

Jenny Carter
FRC
Aldwych House
71-91 Aldwych
London WC2B 4HN

31 October 2013

Dear Jenny,

FRED 49: Draft FRS 103 Insurance Contracts and Exposure Draft of Implementation Guidance to accompany draft FRS 103 Insurance Contracts

ILAG is a trade body representing members from the Life Assurance and Wealth Management Industries.

ILAG members share and develop their practical experiences and expertise, applying this practitioner knowledge to the development of their businesses, both individually and collectively, for the benefit of members and their customers.

A list of ILAG members is at the end of this submission.

Overview

We welcome the opportunity to comment on these Exposure Drafts.

ILAG supports the approach that the FRC has adopted in proposing that draft FRS 103 is based on IFRS 4. This enables UK insurers to continue with their existing accounting practices for insurance contracts, whilst permitting them to make changes, if such changes are demonstrable improvements.

We agree that the FRC should revisit and revise FRS 103 once the IASB has issued its updated standard on insurance contracts, and once the changes in the regulatory regime for insurers (Solvency II) have been finalised. In developing the long-term solution for UK GAAP for insurance contracts, careful consideration should be given to the costs and benefits of potential alternative approaches. There should be no presumption that the IASB's phase II insurance contracts standard (when finalised) will necessarily represent the most appropriate basis for insurance accounting under UK GAAP.

Paragraph 1.13 of draft FRS 103 confirms the withdrawal of FRS 27. The FRC should clarify what the implications of FRS 27's withdrawal are for the existing *Memorandum of Understanding concerning FRS 27 'Life Assurance'* (the memorandum) dated December 2004 entered into by the Accounting Standards Board, the Association of British Insurers (ABI) and certain members of the life assurance and bancassurance sectors. The memorandum (paragraph 10) deals with the implications of amendments to FRS 27 but does not deal with the implications of its withdrawal.

Our responses to the specific consultation questions are attached.

Yours sincerely

**Lynda Maynard
Administration Team**

Response to Consultation questions - FRED 49: Draft FRS 103 Insurance Contracts**Question 1**

Do you support the introduction of draft FRS 103, based on IFRS 4 and incorporating many of the requirements of FRS 27 Life Assurance and elements of the ABI SORP? Does it achieve its aim of allowing entities, generally, to continue with their existing accounting policies for insurance contracts? If not, why not?

Yes, we support the introduction of a standard on this basis and it does achieve the stated aim.

The inclusion of implementation guidance based on the ABI SORP and FRS 27 may be useful in seeking to maintain consistency of approach within the new UK GAAP framework.

However, much of the implementation guidance has been copied directly from FRS 27 and the ABI SORP. As such, it reads as though it is setting out requirements rather than providing guidance (eg by using words such as 'shall' on many occasions). This guidance should be redrafted so there is no implication that it is mandating requirements.

Question 2

Draft FRS 103 paragraph 2.3 includes the 'improvement' options from IFRS 4 (ie permitting entities to change accounting policies for insurance contracts in certain circumstances). Do you agree with the inclusion of these options in the draft FRS? If not, why not?

Yes, we support inclusion of the 'improvement' options from IFRS 4. It is not appropriate for the constraints imposed by UK GAAP to be more stringent than those imposed on IFRS reporters.

Question 3

Draft FRS 103 paragraph 1.5 requires new entrants to apply the same requirements as existing preparers in setting a benchmark for their accounting policies, but they are also permitted to utilise the improvement option where justified, in finalising their initial accounting policies.

Is there sufficient clarity on the application of the draft FRS by new entrants? If not, how should this be improved?

Yes – paragraph 1.5 makes this clear.

Question 4

Draft FRS 103 includes paragraphs from IFRS 4 on future investment margins. Paragraph 2.8 notes that an insurer need not change its accounting policies to eliminate future investment margins, however there is a rebuttable presumption that an insurer's financial statements will become less relevant and reliable if an accounting policy is introduced that reflects future investment margins in the measurement of insurance contracts (unless those margins affect contractual payments). Paragraph 2.9 describes how an insurer might overcome the rebuttable

presumption.

Do you agree with the rebuttable presumption? If not, please describe your preferred measurement basis for insurance contracts and whether or not you would permit insurers to continue with their existing accounting policies in this area for the time being?

We see no reason to deviate from IFRS 4's requirements in this regard.

Question 5

Draft FRS 103 paragraph 4.7(c)(iii) has adopted the IFRS 4 requirement for claims development disclosures. Is the data for these disclosures readily available to preparers?

For UK general insurers we expect that this information would generally be available, as it is required for regulatory returns. It is possible that the availability of data may vary in overseas subsidiaries dependent on the local accounting and regulatory reporting requirements. In general, we do not expect claims from life insurance business to fall within the scope of these disclosure requirements as the uncertainty about the amount and timing of life insurance claims is, typically, resolved within one year.

Question 6

The requirement to provide capital disclosures is now contained in paragraph 34.31 of FRS 102 and Section 3 of the draft Implementation Guidance provides only guidance on how those disclosures might be made by insurers with long-term insurance business, rather than mandating a particular presentation.

Do you believe this approach is appropriate in the context of applying draft FRS 103 with FRS 102? Will it have an impact on the usefulness of the disclosures to users of financial statements?

The proposed implementation guidance goes significantly further than the minimum that would be required under paragraph 34.31 of FRS 102 in respect of the extent of both quantitative and qualitative disclosures. However, in practice we do not anticipate that following the guidance will pose a significant burden for life insurers given its consistency with what is currently required under FRS 27. As a result, we do not object to this approach being adopted in the short term and it will not reduce the usefulness of disclosures. See our response to question 7 for a proposed longer-term solution.

Question 7

Do you think the guidance on providing capital disclosures, set out in Section 3 of the draft Implementation Guidance, should also be applicable to other financial institutions applying FRS 102, such as banking entities?

If the FRC wishes to provide additional guidance on capital disclosures to entities other than those issuing insurance contracts then this should be done via a consultation on an amendment to FRS 102. FRED 49 is not the appropriate place to consult on such changes.

We do not support the extension of guidance based on FRS 27 to other entities as:

- FRS 27 was drafted specifically in the context of life insurance business and its content may not be appropriate for other financial institutions
- FRS 27 goes significantly further than FRS 102 requires and it is not appropriate to imply, by way of guidance, that institutions, not previously required to give such disclosure, should go further than what is required in the main body of the standard
- Making disclosures to comply with FRS 27 would go further than what is required under full IFRS. In general, it is not appropriate for UK GAAP guidance to imply that disclosures over and above those required by full IFRS should be given.

In principle, there is no sound reason to mandate requirements, or issue guidance, in respect of regulatory capital disclosures of life insurers, which is not applicable to other regulated financial institutions such as banks. We recommend, in the longer term, the FRC looks to remove any specific guidance in this area from FRS 103 and develop and consult on an appropriate set of guidance (which does not go further than what would be required under full IFRS) to be included in FRS 102 applicable to all regulated financial institutions.

Question 8

Draft FRS 103, as with other accounting standards, is written in the context of a company and the relevant legal requirements. Appendix IV recognises that draft FRS 103 applies to other entities, including mutual insurers established under the Friendly Societies Act 1992. Are there any requirements of the draft standard or accompanying draft Implementation Guidance that you consider require amendment in order to be applied by insurers other than companies?

None identified.

Question 9

Do you agree with the proposed effective date? If not, what alternative date would you propose and why?

Yes, the effective date should be the same as for FRS 102.

Ends

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