure of payments due under contractual obligations for specified time periods. This letter focuses on disclosures related to property and casualty insurance contracts. We believe similar issues may exist with regard to other insurance contracts and pensions, and may respond separately with regard to those areas at a later date.

Most importantly, the Committee questions whether it is appropriate to include property and casualty insurance liabilities in this disclosure. The specified categories of contractual obligations in FRR 67 are all contracts with fixed terms for both amount of payment and timing of payment. Balance sheet amounts for property and casualty insurance liabilities are estimates and future payments are not generally fixed as to amount or timing. Therefore, the category of property and casualty insurance liabilities in the tabular disclosure will contain estimated future payments that will differ, perhaps significantly, from actual future payments. Property and casualty insurance liabilities are generally not discounted because of this uncertainty with respect to amount and timing of future payments. Also, property and casualty insurance liabilities are already subject to extensive disclosure that is tailored to the unique characteristics of these liabilities. In particular, reporting includes Loss Development Tables that include 10 years of historical data (also known as "triangles") of both liabilities and payments. In addition, property and casualty reserve liabilities often include disclosures of other significant sources of variability, unlike many of the liabilities contemplated in FRR 67.

¹ The American Academy of Actuaries is the public policy organization for actuaries practicing in all specialties within the United States. A major purpose of the Academy is to act as the public information organization for the profession. The Academy is non-partisan and assists the public policy process through the presentation of clear and objective actuarial analysis. The Academy regularly prepares testimony for Congress, provides information to federal elected officials, comments on proposed federal regulations, and works closely with state officials on issues related to insurance. The Academy also develops and upholds actuarial standards of conduct, qualification, and practice, and the Code of Professional Conduct for all actuaries practicing in the United States.

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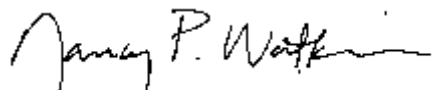
The Committee does not believe that disclosure of an estimated payout of liabilities is particularly useful to the investor. However, the Committee recognizes that the SEC may believe otherwise. In that case, the Committee recommends adjusting the disclosure to be more tailored to the nature of property and casualty insurance liabilities.

The Committee thinks such tailored disclosure could be accomplished by aligning disclosure of estimated future payments with existing disclosure on Loss Development Tables. Such disclosure would put the payment estimates directly in the context of historical payments over the past 10 years. This serves as illustration for the reader that insurance liabilities and their future payments are estimates subject to variation. The existing triangle table presentation is of liabilities on a net of reinsurance basis. This expanded presentation would include the payout estimate of the balance sheet liabilities reduced for recoveries under reinsurance treaties, as well as estimated recoveries under reinsurance treaties. We believe such presentation would be more comprehensive, useful and relevant than a presentation that isolates and estimates the payout of the gross liabilities on the balance sheet. Such an approach would address several potentially difficult technical issues, such as cash flows from reinsurance, and liabilities for amounts underneath the deductible on large deductible policies and for structured settlements without a release from the claimant. If property and casualty insurance company registrants are obligated to estimate the payout of gross liabilities as stated on the balance sheet, we believe that additional technical guidance would be needed on each of these issues.

There is one technical issue that remains under our suggested approach. To the extent property and casualty insurance liabilities do have future payments that are reasonably fixed and determinable, discounting is allowed. Future payments will include the "unwinding" of that discount. Therefore, in order to properly estimate future payments, net liabilities should be grossed up to include the discount amount and that grossed-up amount should be included in the future payment table.

We have provided a mock-up of our suggested disclosure, in the event that the SEC believes additional disclosure is necessary. We hope these comments are useful to the SEC and are available to discuss these issues. Thank you for your consideration.

Sincerely,



Nancy Watkins, FCAS, MAAA
Chairperson, Committee on Property and Liability Financial Reporting

cc: Mr. Jonathan G. Katz
Secretary
Securities and Exchange Commission

Mr. Scott Taub
Deputy Chief Accountant
Securities and Exchange Commission

LOSS DEVELOPMENT TABLE
 PROPERTY AND CASUALTY CLAIM AND CLAIM ADJUSTMENT EXPENSE LIABILITY DEVELOPMENT -
 NET OF REINSURANCE
 FOR THE YEARS ENDED DECEMBER 31

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Liabilities for unpaid claims and claim adjustment expenses, net of reinsurance	7,500	7,500	7,700	8,500	8,500	8,600	8,300	8,200	8,600	8,800	9,000

CUMULATIVE PAID CLAIMS AND CLAIM EXPENSES

One year later	1,700	1,800	1,600	1,800	1,600	2,000	2,000	2,200	2,200	2,300
Two years later	2,900	2,800	2,800	2,800	2,900	3,200	3,300	3,500	3,700	
Three years later	3,600	3,600	3,500	3,700	3,700	4,100	4,300	4,600		
Four years later	4,200	4,200	4,200	4,300	4,300	4,800	5,100			
Five years later	4,600	4,800	4,600	4,800	4,800	5,400				
Six years later	5,100	5,100	5,100	5,200	5,400					
Seven years later	5,400	5,500	5,400	5,700						
Eight years later	5,800	5,900	5,900							
Nine years later	6,100	6,200								
Ten years later	6,500									

Net Liabilities	9,000	Estimated Future Payout					
		Discount	TOTAL	< 1 Year	1-3 Years	3-5 Years	>5 yrs
Net Liabilities			-	-	-	-	-
Undiscounted	9,300	9,300	2,000	3,000	2,000	2,300	

LIABILITIES REESTIMATED

One year later	7,500	7,700	8,400	8,500	8,400	8,400	8,300	8,300	8,800	9,200
Two years later	7,700	8,500	8,400	8,400	8,200	8,400	8,400	8,500	9,200	
Three years later	8,500	8,500	8,400	8,300	8,100	8,400	8,500	8,200		
Four years later	8,500	8,500	8,300	8,300	8,100	8,400	8,200			
Five years later	8,600	8,500	8,300	8,200	8,100	8,200				
Six years later	8,500	8,500	8,300	8,200	8,200					
Seven years later	8,600	8,500	8,300	8,200						
Eight years later	8,600	8,500	8,200							
Nine years later	8,600	8,200								
Ten years later	8,200									

DEFICIENCY (REDUNDANCY), NET OF

REINSURANCE	700	700	500	(300)	(300)	(400)	(100)	-	600	400
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