

May 21, 2012

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

Re: Accounting for Short-duration non-life insurance contracts

Dear Ms. Seidman,

Auto-Owners Insurance requests that the FASB seriously consider the position and expertise of the U.S. Property/Casualty insurance industry, which is the largest insurance industry in the world, as you develop a global reporting framework which includes the measurement of insurance contracts. I believe our industry reports annual earned premium near one-half trillion dollars.

Auto-Owners Insurance Group is a U.S. only insurer which follows Statutory Accounting Principles (SAP) rather than GAAP, however statutory accounting uses GAAP as the basis for its accounting standards. The Auto-Owners Insurance group consists of 5 property/casualty companies and one life insurance affiliate. The parent company of the group is a Mutual insurer, incorporated in 1916. We have been following the efforts of the FASB and the IASB regarding the definition of an insurance contract and respectfully provide the following observations:

1. The business models of property/casualty insurance and life insurance are fundamentally different. Life insurance products contain a greater element of investment characteristics than do property/casualty products. The measurement criteria should remain different for short-duration non-life insurance contracts. We believe the current 'building block approach' should not be applied to property/casualty insurance contracts.
2. The current accounting and reporting model for property/casualty insurance has been in existence for many years. It is mature, tested, proven and supported by many preparers and analysts. It follows basic accounting fundamentals, which is to recognize income and expenses in the periods in which they are "earned". This method has been applied globally with a high degree of consistency and has not previously been criticized or deemed deficient by investors. However, the potential changes being proposed would fundamentally change the reporting model by adding additional layers of complexity and judgment to the financial statement presentation, and the measurement of operating results.

3. A property/casualty insurance contract has a defined start and end date, a defined cost for a defined period of time. Our unearned premium method captures, on a pro-rata basis the incremental revenue stream of this cost. While claim events can be reported outside of this contract period, statute of limitation laws and the contract itself define how the events will be settled. Actuarial techniques continue to develop that measure and predict the payment patterns/trends of loss events that follow the insurance contract.

Auto-Owners agrees with other industry organizations who support a balanced model that recognizes all revenues and expenses during the coverage period and produces an underwriting result, which is the best measure of business performance. The model should include a transparent, straight-forward method of accounting for all revenue during the coverage period similar to the unearned premium reserve methodology which has been in use globally for over a century. Any method for determining claim and claim expense reserves should be consistent with current business practices which recognize claims settled and claims under investigation as well as incurred but not reported reserves for unknown, but covered losses.

I have been in the insurance accounting profession for 35 years and recognize the level of complexity that exists in our industry. Adding more complexity will not meet the long term goals of the FASB and IASB for the ability to attain a high degree of comparability for similar transactions, understandability, and the ability to produce decision-useful information for investors and other stakeholders.

We ask the Board to consider the proposals of our industry 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, which is the focus of the FASB and IASB.

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 supported in this letter.

Sincerely,

Eileen K. Phaner
Sr. Vice President, Treasurer & CFO