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July 10, 2012

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

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

INTRODUCTION AND BACKGROUND

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. The American Family Insurance Group consists of 10 companies with more than \$17 billion in total assets. The parent of the American Family Insurance Group is a mutual property-casualty insurer. While the American Family Insurance Group also has a life insurance operation, this letter is focused on our property-casualty insurance business.

We have followed the FASB-IASB Joint Project on Insurance Contracts, and acknowledge recent comments on the realization that the goal of a fully converged insurance contract standard is no longer realistic. We support the Board's decision to independently reassess its approach. We believe this decision is consistent with the FASB's mission to improve accounting and reporting standards by enhancing the decision-usefulness of information provided to financial statement users. We believe the reassessment decision provides an opportunity for the FASB to consider targeted improvements to existing U.S. GAAP for short-duration insurance contracts. There is widespread agreement among insurance accounting preparers and users that targeted improvements to the short-duration insurance contract reporting and disclosure framework would be sufficient changes to existing U.S. GAAP.

We believe there are fundamental differences in the underlying businesses of life and non-life insurers that necessitate separate accounting and reporting models. Separate accounting models for life and non-life insurance contracts are overwhelmingly supported by preparers, investors, analysts and other financial statement users. Moreover, the current accounting and financial reporting model used by property-casualty insurers in the U.S. and throughout much of the world has been tested, proven, and improved upon for years, and is supported by users. We believe that potential changes to the U.S. non-life accounting model could diminish its transparency and not be reflective of the way the business is managed.

Tentative decisions of the FASB made prior to the reassessment decision represent major changes to the accounting and reporting of U.S. non-life insurers. The significance of the potential changes warrants comprehensive field testing to validate the efficacy of the tentative decisions. We urge the Board to thoroughly review the field test results with preparers and users to determine whether they believe any new standard enhances the effectiveness of financial reporting for non-life insurers.

PREFERRED ACCOUNTING MODEL

Our preferred accounting model is one that recognizes, using all available information, all underwriting revenues and expenses during the coverage period in which all insurance protection services are provided, and produces an underwriting result, which is the key business performance metric. In the post coverage period, as new information about claims emerges, claim and claim expense reserve development (positive or negative) is recognized immediately in underwriting in the period the new information emerges. Model components include:

- A transparent method of accounting for all revenue (e.g., insurance premiums) during the coverage
 period similar to the unearned premium reserve ("UPR") methodology which has been in use
 globally for over a century, with no application issues having been observed. UPR exists during the
 coverage period and represents the unfulfilled executory obligation to provide insurance protection
 services to the policyholder. Similarly, UPR represents the amount owed to the policyholder
 (without interest) if the policy is terminated; which it can be at any time and for any reason during
 the coverage period.
- A method for determining claim and claim expense reserves consistent with business practices, and determined using estimating methodologies acceptable to the non-life actuarial profession.

SUMMARY COMMENTS AND REQUESTS

As a member of the U.S. non-life industry interested in its long-term stability we believe it is critically important that any new accounting standard affecting the U.S. non-life insurance industry be fully transparent, capable of consistent application, reflective of the way the business is managed, and produce decision-useful information. We strongly advocate the field testing of any proposal to determine if it enhances the quality of financial reporting as compared to the current accounting model preferred by preparers, investors, and other financial statement users.

We recognize the Board's commitment to outreach activities and ask that a U.S. non-life insurance roundtable be convened prior to the Board's drafting of an insurance contracts exposure draft to discuss the issues and recommendations outlined in this letter.

Sincerely,

David Kally

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American Family Insurance Group

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