RAC plc

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By Email & Post

17 December 2003

Mr P Clark
Senior Project Manager
International Accounting Standards Board
30 Cannon Street
London EC3M 6XH

Dear Mr Clark

ED5 – Insurance Contracts

Following your conversation on Friday with Simon Bowles, and our earlier letters, I think it is worth recapping RAC's key concerns.

1. You asked the basis on which RAC's Onward Travel was FSA regulated while Breakdown was not. This is primarily because Onward Travel uses external resource while the bulk of Breakdown assistance is provided from our own employed patrols, a fixed cost.

2. Burden of Compliance with ED5:

   There are 2 elements to this:

   (i) The internal costs to systemise accounting and training our people so that we can account and report routinely as an insurer for our substantial consumer breakdown business, including related disclosures.

   Whilst difficult to quantify, I hope you will appreciate that the diversion of resource required to make these changes will be significant, and we fail to see any value added benefit that could arise. Indeed the contrary applies – management in our Roadside business currently understand a set of metrics and kpi's that are well tuned to the needs of the business. New methods of accounting that are not well suited to the nature of our business will, we believe, create inefficiency and confusion.

   We are also concerned that as accounting rules change to 'fair value' accounting this burden will increase.

   (ii) RAC is listed on the London Stock Exchange in the Business Support Services sector and followed by 14 specialist sector analysts. We have ascertained that most have little knowledge or understanding of insurance accounting and we expect we will have to spend time explaining this to them with little benefit in better overall investor understanding of RAC.

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Indeed, to the extent they perceive RAC as an insurer (which we are not) there is a real risk that our cost of capital will increase because of a (mistaken) perception of our risk profile.

In terms of the overall point you discussed with Simon, a principle-based distinction between our activities (and those of the AA) and insurers, it boils down to 3 key points we mentioned in our 31 October letter:

(i) We do not compensate members when they break down – we just start their car or tow them to a destination. Where parts or garage labour are required to repair their breakdown, the member bears these costs.

(ii) We limit this service to 5 breakdowns per annum.

(iii) The service is provided predominantly by our own employed patrols.

I trust the Board will find these sufficient reasons to exclude breakdown assistance from the proposed scope of ED5 Insurance Contracts.

Yours sincerely

Richard J Pennycook
Group Finance Director