October 25, 2013

Chairman, Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk CT 06856-5116
Via e-mail @ director@fasb.org

Re: File Reference No. 2013-290, Insurance Contracts

Members of the Board:

Markel Corporation (Markel) appreciates the opportunity to comment on the FASB's Proposed Accounting Standards Update – *Insurance Contracts* Exposure Draft (ED) dated June 27, 2013. Given its significance to the insurance industry and the extensive nature of the proposed accounting changes, we believe it is important to share our perspectives on the ED as a participant in the property and casualty industry.

Markel is a diverse financial holding company serving a variety of niche markets. Our principal business markets and underwrites specialty property and casualty insurance products. We are a publicly traded company (NYSE: MKL) with total assets of approximately $24 billion and market capital of approximately $7 billion. We participate in the specialty insurance market on a global basis with property and casualty companies domiciled in the United States, the United Kingdom, Bermuda, Ireland and Brazil and have branch insurance operations in Europe, Asia and South America.

Our market strategy is tailored to the unique nature of the loss exposure, coverage and services required by insureds. By focusing on market niches where we have underwriting expertise, we seek to earn consistent underwriting profits which are a key component of our financial goal of building shareholder value. We price our products to make an underwriting profit. Additionally, we have consistently adhered to reserving practices that produce loss reserves that are more likely redundant than deficient. This means that we seek to establish loss reserves that will ultimately prove to be adequate. As a result, if new information or actuarially determined trends indicate an increase in frequency or severity of claims in excess of what we initially anticipated, we generally respond quickly and increase loss reserves. If, however, frequency or severity trends are more favorable than initially anticipated, we respond more slowly and take additional time to confirm the credibility of the trend before decreasing loss reserves. In addition, for long-tail lines of business, where trends develop over longer periods of time, we give credibility to these trends more slowly than for short-tail or less volatile lines of business. We ensure consistency of this approach by monitoring and maintaining a steady confidence level of held reserves over time. Additionally, we provide disclosure in our footnotes and expanded disclosure in MD&A regarding our reserving philosophy, as well as the range of reserves as estimated by our internal actuaries.

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We believe that this consistent application of a loss reserving philosophy where actuarial outcomes are supplemented by management's judgment and experience and recognition of likely but currently unknowable and potentially volatile adverse outcomes is both prudent and wise in an industry that has historically produced underwriting losses.

As discussed in more detail below, we believe the proposed changes for short duration property and casualty contracts is not preferable to existing US GAAP because it eliminates management and actuarial judgment from the loss reserving process and increases industry-wide exposure to economically deficient reserves. We also believe the fundamental changes suggested by the ED increase the likelihood that financial reporting will not align with the way management runs its business, prices its products or compensates its underwriters and managers. In this light, we believe the ED decreases the transparency in evaluating the adequacy of reserves and adds more subjectivity and uncertainty thereby decreasing comparability across companies.

To the extent that the Board continues down a path as proposed in the ED, we strongly suggest a reconsideration of the requirement to use "unbiased" discounted cash flows as a basis for determining the required insurance liability for short duration property and casualty contracts. At a minimum, we believe an explicit risk margin which permits consideration of management's judgment and experience should be provided for in any new accounting standard.

We fundamentally disagree with the ED's proposed approach to accounting for short duration property and casualty insurance for the following reasons:

Booking reserves at a discounted, unbiased, probability-weighted estimate, with no risk margin, is not superior to current reserving practices and will be impractical, imprudent, and risky.

The proposed probabilistic approach to determining reserves is inconsistent with the deterministic approach to calculating "best estimate" reserves generally used today. There is no evidence that the proposed use of a statistical mean is superior to the current approach.

The use of a statistical mean implies we have more accurate knowledge of the statistical distribution which losses will follow than is actually the case. We believe the implied conclusion that we have this knowledge will be misleading to the users of our financial statements. In reality, determining loss reserves based upon a statistical mean will, by definition, result in loss reserves that prove to be deficient 50% of the time. The economic consequences of being "wrong" when loss reserves are proven deficient are much more adverse to policyholders and investors than when loss reserves are "wrong" but are proven redundant. Additionally, the unfavorable consequence of holding reserves that are proven deficient is compounded for longer-tailed lines of business since pricing and other business decisions during the intervening years are made based upon incorrect assumptions regarding the adequacy of prior year loss reserves.

Further, requiring insurers to book their liabilities to an "unbiased expected value based upon all possible outcomes" will likely result in actuarial processes that are unwieldy or inadequate. Even the exposure draft recognizes that it is impossible to "identify every possible scenario but, rather, to recognize the statistical mean of possible scenarios…" Where does one draw the line then? Who decides what scenarios are or are not possible? Certainly in the 1970's the thought of courts mandating that insurers provide coverage for liabilities from asbestos or other toxic hazards was unthought-of. Such a scenario would never have been considered in an insurer's range of "possible" outcomes. Many insurers were driven to insolvency by these court decisions. Had companies been carrying their reserves on a discounted basis with no risk margin to reflect the uncertainty in the amount and timing of those payments, we believe that many more companies would have become insolvent.

There are many other examples of such "impossible" events just in recent years. A terrorist attack on a major skyscraper, a category 3 hurricane causing $108 billion of damage, and a tropical storm hitting the Northeast causing $68 billion of damage were not anticipated. While these "impossible" events are now known to be possible, a company incorporating such potential outcomes into their "statistical mean of possible scenarios" would have certainly been accused of improperly applying the proposed standard prior to the acceptance of these new realities. Said another way, the ED does not clearly provide a mechanism to account for the next "impossible" outcome.

Without an appropriate risk margin, the potential for adverse outcomes (up to and including insolvency) rises. In a perfect "normally distributed world", liability reserves would develop favorably 50% of the time and develop adversely the other 50%. In reality, though, the insurance world is not "normally distributed". Even if "good news" occurred half of the time, the magnitude of that good news has its limitations. A $1,000,000 claim can only be reduced by $1,000,000. However, when "bad news" occurs, its magnitude can be essentially unbounded. Due to loss adjustment expenses outside of the policy limit, extra contractual obligations, and court-mandated coverage, a policy with a coverage limit of $1,000,000 could result in a claim value multiples of that limit. Without risk margins to provide for losses outside of the normal distribution of outcomes, an insurer's balance sheet will become more volatile and less financially stable.

Discounting of loss reserves decreases transparency, is imprecise and subjective, and will be expensive to implement.

Discounting will decrease the transparency of financial results and claims development for users of the financial statements. The effects of discounting will make it difficult or impossible to reconcile the GAAP results to the granular claims development detail provided in Schedule P of the statutory Annual Statement. Further, it is unlikely that management of property and casualty companies will change the way they run their business, price their products or compensate their underwriters or other managers. Accordingly, the users of the financial statements will have less insight, not more, about the underlying performance of the business.

This process of discounting loss reserves is also fraught with imprecision. By their nature, the market rates for "instruments with similar duration, liquidity, and currency" are imprecise. This applies to both the derivation of these characteristics by portfolio, as well as the derivation of the rates to be used for discounting. There will be no way to remove subjectivity from these processes. By their nature, each portfolio will have differing characteristics. No portfolio will be truly homogeneous and no two portfolios will be alike. Even after a portfolio's characteristics are settled upon, it will be impossible to then find a financial instrument having the identical characteristics since most relevant financial instruments have more certainty surrounding the timing and amount of cash flows than the probablilty-weighted cash flows of portfolios, especially those portfolios which are comprised of longer-tail coverages. The discounting process is also filled with subjectivity. The range of financial instruments is just not broad enough to be able to match duration, liquidity and currency to every possible portfolio. Effectively, the company will be discounting its reserves using inexact rates. For similar reasons, the comparability of results between companies will be diminished since it is unlikely that different companies will make similar judgments on this subjective (level 3) input.

Finally, it will be expensive to implement a process by which the discounting process can be completed. Even for a small insurance company with a limited number of lines of business, potentially hundreds of discount rates might be needed. Initial research will be required to determine appropriate durations, currencies, liquidities and discount rates for each portfolio so that relevant financial returns can be referenced. These returns will need to then be dissected to derive an appropriate risk-free rate as a starting point for discounting. Additionally, this process will need to be repeated each quarter to reaffirm the appropriateness of those discount rates. Given that the financial yields will be in a constant state of change, each discount rate will need to be updated quarterly, with the historical rates tracked and stored for use for current and future valuations. This process will be too complex to handle manually. Instead, a database will need to be devised

which can track the portfolio characteristics, reserve values and discount rates. A model will need to be created or purchased which will then be able to calculate profits/losses and other comprehensive incomes for each portfolio. This model will need to be able to feed the results of the calculations into the general ledger to ensure accuracy. We expect the costs to design, construct and maintain even the simplest of databases and models to be significant and disproportionate to the intended benefits of the proposed changes.

Recognizing a liability for a catastrophic event before an actual loss has been incurred creates unnecessary volatility and does not provide the users of the financial statements with meaningful information.

The ED presents a scenario (Example 13) where a company writes Florida property business covering hurricane damage. In this example, a hurricane forms in the Atlantic Ocean right before quarter end (assume September 30th) resulting in the company having a 50% probability of incurring a loss. If this hurricane causes the portfolio of contracts to be onerous, then the company must record the expected probability-weighted estimate of cash outflows for this hurricane in excess of the liability for the remaining coverage on the portfolio of contracts. If during the first week of October the hurricane does not strike Florida, then the expected cash outflows related to the hurricane is $0, but rather than reversing the loss at September 30th, the Company would indicate such in a non-adjusting subsequent event note disclosure. This guidance adds a significant amount of volatility to financial results and decreases the level of comparability across companies given the increased number of subjective assumptions required to be used in determining the unbiased, probability-weighted estimate of the future cash flows.

Based on the above, the company would be recognizing an insurance liability based solely on a statistical mean of potential outcomes that would not provide useful information to financial statement users and will lead investors to make decisions based on information that will subsequently be proven to be wrong in virtually all circumstances. The existing US GAAP model of not recognizing a liability until it is incurred and disclosing an estimate of loss in a subsequent note disclosure is preferable and provides the user with more useful financial statements.

Conclusion

In summary, we do not believe the proposed standard results in an improvement over current US GAAP accounting for short duration property and casualty insurance contracts for the following reasons:

- The elimination of management judgment and conservatism increases industry-wide exposure to economically deficient reserves;
- The fundamental changes suggested by the ED increase the likelihood that financial reporting will not align with the way management runs its business, prices its products or compensates its underwriters and managers;
- Any intended benefit of the proposed accounting standard does not outweigh the significant cost of implementation and compliance, including system and process redesign and higher professional and overhead costs;
- Without convergence with the IASB Revised Exposure Draft 7/2013 on Insurance Contracts (which we do not believe the current ED achieves), global insurance companies like Markel will be unduly burdened by the implementation of two sufficiently different standards that, in practical terms, will require two distinct systems and internal process redesigns;
- The proposed standard increases complexity and produces financial statements that are not meaningful to the average investor;

- Institutional investors and other sophisticated investors do not appear to be in favor of these fundamental changes to accounting for short duration property and casualty contracts; and
- The proposed presentation and calculation of financial values on the face of the financial statements will cause traditional key performance indicators to be more difficult to analyze and less transparent to the users of the financial statements due to the additional factors (i.e. discount rates, payment patterns, etc.) utilized in the new measures.

We respectfully urge the Board to consider the above and other comments on the ED from issuers, shareholders and analysts in its final deliberations.

Sincerely,

Anne G. Waleski
Vice President and Chief Financial Officer
Markel Corporation

Cc: Rep. Eric I. Cantor
U.S. House of Representatives,
7th District of Virginia