May 18, 2012

Ms. Leslie F. 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. The Progressive Corporation, through its insurance subsidiaries, is ranked fourth in market share in the U.S. private passenger auto market based on net premiums written.

We have followed the FASB-IASB Joint Project on Insurance Contracts and support the FASB’s participation in the development of a global accounting standard for insurance contracts. We believe that there are fundamental differences in the business models for non-life and life insurance companies, which supports the development of separate accounting and reporting models. Using separate models for non-life and life insurance companies will likely achieve comparability for similar transactions, be understandable, and produce decision-useful information for investors and other interested parties.

We believe that it is important to note that the existing accounting model for the U.S. non-life insurance industry has been in place and performed well for decades without any criticism from investors. Our concern is that potential changes to the U.S. non-life accounting model could diminish its transparency and not be reflective of the way business is managed.

CURRENT DISCLOSURES
Over the years, the Securities and Exchange Commission (“SEC”) has developed an integrated set of disclosures designed to allow investors to better understand the process through which reserve estimates are developed, key judgment areas within that process, and the amount of reserve development (positive and negative) in each reporting period with explanations of the cause of the reserve development. The SEC requirements complement and integrate with Statutory accounting principles, which measures non-life insurance contracts on a basis largely consistent with accounting principles generally accepted in the United States (U.S. GAAP).

The SEC’s disclosure requirements for non-life insurers include:

- Ten-year reserve/claims development table
- Critical Accounting Policies discussion of loss and loss adjustment expense reserves
- Presentation and discussion of reserve development
- Claims payments through the contractual obligations table

In our experience, we have not received an overwhelming number of questions from investors related to our loss and loss adjustment expense reserves. It appears the current required disclosures have achieved the right mix of information necessary for non-life investors to assess the reasons for periodic reserve fluctuations and the adequacy of loss and loss adjustment expense reserves at the reporting date.
PREFERRED ACCOUNTING MODEL

The accounting model preferred by U.S. preparers, investors, and analysts is one that recognizes, using all available information, all underwriting revenues and expenses during the coverage period where 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, loss and loss adjustment 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 unearned premium reserve methodology, which has been in use globally for over a century, with no application issues having been observed.

- A method for determining loss and loss adjustment expense reserves consistent with business practices. The discounting of loss and loss adjustment expense reserves under investigation where the amount and timing of cash flows is undetermined would not be appropriate. Discounting loss and loss adjustment expense reserves for settled claims where the amount and timing of cash flows if sufficiently certain would be acceptable (e.g., workers' compensation indemnity not including medical, settlement agreements, claims approved for payment, etc.).

- Risk margins would not be used as they are unnecessary:
  
  o where the amount and timing of cash flows is sufficiently certain such that discounting is required (i.e., no material uncertainty exists with respect to the timing and amount of claims costs), and
  
  o where the amount and timing of cash flows are not sufficiently certain. Investors in short-duration (including non-life) insurance contracts have identified loss and loss adjustment expense reserves determined on an ultimate basis (i.e., undiscounted and without risk margins) as the most critical measure. A risk margin which is highly subjective would diminish the transparency of this critical measure and thereby diminish the understandability and comparability of loss and loss adjustment expense reserves.

Regardless of whether non-life insurance loss and loss adjustment expense reserves are modified to include discounting and risk margins they will continue to be estimated as they are today. That is, best estimates will be developed on an undiscounted basis without risk margins using accepted actuarial methods and judgments designed to achieve a mean estimate of ultimate amounts to settle all outstanding claims. Therefore, if discounting and risk margins are applied to the best estimate for claims, the measure considered most critical to investors, its informational value would be diminished by additional layers of complexity and opaque judgments.
SUMMARY

As a member of the U.S. non-life industry that is 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 transparent and straight-forward, capable of consistent application, reflective of the way the business is managed, and produce decision-useful information for investors and other interested parties.

We believe that 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 solely for the purpose of having a single standard which is different, but not likely better, than today's standard. Therefore, we ask the Board to consider its proposal and the preferred accounting model discussed above, which could be consistently applied on a global basis, promotes comparability, is understandable, and consistent with the business practices of non-life insurers. In short, it contains all the key attributes of a high-quality global accounting standard.

We recognize the Board’s 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,

Brian C. Domeck
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The Progressive Corporation

Jeffrey W. Basch
Chief Accounting Officer
The Progressive Corporation

Copies to:
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