

#### **Liberty Mutual Group**

175 Berkeley Street Boston, MA 02116 (617) 357-9500

November 30, 2010

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

RE: File Reference No. 1870-100 - Discussion Paper - Preliminary Views on Insurance Contracts

Liberty Mutual Holding Company, Inc. ("LMG" or the "Company") is a diversified global insurer and the fifth largest property and casualty insurer in the United States based on 2009 direct written premium.

We appreciate the opportunity to respond to the FASB's Discussion Paper on Preliminary Views on Insurance Contracts ("DP").

Please see the attached comment letter to the International Accounting Standards Board ("IASB"), regarding our response to their *Insurance Contract Exposure Draft (ED 2010/08)* ("ED") as our opinions expressed therein are relevant and consistent with the FASB's requests for comments to the DP.

#### GENERAL COMMENTS

It is the Company's opinion that the current U.S. GAAP accounting model utilized by our property & casualty and life insurance companies is a functioning, well developed set of widely accepted accounting standards and we support its continued application subject to a comprehensive review of the disclosure requirements to address recent stakeholder requests for enhanced transparency of the estimates and judgments made by management in the preparation of an insurer's financial statements.

The costs (actual cash outflows for system changes in addition to time spent by the organization) of implementing the ED's proposal (or the FASB's final standard if it chooses to only partially converge with the IASB's standard (the "new FASB model")) will certainly be substantial to all insurers, therefore, it is critical to weigh the benefits and associated costs and conclude (without bias) that the costs are justified and the provisions of the final standards are a substantial improvement to the in place accounting standards.

In the event the FASB cannot reconcile the above views, the Company requests the FASB Staff complete extensive field testing to positively conclude that:

- 1.) The new IASB and/or FASB model is an improvement and operationally superior to existing U.S. GAAP requirements for <u>all</u> life and non-life insurance enterprises;
- 2.) The application of the new IASB and/or FASB model does not cause undue operational burdens that outweigh its benefits to all industry participants, and;
- 3.) The resulting financial information serves the needs of the primary users of the financial statements.

Currently, it is the Company's opinion that the ED as published has not answered these key overarching questions and has raised numerous significant implementation issues and questions specific to our Company's (and our industry's) consideration of the ED's proposal. For details on these specific issues and questions, see our comment letter to the IASB.

Regarding the ED's specific goal of establishing a single accounting model for all insurance contracts, we recognize this concept theoretically should result in consistent and comparable financial statements of all insurance enterprises, but in reality it is not a practical solution as there are fundamental differences between the characteristics of a life (and health) insurance contract and a property & casualty contract for which we believe separate models are needed to accurately reflect the characteristics and unique risks of these contracts to provide the financial statement users with meaningful and relevant information.

As mentioned above, for the success of the project, it is vital that due process is allowed to be completed and the proposed standard is adequately field tested. We remind the FASB Staff that significant changes were made to the Solvency II capital models subsequent to its initial field testing (which are still ongoing as a result of the issues identified during field testing) and believe it is most beneficial (and our responsibility as industry participants and standard setters) to flesh out and resolve the material implementation concerns prior to adoption if a new standard is to be issued.

In summary, the Company looks forward to working with the FASB and its Staff in future months to further discuss the project and work collectively together to resolve the outstanding issues of the project.

Sincerely,

Senior Vice President & Comptroller



#### **Liberty Mutual Group**

175 Berkeley Street Boston, MA 02116 (617) 357-9500

November 30, 2010

Sir David Tweedie, Chair International Accounting Standards Board 30 Cannon Street London EC4M 6XH, United Kingdom

### **RE: Insurance Contract Exposure Draft (ED/2010/8)**

Liberty Mutual Holding Company, Inc. ("LMHC" or the "Company"), is domiciled in Boston, Massachusetts and is the ultimate holding company of a diversified group of U.S. and international insurance companies that collectively is the sixth largest property and casualty insurer in the world based on 2009 gross written premium. As of September 30, 2010, the Company had approximately \$112.9 billion and \$16.9 billion in assets and policyholders' equity, respectively, and recognized revenue of \$31.1 billion for the year ended December 31, 2009.

We appreciate the opportunity to respond to the International Accounting Standards Board's ("IASB") request for comment on its *Insurance Contract Exposure Draft* (ED 2010/08) ("ED").

#### GENERAL COMMENTS

First and foremost, we respect the time and effort the IASB and its Staff has put into consideration and development of the ED and their desire for improving existing accounting standards surrounding insurance contracts. We appreciate the complexity of the project and would like to raise the following observations and recommendations for your consideration. We hope upon your review of these observations you will gain additional insights that will result in the final standard being of high quality and relevance for the entire insurance industry and its stakeholders.

It is the Company's opinion that the current U.S. GAAP accounting model utilized by our property & casualty and life insurance companies is a functioning, well developed set of widely accepted accounting standards and we support its continued application. We believe the most cost effective approach would be to incorporate concepts of existing U.S. GAAP for short and long duration contracts into the IASB's insurance contracts final standard subject to a comprehensive review of the disclosure requirements to address recent stakeholder requests for enhanced transparency of the estimates and judgments made by management in the preparation of an insurer's financial statements.

The costs (actual cash outflows for system changes in addition to time spent by the organization) of implementing the ED's proposal will certainly be substantial to all insurers, therefore, it is critical to weigh the benefits and associated costs and conclude (without bias) that the costs are justified and the provisions of the ED are a substantial improvement to the in place accounting standards. We believe that an objective review will lead the IASB to conclude, as we have, that the costs of such a significant change to the accounting model are not justified.

Regarding the ED's specific goal of establishing a single accounting model for all insurance contracts, we recognize this concept theoretically should result in consistent and comparable financial statements of all insurance enterprises, but in reality it is not a practical solution as there are fundamental differences between the characteristics of a life (and health) insurance contract and a property & casualty contract for which we believe separate models are needed to accurately reflect the characteristics and unique risks of these contracts to provide the financial statement users with meaningful and relevant information. Although many of our comments principally address property and casualty operations, we also have life insurance operations. Regarding specific life insurance matters of the ED, it should be noted that our views are consistent with those expressed by the American Council of Life Insurers ("ACLI").

In the event the IASB cannot reconcile the above views and modify the proposed accounting model to provide for adequate consideration of non-life insurance contracts, the Company requests the IASB Staff complete additional field testing to positively conclude that:

- 1.) The IASB's model is an improvement and operationally superior to existing U.S. GAAP requirements for <u>all</u> non-life insurance enterprises;
- 2.) The application of the IASB's model does not cause undue operational burdens that outweigh its benefits to all industry participants, and;
- 3.) The resulting financial information serves the needs of the primary users of the financial statements.

Currently, it is the Company's opinion that the ED as published has not answered these key overarching questions and has raised numerous implementation issues and questions specific to our Company's (and our industry's) consideration of the ED's proposal.

In light of the significant work that lies ahead for all interested parties in implementing this standard, the Company strongly recommends that the IASB revisit

the timetable for its completion of the project (June 2011) to allow for the conclusion of due process around the resolution of identified implementation issues (notably the practical application of the discounting and risk margin provisions and the contract boundary provisions) and also to allow further time to work towards convergence with the FASB's model on the potential go forward global accounting model for the insurance industry.

While we acknowledge the IASB's urgency to complete the project, we are highly concerned that rushing the process to completion without sufficiently addressing the known conceptual and application concerns and thoroughly testing the standard will only result in an incomplete and ineffective final standard that will be inappropriately and inconsistently applied for years to come. This can only result in confusion of key stakeholders, potentially destabilizing and undervaluing the industry as a whole.

We express significant concern that the need for adequate field testing must be completed in an orderly and adequate fashion regardless of the timetables for completion of the project. We remind the IASB Staff that significant changes were made to the Solvency II capital models subsequent to its initial field testing (which are still ongoing as a result of the issues identified during field testing) and firmly believe it is most beneficial (and our responsibility) to flesh out the material implementation concerns prior to implementation to avoid the potential catastrophic consequences, (e.g., the potential for inappropriate capital adequacy concerns and the ensuing market turmoil) of forcing premature implementation of the proposed model.

In summary, the Company looks forward to working with the IASB and its Staff in future months to further discuss the project and work collectively together to resolve the outstanding issues of the project.

#### RESPONSES TO SPECIFIC ED QUESTIONS

#### **Ouestion 1 – Relevant Information for Users (BC 13-BC-50)**

As stated above, the current U.S. GAAP accounting and reporting model for property & casualty and life and annuity insurers is a well developed set of widely accepted accounting standards that serves the purpose of its key stakeholders and provides the framework for reporting of the relevant periodic information of an insurer.

Within the property & casualty industry key performance metrics such as net written premium (an indicator of future revenues), combined ratios, loss ratios and expense ratios (an indicator of underwriting performance) are all derived from existing U.S. GAAP financial statements. These metrics are widely accepted and utilized by management in running the business and by rating agencies and analysts in understanding the operating performance and potential risks of a property & casualty insurer. It is the Company's opinion that showing the linkage of these metrics to the

face of the financial statement is necessary to fully comprehend the activities and performance of the insurer. It is also vitally important to have the ceded business be on the same reporting model as the direct business to avoid any confusion regarding direct and net risks undertaken by the insurer. This topic is further discussed in the response to Question 16 –Reinsurance.

It is the Company's position that the building block approach and margin presentation model is not an improvement to existing U.S. GAAP as it does not clearly communicate the results of a property & casualty insurer.

As an improvement to existing disclosure requirements, the Company would support the inclusion of loss development tables (disclosing the accuracy of past estimates) which we believe are meaningful to users of the financials in understanding the risks underlying the timing and amounts of expected cash flows of an insurer.

The Company also recommends that paragraph 86 of the ED be amended to require a roll forward of the effects of discounting on held reserves from period to period.

Additionally, we would support the inclusion of sensitivity analysis disclosures (consistent with current Securities and Exchange Commission ("SEC") disclosure requirements) around key assumptions to quantify the effects that alternative assumptions would have had to reported results and qualitative disclosures around why the assumptions selected by management were used.

## Question 2 – Fulfillment Cash Flows (paragraphs 17a, 22-25, BC37-BC66 and BC 51)

In assessing the application of the proposed methods for measurement of the fulfillment cash flows, it is widely observed that stochastic modeling is not currently utilized in the property & casualty industry resulting in significant operational issues in applying the proposed guidance. The Company believes the inclusion of guidance allowing the usage of deterministic (management's best estimates) modeling is necessary and appropriate given the degree of uncertainty in the amount and timing of expected cash flows of property & casualty contracts. We also point out that the need for probability weighted cash flows is not necessary to determine the discount of those cash flows. Probability weighted cash flows are only needed if explicit risk margins are to be calculated. As noted in our response to Question 4, we support the composite margin (vs. an explicit risk margin) approach.

Therefore, we believe the definition of fulfillment cash flows should be amended to reflect acceptability of current actuarial practices utilized in the estimation of loss reserves within the property & casualty industry.

As an alternative, we propose paragraph 22(a) be amended to read as follows, "a good faith probability-weighted best estimate of future cash outflows less the future cash inflows that will arise as the insurer fulfills the insurance contract."

## Question 3 – Discount Rate (paragraphs 30-34 and BC88-BC104)

We believe the current model is appropriate, however, if the IASB proceeds with a discounting provision we have the following comments:

We believe that discounting short duration contract liabilities that are paid out over very short durations (e.g., auto physical damage and homeowner's property coverage) does not materially affect the contract fulfillment value and therefore, it is our opinion that application of discounting should only be required for lines of business for which discounting is meaningful, relevant or material.

Additionally, if the IASB elects not to modify the discounting provisions, we do not agree with the requirement to recognize the periodic change in discount rates through earnings. It is the Company's opinion that it is more appropriate to capture the changes in the fair value of the Company's insurance liabilities through accumulated other comprehensive income ("AOCI"), a component of equity, as the purpose of the insurer is to fulfill the insurance obligations versus transferring the liability to an external third party. We believe users of the financial statements (management, rating agencies and analysts, creditors) have the need for the understanding of an insurer's core underwriting performance and net income for the period. As proposed, these performance measures are clouded by changes in market conditions that will likely never be realized by the Company. It is our opinion the most meaningful, relevant and useful accounting would be to align the accounting for the fair value changes of the financial instruments supporting property and casualty insurance contracts with the contract fulfillment obligations within AOCI. This approach is consistent with the business strategy for most property and casualty contracts.

For certain life insurance products, notably structured settlements, for which specific assets are acquired to support specific liabilities, we believe discounting of the liability at the asset earned rate (currently allowed under existing U.S. GAAP) is most representative of the economics of the contract. We request the discounting provisions of the final standards be amended to support this application unique to this product.

Finally, we support reflecting a discount rate in excess of the risk free rate and it is our opinion that field testing to identify appropriate and acceptable alternatives for the measurement of the illiquidity premium should be conducted as there are varying views on approaches that could be applied. Based on our preliminary analysis and discussions with the majority of the "Big 4" public accounting firms (and their

actuarial practice leaders), a best practice has not yet emerged. Approaches for measurement of the illiquidity premium that currently appear to have the most credibility are 1.) isolating the illiquidity premium based on the deconstruction of the pricing of insurance contract to solve for the imputed illiquidity premium in the contract by stripping out known and quantifiable components of the pricing (e.g., credited rate, profit margin, risk margin for asset defaults, etc.) or; 2.) deconstructing the current yield of an asset of similar duration, currency and liquidity and backing into what the liquidity component is implied to be. Overall, it is the Company's opinion that if further implementation guidance and field testing is not provided and completed, it will result in inconsistent application and a lack of comparability across insurers specific to the discounting provisions, which we believe will reduce the usefulness of the financial statements and require additional work by analysts to adjust each company to a consistent approach. Due to the uncertainty on how to apply these provisions and the potential implications, the Company requests the IASB Staff complete further research, provide additional implementation guidance and conduct continued field testing of the amended provisions to avoid misapplication and divergence in practice.

## Question 4 – Risk Adjustment versus Composite Margin (BC105-BC115)

The Company supports a composite margin approach for property & casualty and life and annuity contracts due to the inherent uncertainty in the ultimate timing and amount of expected cash flows.

We support the measurement of the composite margin approach applied in aggregate across all portfolios of an insurer so the economic impact of product line and geographic diversification is reflected on the balance sheet. This concept is supported by the law of large numbers and widely accepted and recognized by the analyst community as an economic reality and is also utilized as a risk management tool by management of an insurance enterprise. It is the Company's opinion that capturing and measuring the diversification benefit is fundamental in the management of a portfolio of insurance risks and quantifies how certain risks complement or constrain an insurer's ability to underwrite new risks.

Calculation of the composite margin at the contract level or the portfolio level results in aggregate reserves being overstated (potentially materially) resulting in potentially misleading information presented to the users of the financial statements. Additionally, the costs associated with establishing new systems to calculate composite margins at the contract level are cost prohibitive and therefore not a practical alternative.

Additionally, it is the Company's opinion that the IASB's proposed model creates a false sense of precision around these estimates (e.g., through calculation of probability weighted unbiased cash flows and methods for quantifying risk margins) in a business environment that is highly uncertain and volatile. It is the Company's

opinion that presenting loss reserve balances and the respective changes in the degree of granularity as required under the ED implies a degree of precision not currently afforded by existing actuarial practices. As a result of the unreliability of this information, the Company does not see the benefit this level of disaggregation will provide users of the financial statements and may very likely result in the financial statements being misleading.

We also recommend that the final standard be modified to include a provision to state that management's best estimates of ultimate loss expenses are determined considering all relevant facts and information, including, but not limited to, the actuarial analysis. Historically, there have been instances in the industry when management's judgments may differ from the underlying actuarial analysis. Due to the uncertainty of the expected losses, it should be clearly stated that the final determination of the ultimate loss expense (along with the production and responsibility for the financial statements) is the responsibility of management and should reflect their professional judgments. In light of this normal and healthy tension between management and the actuarial profession, the Company would not oppose including a requirement to disclose these facts when the situation exists and the differences are of material amounts as part of the expanded sensitivity disclosure requirements.

Overall, the collective information and analysis of risk is relevant and necessary in evaluating and understanding the risks of an insurer compared to its peers and along with gaining an understanding of the insurer's enterprise risk management philosophy. It is fundamentally important for users of the financial statements to understand the inherent risks and uncertainty of the business when making decisions and actual results may be significantly different than management's best estimates. As previously mentioned, the Company's opinion is the best way for a stakeholder to complete that assessment is to examine the loss development tables of the insurer. This approach is consistent with our response to Question 1.

Finally, while we recognize the risk margin approach is similar to the requirements of Solvency II, we point out that there are significant differences between the proposed accounting and regulatory model, resulting is inconsistencies that should be further studied to reconcile and eliminate these differences to the extent possible.

### Question 5 – Risk Adjustment (paragraphs 35-37, B67-B103, BC105-BC123)

No comment. See response to Question 4 on the Company's preference for the composite margin approach.

## Question 6 – Residual/Composite Margin (paragraphs 17(b), 19-21, 50-53, and BC124-BC133)

The Company believes that the ability to recognize a gain at initial recognition of an insurance contract should be allowed in limited circumstances where profits are certain. The Company would expect these situations would be infrequent in nature.

We agree with the recognition of a loss (applied on a portfolio level) at initial recognition to the extent future expected outflows are expected to exceed current and expected future inflows.

The Company supports the composite margin subsequent recognition methodology as included in the appendix to the basis for conclusions of the ED.

We do not support the accretion of interest on any margins due to the additional layer of complexity this adds to the measurement and recognition of changes the insurance liabilities. See response to Question 4 above for previous discussion around the concern over the degree of estimates of the current model.

### Question 7 – Acquisition Costs (paragraphs 24, 39 and BC135-BC140)

The Company principally agrees that incremental acquisition costs for contracts should be included in the initial measurement of the insurance contract liability although it is our preference to apply the guidance for acquisition costs consistent with FASB Accounting Standards Update ("ASU") 2010-26, Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts.

We also believe disclosure of the amount of incremental acquisition costs that is reflected within insurance liabilities should be included in the footnotes to the financial statements. Due to the variability in the compensation structure and rates for a direct sales force compared to an agent/broker sales force, the implicit value of these costs could mask the true amount of liabilities held by the insurer.

# Question 8 – Premium Allocation Approach (paragraphs 54-60 and BC145-BC148)

The IASB should permit but not require an insurer to apply the premium allocation model for the pre-claim liabilities of short duration contracts if management concludes it is the most meaningful presentation for the primary users of the financial statements.

The Company recommends that the application of the premium allocation methodology be permitted to be applied to <u>all</u> short duration contracts (even those short duration contracts that have long claims payment periods and/or those policies with coverage periods in excess of one year) if they share the same essential

characteristics of a one year short duration contact. It is common in the property and casualty industry (both within the U.S. and internationally) to write property coverage with coverage periods exceeding one year. Under the ED, two contracts that are identical except for the coverage periods will be required to be accounted for under different models which is counterintuitive and will result in less useful and meaningful financial statements.

### Question 9 – Contract Boundary Principle (paragraphs 26-29 and BC53-BC66)

It is the Company's opinion that the ED's provisions regarding contract boundaries and contract recognition will require substantial system modification that will result in no material impact to the financial statements under most circumstances.

We strongly believe the costs associated with implementing this provision significantly outweigh its benefits and it is appropriate to recognize a contract when the insurer is first exposed to the risks under the contract (e.g., contract effective date), consistent with existing U.S. GAAP.

# Question 10 – Participating Features (paragraphs 23, 62-66, BC67-BC75 and BC198-BC203)

No comment.

# Question 11 – Definition and Scope (paragraphs 2-7, B2-B33 and BC188-BC209)

The Company principally agrees with definitions of an insurance contract and the scope exclusions.

#### Question 12 – Unbundling (paragraphs 8-12 and BC210-BC225)

Based on our current understanding of types of unbundling examples we have no material concerns as the IASB's criteria for unbundling will likely not require bifurcation under most circumstances for property & casualty contracts. We agree with the unbundling requirements for account value products common in variable life insurance products.

### Question 13 – Presentation (paragraphs 69-78 and BC150-BC183)

It is the Company's opinion that the "margin presentation" is not useful to a property & casualty insurer's stakeholders. As discussed previously in Question 1, the presentation of revenues and expenses on the face of the financial statements is extremely relevant and meaningful to the primary users of the financial statements.

We formally request that the IASB Staff consider inclusion of application guidance that provides example financial statements for a diverse financial services/insurance

company that writes insurance contracts subject to both the building block approach and the premium allocation approach. We believe that when prepared, these consolidated financial statements will be confusing and not particularly useful to the user. We believe it would be more appropriate to have alternative financial reporting models with the selected model to be determined by management.

## Question 14 – Disclosures (paragraphs 79-97, BC242 and BC243)

The Company is supportive of the transparency initiative by all accounting standards setters and the Company is committed to improving our disclosures to respond to the needs of the users of our financial statements. We request users and standard setters provide clarity on what specific financial disclosures they would find useful and meaningful that are currently not prepared. As proposed, the disclosure provisions will result in a significant increase in the volume of disclosures and it is the Company's opinion that more is not always better.

As discussed previously in Question 1, the Company proposes as an improvement to existing disclosure requirements that an insurer should be required to include loss development tables (disclosing the accuracy of past estimates) and increased disclosures regarding the effects of discounting on held reserves. The Company believes this information is meaningful to users of the financials and helps them understand the risks associated with the timing and amounts of expected cash flows of a property & casualty insurer.

Additionally, we would support the inclusion of sensitivity analysis disclosures around key assumptions to quantify the effects that alternative assumptions would have had to reported results and qualitative disclosures around why the assumptions used were selected by management.

#### Question 15 – Unit Linked Contracts

No comment.

### Question 16 - Reinsurance (paragraphs 43-46, and BC230-BC241)

The Company does not support an expected loss model (building block approach) for all reinsurance assets. It is the Company's opinion that the recognition and measurement of the ceded reinsurance should be consistent with the direct business.

Currently, as interpreted, all reinsurance contracts are to be accounted for under the building block approach which does not recognize the ceded portion of the written premium and losses subject to the reinsurance arrangements. This results in a fundamental disconnect between the income statement (or statement of comprehensive income) and the balance sheet.

We also point out that under the ED model there can be the recognition of income on a net basis for certain business (e.g.,100% fronted business and servicing carrier business of voluntary and involuntary pools) in which all risk is passed to the reinsurers or pool participants. We believe this is an unintended consequence of the ED as written. We recommend and encourage the IASB Staff seek input and comment from the National Council of Compensation Insurance (NCCI) to flesh out any potential issues the standard may pose to these arrangements.

Additionally, the ED does not discuss the provisions for the accounting for retroactive reinsurance arrangements (e.g., retroactive loss portfolio transfers and aggregate stop loss agreements) which are commonly used in the property & casualty industry, although we acknowledge these issues may no longer exist under the proposed model due to the effects of discounting. Due to the uniqueness and complexity of these arrangements, it would be beneficial to have guidance provided as there currently is divergence in practice in the application of retroactive reinsurance for assuming entities.

As a result of the above concerns, we recommend the IASB Staff continue its historical practice of field testing to validate the appropriateness of the reinsurance provisions of the ED.

## Question 17 – Transition and Effective Date (paragraphs 98-102 and BC244-BC257)

As the Company supports the composite margin approach, we do not support the transition requirements regarding the treatment of residual margins at the date of transition.

The Company supports the FASB's approach for treatment of composite margin at transition.

The Company also supports the alignment of the effective date of IFRS 9, *Financial Instruments (IAS 39 replacement)* due to the interdependence of the assets and liabilities of an insurance entity. The Company also supports the synchronization of the effective date with the FASB's effective date on their revised insurance contract standard.

As previously mentioned in Question 3 – Discount Rate, we believe users of the financial statements (management, rating agencies and analysts, creditors) have the need for understanding of an insurer's core underwriting performance and net income for the period. The most meaningful, relevant and useful accounting would be to align the accounting for the fair value changes of the financial instruments supporting the insurance contracts with the contract fulfillment obligations within

AOCI consistent with the business strategy. Additionally, for certain life insurance products, notably structured settlements, specific assets are acquired that match the cash flows and duration of the liability to support those specific liabilities. These assets (typically bonds) are classified by an insurer as "held to maturity" investments and reported on an amortized cost basis and the liabilities are discounted at the asset earned rates. We support the continued application of this accounting as it aligns with the business strategy for these products and is consistent with the economics of the contract.

Due to the complexity and technical nature of the ED, the need for extensive education of users and preparers of the financial statements should not be underestimated. It is the Company's opinion that considerable time (in excess of 5 years from the date the final standard is issued) would likely be needed to adequately train all parties (e.g. employees, auditors, analysts, etc.) and to sufficiently integrate its provisions into the Company's underwriting, policy production, billings and collection, loss payment, actuarial & financial reporting systems without causing extensive disruption.

Sincerely,

John/D. Doyle

Senior Vice President & Comptroller