AMLIN PLC

30 October 2003

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International Accounting Standards Board
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Dear Sir David,

Exposure Draft 5: Insurance Contracts

Amlin are pleased to comment on the International Accounting Standard Board's (IASB's) Exposure Draft *5: Insurance Contracts,* for phase 1. The enclosure details our views on the areas raised in the Draft. Please note that Amlin plc is a general insurer and our comments are therefore are limited to general insurance issues.

We appreciate the importance and potential impact of the work completed by the IASB on this matter, and are strongly in support of the convergence philosophy.

In respect of IAS as well as ED5, areas of concerns for us which we would like to highlight are as follows:

1) Whilst we agree with the concept of providing information for clarity, we disagree with the disclosure requirements of the Draft in respect of insurance contracts (paragraphs 26-29). We agree with the principles regarding the disclosure of methodology but query the use of the examples given in the guidance. Whilst recognising that the Implementation Guidance accompanies, but does not form part of the standard some of the information would potentially compromise commerciality. The disclosures detailed are intended to aid future investors, but may not be in the best interest of existing investors. In this context, companies should be allowed the flexibility to determine what is appropriate to disclose;

2) Fair value accounting: as noted in the enclosure, we would find it difficult to agree with such a basis, whilst it is undefined. We do appreciate that the use of fair values is the general direction in which the IASB aims to proceed. We would however, have preferred an opportunity to consider and respond to

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your proposals on this definition and approach prior to any commitment. Guidance at a timely stage would assist us in developing systems and approaches in order to provide required valuations. In the absence of this, we would suggest that fair value requirements are developed with phase II and

3) From the perspective of our investors and capital providers we are concerned that the two phase approach will cause confusion and potentially misleading accounts. Under current proposals each set of accounts from 2004 to 2007 will be different. The proposed 'early' disclosure of fair value at 2006 without current guidance and with the doubt about the timing of phase II may lead to greater complexity and uncertainty over the period.

One of the key objectives for all stakeholders under IAS is comparability. The lack of a prescribed format for IAS accounts is likely to inhibit any potential gains under IAS. We would strongly support some guidance in this area. Would the IASB consider including the formats in IG 12 - 14 within the standard, or other such headings, as a minimum?

We feel that there is an urgent need to finalise this standard for phase I. Our planning and delivery of quality information relies on the IASB's focus on completing this and other projects and standards. The recent delay for phase 11 will lead to a long and drawn out programme for us and many other organisations which may result in confidence being undermined in insurers' statements rather than enhanced. We would therefore welcome acceleration with a view to refocusing back to December 2007 as the final date for implementation of phase II

Yours faithfully,

Richard Hextall
Group Finance Director

| ED 5 Questions | Response to IASB |
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| Question 1 - Scope<br>The Exposure Draft proposes that the IFRS would apply to insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds, except for specified contracts covered by other IFRSs. The IFRS would not apply to accounting by policyholders<br>(paragraphs 2-4 of the draft IFRS and paragraphs BC40-BC51 of the Basis for Conclusions).<br>The Exposure Draft proposes that the IFRS would not apply to other assets and liabilities of an entity that issues insurance contracts. In particular, it would not apply to:<br>(a) assets held to back insurance contracts<br>(paragraphs BC9 and BC109-BC114).<br>These assets are covered by existing IFRSs, for example, IAS 39 *Financial Instruments: Recognition and Measurement* and IAS 40 *Investment Property*.<br>(ii) financial instruments that are not insurance contracts but are issued by an entity that also issues insurance contracts (paragraphs BC115-BC117).<br>***Is this scope appropriate? If not, what changes would you suggest, and why?***<br><br>(b) The Exposure Draft proposes that weather derivatives should be brought within the scope of IAS 39 unless they meet the proposed definition of an insurance contract<br>(paragraph C3 of Appendix C of the draft IFRS).<br>***Would this be appropriate? If not, why not?*** | a) Agree that the scope is appropriate<br><br>(b) No comment |

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| **Question 2 - Definition of an Insurance Contract**<br><br>The draft IFRS defines an insurance contract as a<br><br>'contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary.'<br><br>(Appendices A and B of the draft IFRS, paragraphs BC10-BC39 of the Basis for Conclusions and IG Example 1 in the draft Implementation Guidance).<br><br>***Is this definition, with the related guidance in Appendix B of the draft IFRS and IG Example 1, appropriate? If not, what changes would you suggest, and why?*** | Agree that the definition with the guidance provided is appropriate |
| **Question 3 - Embedded derivatives**<br><br>(a) IAS 39 Financial Instruments: Recognition and Measurement requires an entity to separate some embedded derivatives from their host contract, measure them at fair value and include changes in their fair value in profit or loss. This requirement would continue to apply to a derivative embedded in an insurance contract, unless the embedded derivative:<br><br>). meets the definition of an insurance contract within the scope of the draft IFRS; or<br><br>). is an option to surrender an insurance contract for a fixed amount (or for an amount based on a fixed amount and an interest rate).<br><br>However, an insurer would still be required to separate, and measure at fair value:<br><br>). a put option or cash surrender option embedded in an insurance contract if the surrender value varies in response to the change in an equity or commodity price or index; and | a) Agree appropriate |

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| i. an option to surrender a financial instrument that is not an insurance contract.<br><br>(paragraphs 5 and 6 of the draft IFRS, paragraphs BC37 and BC118-BC123 of the Basis for Conclusions and IG Example 2 in the draft Implementation Guidance)<br><br>***Are the proposed exemptions from the requirements in IAS 39 for some embedded derivatives appropriate? If not, what changes should be made, and why?*** | |
| (b) Among the embedded derivatives excluded by this approach from the scope of IAS 39 are items that transfer significant insurance risk but that many regard as predominantly financial (such as the guaranteed life-contingent annuity options and guaranteed minimum death benefits described in paragraph BC123 of the Basis for Conclusions).<br><br>***Is it appropriate to exempt these embedded derivatives from fair value measurement in phase I of this project?***<br><br>***If not, why not? How would you define the embedded derivatives that should be subject to fair value measurement in phase I?*** | |
| (c) The draft IFRS proposes specific disclosures about the embedded derivatives described in question 3(b) (paragraph 29(e) of the draft IFRS and paragraphs IG54-IG58 of the draft Implementation Guidance).<br><br>***Are these proposed disclosures adequate? If not, what changes would you suggest, and why?*** | No view on (b) and (c). |
| ***(d) Should any other embedded derivatives be exempted from the requirements in IAS 39? If so, which ones and why?*** | |

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| Question 5 - Changes in accounting policies<br><br>The draft IFRS:<br><br>(i) proposes requirements that an insurer must satisfy if it changes its accounting policies for insurance contracts.<br>(paragraphs 14-17 of the draft IFRS and paragraphs BC76-BC88 of the Basis for Conclusions).<br><br>(ii) proposes that, when an insurer changes its accounting policies for insurance liabilities, it can reclassify some or all financial assets into the category of financial assets that are measured at fair value, with changes in fair value recognised in profit or loss.<br>(paragraph 35 of the draft IFRS).<br><br>*Are these proposals appropriate? If not, what changes would you propose and why?* | Proposals are considered appropriate. |
| Question 6 - Unbundling<br><br>The draft IFRS proposes that an insurer should unbundle (ie account separately for) deposit components of some insurance contracts, to avoid the omission of assets and liabilities from its balance sheet.<br><br>(paragraphs 7 and 8 of the draft IFRS, paragraphs BC30-BC37 of the Basis for Conclusions and paragraphs IG5 and IG6 of the proposed Implementation Guidance).<br><br>*(a) Is unbundling appropriate and feasible in these cases? If not, what changes would you propose and why?*<br><br>*(b) Should unbundling be required in any other cases? If so, when and why?*<br><br>*(c) Is it clear when unbundling would be required? If not, what changes should be made to the description of the criteria?* | a) Whilst this proposal is not unreasonable, current systems and market processes do not support unbundling of the deposit vs claim components of certain insurance contracts.<br><br>Our response would be that this is not always feasible and should therefore provide an alternative in such instances.<br><br>Further, is this requirement relevant where deposit components are not material?<br>(b) No views.<br>(c) Further clarity of the extent of application would be of use. |

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| **Question 7 - Reinsurance**<br><br>The proposals in the draft IFRS would limit reporting anomalies when an insurer buys reinsurance<br>(paragraphs 18 and 19 of the draft IFRS and paragraphs BC89-BC92 of the Basis for Conclusions).<br><br>***Are these proposals appropriate? Should any changes be made to these proposals? If so, what changes and why?*** | Agree that proposals are appropriate. |
| **Question 8 - Insurance contracts acquired in a business combination or portfolio transfer**<br><br>IAS 22 *Business Combinations* requires an entity to measure fair value assets acquired and liabilities assumed in a business combination and ED 3 Business Combinations proposes to continue that long-standing requirement. The proposals in this draft IFRS would not exclude insurance liabilities and insurance assets (and related reinsurance) from that requirement. However, they would permit, but not require, an expanded presentation that splits the fair value of acquired insurance contracts into two components:<br><br>(a) a liability measured in accordance with the insurer's accounting policies for insurance contracts that it issues; and<br><br>(b) an intangible asset, representing the fair value of the contractual rights and obligations acquired, to the extent that the liability does not reflect that fair value. This intangible asset would be excluded from the scope of IAS 36 *Impairment of Assets* and IAS 38 *Intangible Assets*. Its subsequent measurement would need to be consistent with the measurement of the related insurance liability. However, IAS 36 and IAS 38 would apply to customer relationships reflecting the expectation of renewals and repeat business that are not part of the contractual rights and obligations acquired.<br><br>The expanded presentation would also be available for a block of insurance contracts acquired in a portfolio transfer (paragraphs 20-23 of the draft IFRS and paragraphs BC93-B101 of the Basis for Conclusions).<br><br>***Are these proposals appropriate? If not, what changes would you suggest and why?*** | These proposals are considered appropriate. |

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| Question 9 - Discretionary Participation features<br><br>The proposals address limited aspects of discretionary participation features contained in insurance contracts or financial instruments (paragraphs 24 and 25 of the draft IFRS and paragraphs BC 102-BC108 of the Basis for Conclusions). The Board intends to address these features in more depth in phase II of this project.<br><br>***Are these proposals appropriate? If not, what changes would you suggest for phase I of this project and why?*** | No comment |
| Question 10 - Disclosure of the fair value of insurance assets and insurance liabilities<br><br>The proposals would require an insurer to disclose the fair value of its insurance assets and insurance liabilities from 31 December 2006.<br><br>(paragraphs 30 and 33 of the draft IFRS, paragraphs BC138-BC140 of the Basis for Conclusions and paragraphs IG60 and IG61 of the draft Implementation Guidance).<br><br>***Is it appropriate to require this disclosure? If so, when should it be required for the first time? If not, what changes would you suggest and why?*** | It is not considered appropriate to require such disclosure before further clarification on fair value is provided because we would be unable to assess requirements for appropriate systems/approach intended for fair value. |
| Question 11 -Other disclosures<br><br>(a) The Exposure Draft proposes requirements for disclosures about the amounts in the insurer's financial statements that arise from insurance contracts and the estimated amount, timing and uncertainty of future cash flows from insurance contracts.<br><br>(paragraphs 26-29 of the draft IFRS, paragraphs BC124-BC137 and BC141 of the Basis for Conclusions and paragraphs IG7-IG59 of the draft Implementation Guidance).<br><br>***Should any of these proposals be amended or deleted? Should any further disclosures be required? Please give reasons for any changes you suggest.*** | In our view, these proposals should be reviewed.<br><br>For (a) and (b), whilst the proposals within the (draft) IFRS are framed at a sufficiently high level, the illustrations given in the guidance notes are in depth and relate to areas of great commercial sensitivity. It is |

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| To a large extent, the proposed disclosures are applications of existing requirements in IFRSs, or relatively straightforward analogies with existing IFRS requirements. If you propose changes to the disclosures proposed for insurance contracts, please explain what specific attributes of insurance contracts justify differences from similar disclosures that IFRSs already require for other items.<br><br>(b) The proposed disclosures are framed as high level requirements, supplemented by Implementation Guidance that explains how an insurer might satisfy the high level requirements.<br><br>***Is this approach appropriate? If not, what changes would you suggest, and why?*** | unlikely, for instance, that insurers will be happy to disclose confidence intervals used in risk monitoring.<br><br>The claims development and risk objectives together should be sufficient for an assessment of an insurer's approach and efficacy.<br><br>Any company is unlikely to want to publish strategically sensitive information as is being suggested. |
| (c) As a transitional relief, an insurer would not need to disclose information about claims development that occurred earlier than five years before the end of the first financial year in which it applies the proposed IFRS<br><br>(paragraphs 34, BC134 and BC135).<br><br>***Should any changes be made to this transitional relief? If so, what changes and why?*** | (c) This is sufficiently workable. However, clarity on disclosures should be provided such as whether the data could be based on how we manage our business and thereby be disclosed by underwriting years. |

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| To a large extent, the proposed disclosures are applications of existing requirements in IFRSs, or relatively straightforward analogies with existing IFRS requirements. If you propose changes to the disclosures proposed for insurance contracts, please explain what specific attributes of insurance contracts justify differences from similar disclosures that IFRSs already require for other items.<br><br>(b) The proposed disclosures are framed as high level requirements, supplemented by Implementation Guidance that explains how an insurer might satisfy the high level requirements.<br><br>***Is this approach appropriate? If not, what changes would you suggest, and why?*** | unlikely, for instance, that insurers will be happy to disclose confidence intervals used in risk monitoring.<br><br>The claims development and risk objectives together should be sufficient for an assessment of an insurer's approach and efficacy.<br><br>Any company is unlikely to want to publish strategically sensitive information as is being suggested. |
| (c) As a transitional relief, an insurer would not need to disclose information about claims development that occurred earlier than five years before the end of the first financial year in which it applies the proposed IFRS<br><br>(paragraphs 34, BC134 and BC135).<br><br>***Should any changes be made to this transitional relief? If so, what changes and why?*** | (c) This is sufficiently workable. However, clarity on disclosures should be provided such as whether the data could be based on how we manage our business and thereby be disclosed by underwriting years. |