

State Farm®
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Ms. Leslie Seidman, Chairman
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856

Corporate Headquarters
One State Farm Plaza
Bloomington, Illinois 61710-0001

Subject: Accounting for Short-duration Non-life Insurance Contracts

We are writing as a member of the U.S. Property-Casualty insurance industry, the largest non-life insurance industry in the world with annual earned premiums approaching one-half trillion dollars. State Farm Mutual Automobile Insurance Company and its insurance affiliates (“State Farm”) is a multi-line insurer group writing property and casualty, life, and health insurance throughout the United States and Canada with over 78 million policies in force. In existence since 1922, State Farm is the largest writer of automobile and homeowners insurance products in the United States.

State Farm supports the development of a high quality financial reporting standard for insurance contracts that will provide reliable and decision-useful information to all users of financial statements. Fundamental differences in the life, non-life, and health insurance businesses necessitate development of separate accounting and reporting models. The most decision-useful approach for short-duration non-life contracts would be one that recognizes all underwriting revenues and expenses during the coverage period and produces an underwriting result – the key metric for which business performance is evaluated. The current accounting and reporting model used in the United States and throughout much of the world incorporates these characteristics and is therefore supported by preparers and analysts.

The approach for short-duration non-life contracts should include:

- A transparent method of accounting for all revenue (e.g. insurance premiums) during the coverage period similar to the unearned premium reserve methodology which has been used globally for over a century with no application issues being observed.
- A method for determining claim and claim expense reserves consistent with business practices. Discounting of claims reserves for settled claims where the amount and timing of cash flows can be supported would be acceptable (e.g. workers’ compensation indemnity, settlement agreements, claims approved for payment, etc.). The discounting of claims reserves for claims under investigation where the existence, amount, and timing of cash flows are undetermined would not support discounting.
- Risk margins would not be used. Risk margins are unnecessary both where: 1) the amount and timing of cash flows is sufficiently certain such that discounting is required, and; 2) the amount and timing of cash flows are not sufficiently certain such that discounting is not required. The best estimate of the ultimate amount of claims to be paid is the most important metric for non-life insurers. Risk margins are by nature highly

subjective, and would diminish the transparency of this critical estimate and thereby diminish the understandability and comparability of claims reserves.

- An estimate of future claim and claim expense cash flows would be determined using estimating methodologies acceptable to the non-life actuarial profession.

The current direction of the FASB and IASB represent major changes to the accounting and reporting of U.S. non-life insurers. The potential changes would increase costs that would ultimately be passed on to policyholders and result in a loss of comparability in financial reporting.

As a member of the U.S. non-life insurance industry that is interested in the industry's long term stability, State Farm believes that it is critically important that any new accounting standard affecting the U.S. non-life insurance industry be transparent and straight-forward, capable of consistent application, reflective of the way the business is managed, and produce decision-useful information for all stakeholders.

Thank you for considering our comments.

Respectfully,



Mark Schwamberger
Vice President and Controller
State Farm Mutual Automobile Insurance Company



Julie Kirby
Finance Director-Office of Accounting Policy
State Farm Mutual Automobile Insurance Company