



Accounting Standards Board
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Insurance Accounting - Mind the UK GAAP Feedback from Zurich's UK Life business

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Dear Sir or Madam

We have considered the impacts of the proposals set out in the staff paper on relevant entities in our UK life insurance business. Our ultimate parent company is registered in Switzerland, and prepares consolidated financial statements under full IFRS (as opposed to EU-adopted IFRS); with insurance contract accounting under a grandfathered US GAAP regime. We have a single regulated life insurance entity in the UK, as well as a number of other entities.

This letter considers only Zurich's life insurance business in the UK. Only a small proportion of our general insurance business is held in UK entities and therefore the impact of the staff paper is less material.

I hope that our feedback below is helpful but please contact me if you have any questions.

Yours faithfully

Clare Holt
Financial Reporting

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Long-term solution

We agree that the most appropriate long-term solution for accounting for insurance for reporting entities in the UK is to incorporate IFRS 4 phase II into UK GAAP. This will enhance consistency between UK GAAP and IFRS, which will in turn increase comparability between insurance companies. We currently apply IFRS for our group accounts; therefore it will be operationally more efficient for us if the treatment of insurance contracts in UK GAAP is brought into line.

However, as our UK insurance entity is a subsidiary of a non-EU parent, it applies full IFRS rather than EU adopted IFRS. A divergence between IFRS 4 phase II in EU adopted IFRS and full IFRS would be undesirable, as would a timing delay in adoption into UK GAAP. Our preference would be to adopt IFRS 4 phase II into our local GAAP accounts at the same time that we adopt IFRS 4 phase II in our consolidated accounts to avoid increased implementation costs.

Short-term solution

The staff paper appropriately articulates the issues that are faced by our UK life business in our local GAAP accounting for insurance companies.

In the period between adoption of Solvency II and the point at which IFRS 4 phase II is brought into UK GAAP; of the options set out in the staff paper, our preference is option I – to incorporate the current version of IFRS 4 into UK GAAP.

We believe the implementation effort for this option is low, especially compared to options III and V. Ambiguity over our local GAAP regime is undesirable, and because the standard setting resource requirements for this option is lower; it is likely that with option I, clarity over the way forward will come earlier.

However, the scope of the standard should be carefully considered because there are certain entities which currently do not apply the SORP, FRS 27 or FRS 26 which may have some business classified as insurance under IFRS 4. Reporting may be onerous if such companies were caught by the proposed regime.

Option II would also not be onerous to implement, but we feel that the greater level of rigidity in the rules is less desirable; both in terms of providing the most relevant information and in reporting effort.

The incorporation of the Solvency II rules into FRS 27 and the ABI SORP would practically mean that we could reduce reporting effort. However the implementation effort is high and there is a significant risk that the delays in finalising Solvency II could mean that clarity over the UK accounting regime comes too late to implement. This option also requires us to change our UK GAAP regime twice in a short period of time. By incorporating the Solvency II rules into our local GAAP accounts, the quantum of our actuarial reserves will change. We may create a one off UK GAAP profit or loss. There is a risk that this could be subject to tax if it is not appropriately dealt with in the tax legislation.

We do not believe option V, the incorporation of IFRS 4 phase II into UK GAAP, is practical. Given the delays in the development of the final standard, it is unlikely that it will be published in time to implement alongside Solvency II. The option of adopting a non-final standard creates a significant risk of a 2-step implementation effort. We apply IFRS for our group accounts, therefore we would prefer to adopt IFRS 4 phase II into our local GAAP and group accounts at the same time to reduce implementation effort.