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Email: ukfrsperiodicreview@frc.org.uk

Dear Sir/Madam

LMA response to FRED 82 Draft Amendments to FRS102 and related FRSs

Lloyd's is a society of members, incorporated under the Lloyd's Acts 1871–1982, which operates as a general insurance and reinsurance market and is dual-regulated by both the PRA and FCA in the UK.

The Lloyd's Market Association (LMA) represents the 51 managing agents at Lloyd's which manage the 91 live syndicates underwriting in the market, and the 3 members' agents which act for providers of third party capital backing syndicate underwriting. Managing agents are also dual-regulated and members' agents are regulated by the FCA. For 2023 premium capacity for the market is more than £48 billion.

Lloyd's syndicates are annual ventures and are not legal entities, however under the Lloyd's Acts and Byelaws they are required to prepare financial statements in accordance with applicable UK GAAP. Syndicate annual reports and accounts are prepared in accordance with Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, Financial Reporting Standard 102 (FRS 102), and Financial Reporting Standard 103 Insurance Contracts (FRS 103).

We appreciate the opportunity to comment on the FRED 82 Draft amendments to FRS 102 and the related proposed changes to FRS 103. We restrict our comments to the aspects of the proposals that specifically apply to features of non-life insurance contracts.

Comments

We recognise the overall benefits of aligning the revenue recognition principles with IFRS 15 and of adopting the 5 step model.

We do not agree that the proposed amendments to FRS 103 and the related implementation guidance which flow from the adoption of the 5 step recognition model in FRS 102 should be made at this time. There are two reasons for considering the proposed changes to be inappropriate at this time for insurance contracts.

1. IFRS 17 is in the early stages of implementation and the FRC's work to consider how and when to align FRS 103 with IFRS 17 has not been completed. We suggest that any changes to FRS 103 for contract identification and revenue recognition are only made when this review is complete. We do not support a two-step introduction of changes to FRS 103, one now and a second when FRS 103 is aligned to IFRS 17. This could lead to two potential changes in how syndicates account for insurance contracts in quick succession as well as confusing the ability of readers of accounts to understand the performance of syndicates as compared to entities preparing results under IFRS or other GAAP principles.

2. Insurance is a highly regulated product and the nature and definition of an insurance contract is often subject to national laws and regulations. Lloyd's is the leading global market place for large and

complex multinational insurance and when issuing policies in international jurisdictions is subject to a diverse range of laws and regulations which may influence product terms and features. The definition of a contract proposed to be introduced in FRS 103 to align with Section 23 of FRS 102 does not include reference to laws and regulations and therefore could introduce additional, unnecessary contradictions between contract recognition under local regulations versus FRS 103 when syndicates account for the policies they have issued around the world. We suggest that the FRS 103 remains unchanged at this time so that current insurance accounting stays consistent until such time as a revised contract definition could be implemented to align with IFRS 17.

We would also make an observation on the Implementation Guidance for FRS 103 proposed in IG2.4. This appears to have been introduced as a consequence of the revenue concepts outlined in Section 23 of FRS 102. However the terms of IG2.4 refer to “written premiums” and “pipeline premiums” accounted for as part of “written premiums”. The concept of written premium for an insurance contract is not the same as revenue in FRS 102. Written premium is the price of the contract issued, whereas earned premium, which is a calculation reflecting the proportion of risk coverage service provided by the insurer during the reporting period, is the revenue measure currently used. For consistency and comparability it is vital that insurers are able to record written premiums and calculate from them an appropriate earned revenue measure that properly represents the service provided in the period.

In the Lloyd’s market it is often the case that risks are submitted to the underwriting syndicates via more extended distribution channels with multiple parties involved, such as a delegated (or binder) underwriter, through a local broker and a broker in London. This inevitably results in some timing delays for individual risks to be reported to the Lloyd’s syndicate. To ensure that revenue represents the service provided as accurately as possible, syndicates may book a pipeline premium to reflect the risks bound but not yet reported to them. In essence, this is the same concept as accounting for incurred but not reported losses (IBNR) and, in fact, pipeline premiums recognised in this way ensure that both earned premium (i.e. revenue) and related IBNR losses are calculated and recognised in the correct reporting period. IG2.4 as currently drafted would require a change in this accounting practice and lead to syndicates excluding some revenue (and the related loss estimates) relating to risk coverage services they have provided in the accounting period. We therefore consider the guidance to be wrong and that it would lead to less accurate accounting estimates. Again, it would be more appropriate to retain the guidance and practice as is and only make changes when FRSs are aligned to IFRS 17.

Yours faithfully

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Paul Davenport
Finance & Risk Director
Lloyd's Market Association
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