

NAMIC ISSUE ANALYSIS



CECL: HOW AN OBSCURE ACCOUNTING CHANGE COULD NEGATIVELY IMPACT INSURERS

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NAMIC is the largest property/casualty insurance trade association in the country, with more than 1,400 member companies. NAMIC supports regional and local mutual insurance companies on main streets across America and many of the country's largest national insurers. NAMIC members represent 40 percent of the total property/casualty insurance market, serve more than 170 million policyholders, and write more than \$253 billion in annual premiums.

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INTRODUCTION

There is a new accounting standard that insurance companies will be required to incorporate into their accounting and cash flow models starting in 2020¹, and it represents a fundamental shift in how insurers recognize credit losses for financial instruments in their reported earnings².

The Financial Accounting Standards Board (FASB) issued Accounting Standard Update 2016-13, Financial Instruments – Credit Losses on June 16, 2016. The new standard introduces the current expected credit-loss methodology (CECL) for estimating allowances for credit losses, which represents a significant change from existing U.S. Generally Accepted Accounting Principles (U.S. GAAP) guidance that currently requires an incurred-loss methodology for recognizing credit losses. The standard takes effect for SEC filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. All other organizations will have an additional year for implementation.

FASB's motivating factor for making the change was a concern expressed by financial institutions and users of financial statements that current U.S. GAAP restricts the ability to record credit losses that are expected but do not meet the "probable" threshold. FASB concluded that the existing approach for determining the impairment of financial assets delayed the recognition of credit losses on loans, thus resulting in loan loss allowances that were "too little, too late."³

CECL requires organizations to incorporate forward-looking information into their financial statements and to estimate credit losses over the life of a financial asset not subject to fair-value accounting. The new measurement approach applies to financial assets measured at amortized cost, including loans, held-to-maturity debt securities, net investment in leases, and reinsurance and trade receivables, as well as certain off-balance-sheet credit exposures, such as loan commitments.

CECL introduces into reported earnings subjective forecasts of possible future events that have not yet occurred, and may not occur, resulting in increased volatility of regulatory capital and comparability issues between entities relating to core operating income items. Companies will have to change the way they approach setting allowances for credit losses and move away from a backward-looking to a forward- looking approach; therefore, it will be imperative for companies to retool their systems and controls and make significant changes to their loss-forecasting infrastructure.

There are many things property/casualty insurance companies need to be aware of in relation to the new CECL standard. This paper attempts to describe how FASB arrived at its decision to introduce an expected credit-loss concept and explain how that applies to mutual insurance companies. In doing so, the paper starts off by explaining how the financial crisis spurred FASB, together with the International Accounting Standards Board (IASB) to come up with a new converged credit-loss impairment standard. The paper then goes on to unravel many of the problems that came up during the joint convergence project that ultimately resulted in FASB going in a different direction and producing a new standard that presents many issues for property/casualty insurance companies.

¹The ASU on credit losses will take effect for calendar year-end SEC filers in 2020. For other calendar year-end organizations, the ASU on credit losses will take effect in 2021.

²Based on U.S. GAAP as issued by FASB.

³IASB and FASB Propose Common Solution for Impairment Accounting, Jan. 31, 2011, https://www.fasb.org/cs/ContentServer?c=FASBContent_C&cid=1176158192211&d=&pagename=FASB%2FFASBContent_C%2FNewsPage.

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The purpose of this paper is to explain to NAMIC members how FASB ignored many of the concerns raised by the insurance industry during the standard-setting process. Critically, the inclusion of reinsurance receivables and debt securities into the scope of the standard demonstrates FASB's new method of developing accounting standards, i.e., create one-size-fits-all standards without regard to industry-specific concerns. Insurers were intimately involved in the standard-setting process, and FASB did a poor job responding to critical feedback from the insurance industry.

Given the lack of response to the insurance industry's attempt to engage FASB in dialog during the standard-setting process, the SEC should be granted additional oversight. This additional oversight would include obtaining and reviewing a comprehensive cost/benefit analysis of all proposed standards, ensuring that any proposed standard does not create market instability for businesses and different sectors of the economy, and reviewing all field-testing results prior to the issuance of a new standard.



CONVERGENCE IDEA

In April 2009, as the world economy was facing its greatest challenge in nearly a century, the G20 and other international bodies called on accounting standard-setters to improve standards for determining fair valuations of financial instruments⁴. This included strengthening “accounting recognition of loan-loss provisions by incorporating a broader range of credit information.” Regulators and external auditors began to point their fingers at the incurred-loss approach for recognizing credit losses as a key contributor to the financial crisis. Because the incurred-loss approach delays recognition until it is “probable” that a loss has occurred, financial institutions had no mechanism to write down their loans. It was clear in the eyes of global financial regulators that the current impairment standard for financial instruments was broken and needed to be fixed.

The G20's urgent call was not only for an improved impairment standard, but also for standard-setters to make significant progress toward a single set of high-quality global accounting standards. Dating back to 2005, FASB, together with IASB, has been working jointly on objectives to improve and simplify the reporting for financial instruments. The G20 declaration came only weeks after a joint board meeting between FASB and IASB where they announced further steps to respond to the global financial crisis⁵. The two boards agreed to work jointly and expeditiously toward a common standard for financial instruments and agreed to issue proposals to replace their respective financial instruments standards. The joint approach to the financial

⁴ “Declaration on Strengthening The Financial System – London Summit, 2 April 2009,” http://www.fsb.org/wp-content/uploads/london_summit_declaration_on_str_financial_system.pdf.

⁵ “IASB and FASB Announce Further Steps in Response to Global Financial Crisis,” <https://www.fsb.org/news/nr032409.shtml>

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crisis represented a commitment to the overall goal of seeking convergence between International Financial Reporting Standards (IFRS) and U.S. GAAP.

The IASB responded swiftly, and in November 2009 it issued IFRS 9 Financial Instruments on the classification and measurement of financial assets.⁶ Later that month, it issued an exposure draft proposing a new impairment standard, titled: ED/2009/12: Financial Instruments: Amortized Cost and Impairment (IASB's Impairment ED). FASB, for its part, issued Accounting Standards Update, Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities in May 2010. Its exposure draft (2010 ED) provided guidance on classification and measurement, impairment, and hedging of financial instruments, whereby IASB took a different approach and decided to break the project down into three phases dealing separately with the classification and measurement of financial assets, impairment, and hedging.

Although the boards were committed to issuing a converged financial instruments standard, it was clear from the beginning that there would be many challenges to overcome and that a fully converged standard may not be achievable. At the outset, the two boards could not agree on a timeline for the project, nor could they agree on whether to work on the project all at once or break it into three separate phases. As a consequence, a divergence emerged between the conclusions reached by FASB and IASB in the classification and measurement models.

Since IASB issued its classification and measurement standard before FASB published its proposal, this suggested that the two boards were not on the same page. In addition to a different timeline and approach, the two boards disagreed on a point critical to how insurance companies manage their businesses. FASB, in its proposal, did not factor in management's risk strategy or business strategy to use as a basis for all classification and measurement decisions, whereas the IASB model used business criteria that more closely aligned with management's risk strategy practices⁷. This has negative consequences for certain sectors, such as insurance, that actively employ an Asset and Liability Management strategy.⁸ Consequently, fair market accounting presents challenges to companies using this strategy. The objective for these companies is to match their insurance liabilities, i.e. reserves and claim liabilities, which typically have limited market activity and are reported at cost in the financial statements, with financial assets that have a similar duration. In times of economic stress, holding financial assets at fair value creates a mismatch between assets and liabilities.⁹

Both FASB's 2010 ED and IASB's Impairment ED did very little to address the existing approach for determining impairment of all financial assets, which both boards identified as a flawed approach that delayed the recognition of credit losses on loans during the financial crisis. However, one can conclude that FASB did address the "too little, too late" problem, at least for debt securities, when it updated Topic 320 – Investments – Debt and Equity Securities (FAS 115) in April 2009¹⁰. The revisions made eliminated the "probable" threshold, thus resulting in the more-timely recognition of losses. While the "probable" threshold was eliminated for debt securities, it still existed for loans, thus the problem was not completely solved.

⁶ In October 2010, IASB added to IFRS 9 the requirements for the classification and measurement of financial liabilities.

⁷ In FASB's proposal, the default treatment is to measure financial instruments at fair value reported in net income, unless certain criteria about the type of instrument and business strategy have been met. The criteria in FASB's proposal is more restrictive than IFRS 9.

⁸ ALM is the practice of managing the risks of asset and liability mismatches by matching the assets and liabilities according to their duration.

⁹ This flaw was evident during the financial crisis when the fair value of assets experienced significant fluctuations due to illiquidity within the markets and investor uncertainty. For insurers, fair value fluctuations were not reflected within corresponding policyholder reserve and claim liabilities that created an artificial accounting mismatch not reflective of managements' risk strategies.

¹⁰ FASB revised the OTTI model for investments in debt securities with the issuance of FSP FAS 115-2 and 124-2 Recognition and Presentation of Other-Than-Temporary Impairments, (codified in ASC 320-10-35 paragraphs 17 to 34E).

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Both proposals limited how companies can determine estimates for expected cash flows by only allowing the determination to be based on past events and current conditions. The overwhelming feedback from preparers and investors to both FASB and IASB was companies needed to be able to use all relevant information and future variables available to management – based on reasonable and supportable forecasts – to determine credit impairments for expected cash flow estimates.

In addition to feedback about the use of forward-looking information in determining credit losses, there was a general concern from many that convergence toward a single set of high-quality financial reporting standards was increasingly becoming more unrealistic. Even though the boards were deliberating separately on the joint projects, there was a belief that they may subsequently reconcile any differences in their decisions; however, to many, it was unclear how these differences could be resolved.

In January 2011, IASB and FASB published for public comment a joint supplementary document (“2011 JSD”) for accounting for impairment of financial assets.¹¹ The proposals were published as a supplement to the exposure draft published by IASB in November 2009 and the ED published by FASB in May 2010. They represented a renewed effort on the part of IASB and FASB to come up with a converged standard for impairment. The boards proposed moving to an expected-loss model that would provide a more forward-looking approach to how credit losses are accounted for and replace the current incurred-loss approach. Clearly, the boards got the message from the investor/preparer community that convergence was a priority and that more forward-looking information that is reasonable and supportable should be allowed in estimating credit losses. It is worth noting that a key focal point for the joint project early on was loans, and investors and preparers wanted to use more forward-looking information to determine allowances for credit losses for loans. When they were responding to the boards proposals, the forward-looking information that was requested would be the type that applied to loans, such as forward-interest rate curves, home price movements, and unemployment rates.

The 2011 JSD represented the high-water mark for a converged financial instruments standard, as the two boards began drifting apart in their thinking, particularly on how each would apply the expected-loss model. The boards determined in 2012 that convergence was not possible due to the differing needs of their respective stakeholder groups. Ultimately, each standard-setter would issue one more proposal that included different approaches to applying the expected-loss model before issuing a final standard. For some U.S.-based insurers, the prospect of having to account for financial instruments using three different methods of accounting: consolidated U.S. GAAP reporting, U.S. statutory accounting, and IFRS was starting to become a reality.

IASB went on to issue a final IFRS 9 Financial Instruments standard in July 2014. The main difference between where IASB landed and where FASB went is the timing of recognition of expected losses. IFRS 9 requires an allowance for credit losses equal to 12 months of expected credit losses until there is a significant increase in credit risk, at which point lifetime expected losses are recognized. FASB opposed this staged approach and elected for a lifetime expected-losses approach. So even though they converged on the concept of expected losses, how such losses will be reported by companies is vastly different. As a consequence, the allowance for credit losses will be accounted for differently under U.S. GAAP than under IFRS; therefore, there is no converged impairment standard¹².

¹¹ Financial Instruments: Impairment – 2011 Joint Supplementary Document issued by FASB and IASB.

¹² In addition to the impairment standard not being converged, the expected-loss concept also caused the insurance contracts convergence project to fail. In this case, FASB recognized the concerns raised by the insurance industry of using forward-looking information based on statistical models to set claim reserves, replacing the incurred-loss approach as determined by claims adjusters who adjust actual claims.

FASB INTRODUCES CECL AND EXPANDS SCOPE TO INCLUDE REINSURANCE RECEIVABLES

When FASB issued its second Exposure Draft, Financial Instruments – Credit Losses (Subtopic 825-15) in December 2012 (2012 ED), it ushered in the new CECL concept and signaled the end of the joint project between FASB and IASB on this standard. The 2011 JSD proposal was withdrawn, and the two boards were poised to issue revised and differing credit impairment standards. The issuance of the 2012 ED also crystalized FASB's new method of developing standards – that is do away with industry-specific standards and apply one-size-fits-all standards, regardless of how it may impact entire sectors of the economy. Unfortunately for U.S. insurers, FASB did not incorporate all the feedback it received from stakeholders on the first ED, including from the insurance industry. As a result, some of the same problems that insurers raised in comment letters responding to the first ED still existed in the 2012 ED. In addition, the scope of the standard was expanded to include reinsurance receivables for the first time.

Nothing epitomizes FASB's new method of standard-setting better than designing an impairment model for mortgage loans and applying it to debt securities and reinsurance receivables. The key concerns echoed by many insurance companies that submitted comments to FASB were the expanded scope of the proposal and FASB's desire to mitigate a perceived delay in recognition of credit losses with the recognition of credit losses based on assumptions that are highly subjective and that result in amounts that are neither comparable nor reliable and may actually distort the economic substance of the entity's exposure to credit risk.

Insurance companies responded forcefully to FASB's second ED, reiterating their strong opposition of including debt securities within the scope of the impairment model, favoring the current incurred-loss model. Debt securities carried at fair value already include a factor for expected losses in the fair market value of these assets. Insurers rightfully pointed out that the “too little, too late” problem was primarily directed at loans and not debt securities, and the impairment model was improved for debt securities during the financial crisis when FASB eliminated the “probable” threshold.

Surprising to many was the inclusion of reinsurance receivables into the scope of the proposal, something that IASB's proposal and ultimately IFRS 9 did not include. Reinsurance receivables are an asset class unique to the insurance industry, and under current U.S. GAAP reporting there are various types of programs classified as reinsurance receivables. For example, there are industry pools and facilities (voluntary and involuntary), regulator-approved reinsurance arrangements, shared markets, catastrophe pools, and excess of loss facilities. The chief concern for the insurance industry in applying CECL to reinsurance receivables is the unique nature of the different types of reinsurance programs and the problem with applying a blanket model to all of them equally.

Insurers prefer the incurred-loss model for both debt securities and reinsurance receivables and feel that current U.S. GAAP guidance isn't broken in how it is applied to their industry. The current impairment model for debt securities provides for timely recognition of credit losses. An alternative to injecting the balance sheet with subjective projections of expected credit loss information could be provided using credit-quality disclosures. For reinsurance receivables, the industry has adequate credit-specific financial information from which to develop a reliable estimate. Moving away from the incurred-loss model introduces a significant amount of management judgement in measuring credit impairment and forces insurers to disregard decades of loss experience data from their reinsurance counterparties.

Ultimately, FASB issued Accounting Standard Update 2016-13, Financial Instruments – Credit Losses in June 2016, ignoring many of the substantive concerns raised by nearly every insurer during the 11-year standard development process. The ASU

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replaces the existing incurred-loss methodology for estimating allowances with CECL and requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This broadens the range of data to be incorporated into the measurement of credit losses by including forward-looking information in assessing the collectability of all financial assets. This fundamental change eliminates the “probable” threshold and the “incurred” concept as triggers for recognizing credit losses for financial instruments under existing U.S. GAAP.



U.S. INSURERS THAT DON'T DO U.S. GAAP REPORTING

The new ASU presents many challenges for U.S. GAAP filing entities, but not all financial institutions are required to file U.S. GAAP financial statements; this includes many insurance companies. However, most insurers authorized to do business in the United States are required by law to prepare their financial statements in accordance with Statutory Accounting Principles (SAP) and file them with their state of domicile. For insurance companies that do not file U.S. GAAP financial statements, the National Association of Insurance Commissioners (NAIC) – that promulgates statutory accounting rules for insurance companies – has a policy that states any new or updated U.S. GAAP guidance “must be considered by the Statutory Accounting Principles Working Group¹³” (SAPWG). From this standpoint, it is clear that even non-U.S.-GAAP insurers are interested in the developments at FASB.

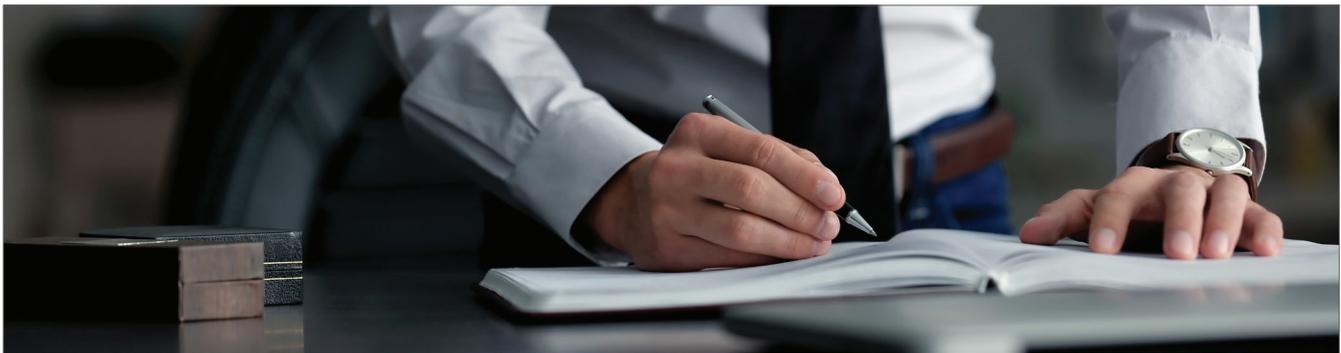
It is important to note that SAP is based off the U.S. GAAP framework and that the objectives of SAP reporting differ from the objectives of U.S. GAAP. SAP is developed in accordance with the concepts of consistency, recognition, and conservatism and is designed to address the needs of regulators who are the primary users of statutory financial statements. State insurance regulators’ primary responsibility is to regulate insurance companies in accordance with state laws with an emphasis on solvency for the protection of policyholders, which is why SAP places more attention on the balance sheet, rather than the income statement, and emphasizes insurers’ liquidity. The cornerstone of solvency measurement is financial reporting. In contrast, the mission of U.S. GAAP is to establish and improve standards of financial accounting and reporting that provide decision-useful information to investors and other users of financial reporting.

¹³ NAIC Policy Statement On Statutory Accounting Principles Maintenance Agenda Process, https://www.naic.org/documents/committees_e_app_sapwg_SAP_Maintenance_Agenda_Process_d.pdf.

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In accordance with the NAIC policy on U.S. GAAP guidance, shortly after FASB issued ASU 2016-13 NAIC staff prepared an agenda item (Form A) for SAPWG to review and expose for public comment. The working group asked respondents to provide feedback on all elements of the ASU and how it should be considered for statutory accounting. The overwhelming response from industry was to reject the CECL approach as inappropriate for statutory reporting. The general response given by the industry was that the existing statutory accounting framework already provides the appropriate mechanisms for the conservative treatment of credit losses.

Statutory accounting coupled with required capital measurements is vital to state solvency regulation. The solvency framework not only includes statutory accounting but also risk-based capital (RBC). If the NAIC were to incorporate the CECL concept into SAP, modifications to RBC would be required to avoid double counting of provisions for expected credit losses. The NAIC is under pressure, because they want to maintain as little difference between SAP and U.S. GAAP reporting as possible, and the introduction of CECL into U.S. GAAP reporting represents a major potential deviation between the two accounting frameworks. Following industry feedback, the NAIC deferred action to study the issue more closely and arrive at an appropriate proposal for statutory accounting.



STATUTORY ACCOUNTING PROPOSES EXPECTED-LOSS CONCEPT

Despite strong industry opposition demonstrated during the U.S. GAAP standard development process and the response given to SAPWG during its exposure, the NAIC proposed in March 2018 that certain aspects of FASB's ASU be incorporated into SAP, citing if the incurred-loss model were retained for statutory accounting, it would result in a less conservative approach in recognizing losses than U.S. GAAP. Due to the unintended consequences of FASB applying a blanket standard to all financial instruments and not incorporating significant feedback from the insurance industry, the NAIC's hands are tied. Its standards require a more conservative approach to accounting. Industry responded to the proposal with the same recommendation to reject CECL for statutory accounting purposes.

Exacerbating the problem is that the NAIC proposal goes further than the ASU in applying CECL to all debt securities, including financial assets reported at amortized cost on a statutory basis. This is because the classification concepts differ between the two frameworks¹⁴. On a U.S. GAAP basis, insurers generally report debt securities as available-for-sale (AFS); however, on a statutory basis, all bonds are reported at amortized cost, unless the rating requires the lower of cost or fair

¹⁴The concept of classification of securities as held-to-maturity, available-for-sale, and trading does not exist in statutory accounting.

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value. FASB did not include in the scope of the CECL guidance AFS debt securities because the measurement attributes of AFS debt securities are not like other assets that are intended to be held to maturity¹⁵. AFS debt securities were already reported at fair value on the U.S. GAAP balance sheet, therefore credit concerns would already be captured on the U.S. GAAP balance sheet as unrealized losses. If the NAIC were to adopt CECL for amortized cost assets, insurers would need to apply CECL to their bond portfolios for statutory reporting; whereas, they would not be required to do so on a U.S. GAAP basis. This would result in a difference between SAP and U.S. GAAP for the most significant asset type in insurers' investment portfolios.

Fortunately, the SAP proposal indicated that the NAIC is not aligned with FASB's conclusions as it relates to reinsurance receivables and regulators were somewhat perplexed along with industry as to why FASB included them in the CECL model designed for borrowing/lending activities. Therefore, the proposal did not include provisions for reinsurance receivables. Instead the proposal requested feedback about how SAP should consider the CECL concept for reinsurance receivables. The current statutory accounting framework includes guidance on how to measure for the collectability of reinsurance receivables, as well as surplus adjustments for uncollectible reinsurance receivables in the form of the Schedule F penalty¹⁶. To further support the measurements on the balance sheet and the adjustments to surplus, RBC addresses reinsurance credit risk in the form of a capital charge. The statutory accounting framework together with RBC produces a framework that is more conservative than U.S. GAAP reporting and results in a more reliable estimate.

As of the writing of this paper, the NAIC is currently deliberating on how to proceed next and likely will defer the issue until FASB has resolved many or all of the outstanding implementation issues. Further complicating the issues related to reinsurance are the potential changes to reinsurance collateral rules that the NAIC is contemplating as it implements the terms of the U.S./European Union Covered Agreement.

A WAY FORWARD

The U.S. insurance industry was far from silent in communicating its concerns to both FASB and IASB throughout the joint convergence project, as well as when the two boards split and went their separate ways. Of the comment letters submitted to FASB on the CECL approach from insurers that referenced reinsurance receivables, every one requested that they not be included in the scope of CECL. In fact, reinsurance receivables were not part of the joint convergence project and were scoped into FASB's final proposal at the last minute. FASB did a poor job engaging the insurance industry during and after the standard development process, and despite all the attempts from the insurance industry to provide constructive dialog, the concerns raised were not adequately understood nor dealt with properly by FASB.

While FASB did publish a document¹⁷ that considered the expected benefits and costs of the new ASU, the conclusion it reached did not factor in all the costs of implementing the new standard. For example, FASB did not factor in the cost of having to comply with three different accounting models. It also failed to study the impact on small- to medium-sized mutual insurance companies that must apply a U.S. GAAP accounting standard to their bond portfolio that U.S. GAAP filers aren't required to do. These small companies do not have the resources to internally develop or purchase sophisticated models necessary to estimate credit losses.

¹⁵ Held-to-maturity financial assets reported at amortized cost are within the scope of CECL.

¹⁶ The Schedule F penalty is a straightforward formulaic calculation that is well understood by industry and is relatively easy to compute.

¹⁷ FASB Understanding Costs and Benefits: ASU: Credit Losses (Topic 326), June 16, 2016.

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In addition to the costs of having different accounting systems to maintain, FASB did not adequately factor in the costs to individual sectors of the economy, such as insurance. Mutual insurance companies typically manage their businesses by deploying long-term strategies but adding unnecessary volatility to the financial statements distorts that long-term view. FASB did not factor in for these types of companies the cost to inject into reported earnings credit-loss estimates based on events that have not yet occurred, and may never occur, subjecting the balance sheet to unwarranted volatility. This information is not only less decision-useful, but it also leads to a lack of comparability between reporting entities. Finally, what is the cost of applying the CECL standard to all types of reinsurance programs? For example, SAP distinguishes between the different types of reinsurance programs, such as voluntary and involuntary pools. Involuntary pools are excluded from the credit risk Schedule F penalty for statutory purposes, because the NAIC concluded the credit risk related to the deemed counterparty is not present. FASB codification makes no distinction between types of reinsurance for accounting purposes.

If FASB would have adequately engaged the insurance industry, these questions and others would have been thoroughly assessed and scrutinized before the standard was issued. FASB would have been well served had it produced a comprehensive cost/benefit analysis and conducted adequate field-testing and outreach pre-issuance of the standard. CECL should have been field-tested, and it still should be field-tested.

Further, there should be serious consideration to enhancing the U.S. Securities and Exchange Commission (SEC) oversight process. FASB's new standard development process is unsatisfactory; applying one-size-fits-all standards is incongruent to how standards should be developed. Given the SEC's current oversight responsibilities to enforce U.S. GAAP standards developed by FASB, the SEC should consider additional oversight responsibilities to ensure that any proposed standard does not create market instability for businesses and different sectors of the economy. In addition, the SEC should be required to review field-testing results and obtain and review a comprehensive cost/benefit analysis of all proposed standards.

CONCLUSION

The introduction of CECL in U.S. GAAP reporting, and potentially SAP reporting, substantially increases the amount of management judgement involved in estimating credit losses and could potentially lead to volatile swings in estimates from quarter to quarter. The appropriateness of applying an accounting and cash flow model designed for mortgage loans and lending activities to reinsurance receivables and debt securities was not field-tested, nor was there a comprehensive cost/benefit analysis done prior to issuing the standard.

For property/casualty insurance companies, the new CECL standard represents a new approach to setting allowances for credit losses, and companies are going to have to retool their systems and controls and make significant changes to their loss-forecasting infrastructure. Issuing flawed standards is costly to the insurance industry and the policyholders it serves. FASB needs to revise the standard to reflect how the insurance industry is managed, and in doing so, work with the insurance industry to get an understanding of the implications related to the application of the standard to reinsurance receivables and debt securities. If not, it may be appropriate for the SEC to step in and not enforce the standard until the standard and its impact on market stability is fully understood.

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