The ABI

The Association of British Insurers is the voice of the UK's world leading insurance and long-term savings industry. A productive, inclusive and thriving sector, we are an industry that provides peace of mind to households and businesses across the UK and powers the growth of local and regional economies by enabling trade, risk taking, investment and innovation.

Founded in 1985, the ABI represents around 250 member companies, including most household names and specialist providers. The ABI's role is to:

- get the right people together to help inform public policy debates, engaging with politicians, policymakers and regulators at home and abroad;
- be the public voice of the sector, promoting the value of its products and highlighting its importance to the wider economy;
- help encourage consumer understanding of the sector's products and practices; and
- support a competitive insurance industry, in the UK and overseas.

The UK Insurance Industry

The UK insurance and long-term savings industry is the largest in Europe and the fourth largest in the world. It is an essential part of the UK's economic strength, managing investments of over £1.8 trillion and paying nearly £12 billion annually in taxes to the Government. It employs over 300,000 individuals, of whom around a third are employed directly by providers with the remainder in auxiliary services such as broking.

Insurance helps individuals and businesses protect themselves against the everyday risks they face, enabling people to own homes, travel overseas, provide for a financially secure future and run businesses. Insurance underpins a healthy and prosperous society, enabling businesses and individuals to thrive, safe in the knowledge that problems can be handled and risks carefully managed.

IASB ED General Presentation and Disclosures
ABI response to FRC draft comment letter

1. Thank you for the opportunity to comment on the FRC's draft comment letter response to the IASB's Exposure Draft ED/2019/7 *General Presentation and Disclosures.*

2. We generally support most of the FRC's draft, but we have the following comments in response to two of the FRC's Questions to UK Stakeholders, and an additional comment on the effective date.

   UK-Q1 Do you anticipate that the proposed operating profit subtotal will work sufficiently well for entities in general, and for financial institutions in particular? Please explain your rationale.

3. We understand in principle the desire of users to have consistency in the reporting of the profitability of entities' main business activities. However, this subtotal will only provide relevant information if the investing and financing categories are well-defined and there is the ability to appropriately disaggregate movements in the period where drivers of the results are significantly different. This is a particular concern for UK insurers as below.

UK-Q2 Do you anticipate any issues in implementing the proposed requirement to include in the operating category income and expenses from investing activities undertaken in the course of the entity's main business activities? Please describe any issues and your proposed solution.

4. We note the FRC's comment that financial institutions would be required to analyse investment income and expense as between the operating and investing categories. In this connection we raise a significant concern about the effect of the IASB's proposals on UK insurers who will be users of the Fair Value through Profit and Loss options under IFRS 17 and IFRS 9.

5. For UK insurers, investment variances and economic assumption changes have typically been presented below the operating profit metric. This split has long been used by management and users of insurance companies to explain the on-going performance of insurance business driven by management actions (eg underwriting decisions and expense management) as opposed to the impact on profit from market movements (eg interest rates) and is well understood by analysts and investors.

6. IFRS 17 allows for the recognition of variances generated by market movements arising from insurance contracts in OCI, and IFRS 9 allows the equivalent for some financial assets backing the insurance contracts. However, this use of the OCI is not appropriate for UK insurers, particularly because of their different asset mix and use of derivatives for economic matching purposes. For them, with the results of their insurance and investment businesses reflected entirely in P&L and none in OCI, the proposal would affect operating profit in a different way. This would hinder comparability of results between insurers that apply the OCI option and those that don't, with the latter in particular being forced to use and explain additional management performance measures.

7. We consider that the IASB needs to address this issue. Otherwise the objectives of the proposed standard will not be met for UK insurers, which are a significant sector of the UK economy. Some form of disaggregation of fair value movements and associated economic movements in liabilities, in particular discount rates, is needed to enable performance in the period to be understood and facilitate a more useful and more comparable income statement presentation for insurers generally. We would be happy to discuss this concern further with you.

UK-Q13 To what extent would it be beneficial to adopt our recommendations on MPMs? Please provide the rationale for your answer.

8. We can understand users wanting improvements in some performance reporting that takes place outside IFRS accounts. However, we consider that whether a true and fair view is given by those accounts is independent of this other reporting. That is, in principle, these problems are not for the IASB, as an accounting standard-setter, to solve.

9. The IASB can instead help improve the quality of reporting outside of IFRS accounts in two ways. Firstly, it can use its current management commentary project to improve its guidance on the use of performance measures. Secondly, it can use its relationships with regulators of reports outside IFRS accounts to promote improvements in practice in the use of its guidance.

Additional comment on the effective date

10. We suggest that the new standard should be effective from the same date as IFRS 17. That is to avoid the considerable operational impact of having to restructure general ledgers and reporting processes if the dates are not aligned – especially were the new standard to precede IFRS 17, in which case even an option to defer application of the new standard would not work because of its impact on groups that are not predominantly insurers.

Association of British Insurers
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