



The Guernsey Society of Chartered  
and Certified Accountants

Please reply to:

**Permanent Secretary**

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31 October 2013

Dear Madam,

**FRED 49 Draft FRS 103 Insurance Contracts (“FRED 49”).**

The Guernsey Society of Chartered and Certified Accountants (the “GSCCA”) is a local society whose members determine and develop its services to provide relevant and effective support to accountants in Guernsey. It promotes the interests and concerns of accountants, acts as a voice for the industry and provides a forum for members working in Guernsey.

We write in response to the invitation to comment on the future of financial reporting in the UK and Republic of Ireland following the publication of FRED 49.

As previously noted in our response to the Exposure Draft issued for FRS 102 we still have significant concerns as to the impact of the decision to include many of the IFRS 4 Insurance Contracts (“IFRS 4”) type disclosures in FRED 49.

This is likely to have significant impact on the captive insurers operating in Guernsey who, unlike mainstream insurers, do not provide services to a broad group of outsiders (i.e. the public). The decision, in our opinion, will not result in financial reporting to “enable users of accounts to receive high-quality understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.” which remains the FRC’s overriding objective.

***Definition of a captive insurer***

A captive insurer is defined by the International Association of Insurance Supervisors as “an insurance or reinsurance entity created and owned, directly or indirectly, by one or more industrial, commercial or financial entities, other than an insurance or reinsurance group entity, the purpose of which is to provide insurance or reinsurance cover for risks of the entity or entities to which it belongs, or for entities connected to those entities and only a small part if any of its risk exposure is related to providing insurance or reinsurance to other parties”.

The Guernsey regulator, the Guernsey Financial Services Commission (“GFSC”), issued The Insurance Business (Public Disclosure of Information) Rules, 2010 in March 2010. These rules state that the public disclosure requirements “do not apply to insurance companies that only insure, either directly or indirectly, the risks of their parent companies (“captive insurance

companies”)). Hence, this further concurs with the view that captive insurers are not publicly accountable and there is limited interest in their financial statements beyond its group.

***Self-insurance***

We believe the exemption in section 1.8 (and the further guidance provided in A2.19) of FRED 49 should also be extended to include self-insurance between group companies (which essentially eliminate on consolidation within the group accounts). We would argue that where a captive insurance company is involved solely in an insurance program which only self-insures the group (including involvement in reinsurance with other parties which would result in the captive acting as a policyholder and therefore not be considered an insurance contract), the captive should not be considered to be an “insurance company” and therefore should be exempt from section 34 of FRS 102 and also should not need comply with FRS 103.

***Groups***

Most captives will have a parent company that will be preparing group accounts. If those group companies’ accounts are publicly available and prepared under UK GAAP or EU IFRS then we believe that captives should be able to apply a "qualifying subsidiary, reduced disclosure" type of exemption as risk disclosures will be available within the parent company consolidated accounts.

***Other***

We have included in Appendix 1 responses to other questions raised by the ASB which we feel are relevant to Guernsey industry.

Yours sincerely



**John Roche**

**President**

## Appendix 1

### GSCCA comments on the proposals in FRS 103

#### 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?**

We draw your attention to our comments in the covering letter regarding the inclusion of insurance contracts between captive insurance companies and their group companies in the definition of Insurance Contracts.

#### 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?**

This will vary from insurer to insurer. We would point out that this detailed information is unlikely to be of relevant to users of captive insurance companies given that the claims are in relation to group entities for which information is readily available at group level.

#### 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?**

We believe that the additional disclosures required by section 34 of FRS 102 for financial institutions should not be applicable to captive insurance companies.

We believe that if such disclosures are ultimately required that insurers should be able to adopt a format that best presents its capital position and that required by local legislation.

#### 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?**

Comments for offshore captive insurance entities as noted previously.

#### Question 9

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

We agree that FRS 103 should have an effective date comparable to FRS 102. However it is not clear whether FRS 103 will be withdrawn or will continue post the implementation of IFRS 4.

