



Draft FRS 103 Insurance Contracts

The ABI's comments on the FRC's FRED 49

1. The ABI is the voice of insurance, representing the general insurance, protection, investment and long-term savings industry. It was formed in 1985 to represent the whole of the industry and today has over 300 members, accounting for some 90% of premiums in the UK and for investments amounting to 26% of the UK's net worth. It represents its members both as preparers and users of financial statements.
2. We grateful to the Financial Reporting Council for the opportunity to comment on FRED 49, *Draft FRS 103 Insurance Contracts; consolidated accounting and reporting requirements for entities in the UK and Republic of Ireland issuing insurance contracts*.

ABI comments

3. We support draft FRS 103 and the accompanying guidance. We think it overall a good short term solution, pending the development in due course of new accounting requirements for insurance contracts under UK GAAP in the light of IFRS 4's replacement, likely changes to the European Insurance Accounts Directive/UK Companies Act, and Solvency II.
4. We suggest strengthening the reference in the FRS to the implementation guidance, that it be required to be considered rather than only that it "may also be relevant".
5. Our responses to FRED 49's questions are given in the appendix.

Association of British Insurers
October 2013

Draft FRS 103 Insurance Contracts: ABI's comments on the FRC's FRED 49 Invitation to comment questions

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?

1. We support its introduction and its aim, which we consider to be achieved.
2. We think it may be slightly awkward to work with, especially where derived from IFRS 4 because that serves a slightly different purpose and has somewhat different language compared with the text drawn from FRS 27 and the SORP. But we acknowledge that another approach to drafting FRS 103 would not have been likely to meet a cost/benefit test, particularly given that more significant changes are likely to be required in the light of IFRS, legislative and solvency changes in the next few years.

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?

3. We do not agree. IFRS 4's options aim to facilitate improvements to variable and, in some jurisdictions, poor quality pre-IFRS insurance accounting practices. By contrast, FRS 103's main objective is to sustain current consistent high-quality UK insurance accounting practices.
4. In practice, however, we acknowledge that this may not matter much. UK insurers' accounting practices appear to be well embedded. Indeed, preparers of IFRS-based accounts in the UK have made little use of IFRS 4's options.

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?

5. We suggest strengthening the reference to the implementation guidance, that it be required to be considered rather than only that it "may also be relevant".

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?

6. We agree.

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?

7. We think it normally is.

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?

8. We agree.

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?

9. We have no comments on this question.

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?

10. We have no comments on this question.

Question 9: Do you agree with the proposed effective date? If not, what alternative date would you propose, and why?

11. We agree.