May 14, 2012

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

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. We are a mutual insurer and as such we are subject to statutory insurance accounting rather than GAAP. However, statutory insurance accounting currently uses GAAP as a basis for statutory accounting standards and it is possible that statutory accounting may use GAAP or IFRS standards in future years. As such we have an interest in the direction that the FASB and the IASB are taking on the Insurance Contracts project.

We support the efforts of the FASB and IASB to develop a global and financial reporting framework that includes insurance contracts. However, we feel as though the goals of convergence and a one standard approach for both life and non-life insurers are taking priority over the more important goal of an accounting framework that achieves comparability for similar transactions, understandability, and decision useful information for regulators, and other stakeholders.

There are fundamental differences in the underlying business models of life and non-life insurance companies that necessitate the development of separate accounting and reporting models. Moreover, the current accounting and reporting model used in the United States and throughout much of the world has been tested, proven, and improved upon for years and is supported by preparers and analysts.

Our preferred model would be an accounting and reporting model that recognizes all revenue and expenses during the coverage period and produces an underwriting result, as business performance is evaluated by this metric. Model components would include:

- A transparent, straight-forward 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 amount and timing of cash flows is undetermined would not support discounting.
• Risk Margins would not be used as they are unnecessary where the amount and timing of cash flows is sufficiently certain such that discounting is required, and where the amount and timing of cash flows are not sufficiently certain, we believe that the estimate of claims to be paid is the most important metric for non-life insurers. A risk margin which is highly subjective would diminish the transparency of this critical estimate and thereby diminish the understandability and comparability of claims reserves.

• Claims and claim expense reserve cash flows would be determined using estimating methodologies acceptable to the non-life actuarial profession that produce a mean estimate.

The current direction of the FASB and IASB would cause disruption to the non-life industry, increase costs during conversion and on a permanent basis, and cause a loss of comparability in financial reporting for at least a decade for the purpose of having a single standard which is different but not likely better than today’s standard.

As a member of the U.S. non-life insurance industry that is interested in its long term stability we believe 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.

We recognize the Boards commitment to outreach activities and ask that a U.S. non-life insurance preparer and user forum 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 Broin
Vice President and Corporate Controller
Federated Mutual Insurance Company