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Ms. Leslie Seidman
Chairman Financial Accounting Standards Board
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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 method of accounting for all revenue (e.g., insurance premiums) during the coverage period similar to 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:

Discounting

Requires discounting of claim and claim expense reserves where the amount and timing of cash flows is sufficiently certain to support the reliability/decision-usefulness of discounted amounts for investors.

- The amount and timing of cash flows for **settled claims** (e.g., workers' compensation indemnity not including medical, settlement agreements, claims approved for payment, etc.) would be sufficiently certain to support discounting;
- The amount and timing of cash flows for **claims under investigation** (e.g., case, development, and incurred but not reported reserves) would not be sufficiently certain to support discounting. This is the period during which additional information is gathered, existence of coverage is determined, and the existence and nature of required indemnification (e.g., duty to defend, tow, repair, replace, lost wages, medical bills, pain and suffering, etc.) is determined.
- An entity need not discount the liability for claims and claims adjustment expense if the discount is not material and would not provide meaningful information to users of the financial statements.

Risk Margins

- Risk margins are unnecessary where the amount and timing of cash flows are sufficiently certain such that discounting is required. Rationale – no material uncertainty exists with respect to the timing and amount of claim cash flows.
- Risk margins are also unnecessary where the amount and timing of cash flows are not sufficiently certain such that discounting is not required. U.S. investors and preparers believe 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 estimated claim reserves. Instead, investors rely on the integrated set of disclosures developed by the SEC and FASB, and which is further augmented by information provided by Statutory authorities.

Cash Flows

- Claim and claim expense cash flow estimates represent a mean estimate determined using estimating methodologies acceptable to the non-life actuarial profession.

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 a 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,

A handwritten signature in black ink that reads "Roger D. Ballard". The signature is written in a cursive style with a large, stylized initial "R".

Roger D. Ballard
Chief Financial Officer
Columbia Mutual Insurance Company
Citizens Mutual Insurance Company