Zorgverzekeraars Nederland

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Your reference	-
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Subject	Exposure Draft 5 Insurance Contracts

Dear Mr. Clark,

On behalf of the Dutch health insurers we are pleased to present to you our response to the Draft Exposure on Insurance Contracts (ED 5).

First of all we like to express our appreciation for the tremendous contribution of the IAS Board in the creation of a strong, consistent and workable set of accounting standards in Europe.

Regarding the ED 5 we on the whole underwrite the comments made by the Comité Européen des Assurances (CEA). In particular, we share the concern that insurers have only limited time left to prepare for the implementation of the standard in January 2005. Much still needs to be done to ensure a smooth transition, in particular forging an understanding on the proper classification of certain insurance products both within the branch and with external parties concerned (such as accountants' organisations, the Dutch Council for Annual Reporting, and the Ministry of Finance in the case of the Netherlands). In this light we urge the Board to clarify outstanding issues with regard to the standard for insurance contracts as soon as possible. This includes further clarification of the principles of fair value, since the draft standard requires extensive disclosure related to the fair value of insurance contracts even ahead of the disclosure of the valuation itself. As is suggested by CEA, where uncertainties cannot be taken away in time for phase I, pragmatic solutions and answers should be found considering the fact that it is an interim standard.

We further note that the definition of insurance products has been cast in rather general terms. While we support this approach, we expect many questions of a practical nature regarding the proper interpretation of this definition. Conceivably the establishment of a special helpdesk would promote quick settlement of such questions while relieving the IFRIC

in this area. In addition, we give the Board to consider allowing the continued use of current local definitions during (part of) phase I. Particularly if the local supervisor does not (yet) change over to the IFRS definition, this would reduce the administrative burden of the transition to IFRS considerably.

We also would like to take this opportunity to express some of our concerns regarding the Phase II developments. Our concerns specifically relate to the requirements regarding the inclusion of future premiums. The project summary of Phase II dated July 11, 2003 describes that future premiums should only be included if, and only if, a) policyholders hold uncancellable continuation or renewal rights that significantly constrain the policy issuer's ability to reprice the contract to rates that would apply for new policyholders who have similar characteristics to the existing policyholder; and b) those rights will lapse if the policyholders stop paying premium.

The financial fundament of the health insurance business within the Netherlands is a pay-as-you-go system. Key in this system is the concept of 'solidarity'. Solidarity is reflected in various ways, e.g. between the various policyholders, between the various products and between the various consecutive years. In practice this means that the premium charged to a policyholder for a specific product does not necessarily reflect the actual insurance risk for that policyholder but is also influenced by the (estimated) developments in premium I loss ratio's of the whole (future) portfolio, therefore including other policyholders and other products. This results in an allocation of the overall estimated losses over the group of policyholders.

For those products that are indissoluble from the part of the insurer, the Dutch system has the effect of a premium renewal limitation clause resulting in a maximum premium increase at the premium renewal date, especially for those that suffer from chronic illnesses. Such policyholders will not change insurance companies as changing will result in a reassessment of their insurance risk and probably higher premiums. In these instances the premium renewal limitation clause therefore probably meets the abovementioned criteria for these policyholders. On the other hand, healthy policyholders will be accepted elsewhere. These policyholders therefore always have the option to cancel their contract in search of a better deal at the premium renewal date. Though the premium renewal limitation clause may be potentially valuable to them, it is not likely to be the deciding factor because it is part of the deal everywhere. If this reading is correct, a health insurer should assess its portfolio to determine which policyholders will never leave the company because of their poor claims experience. Only the corresponding future losses are then to be included when determining the liability arising out of insurance contracts.

In our opinion, this does not properly reflect the economic reality of a Dutch health insurer but will result in an overestimate of the risks entailed in this kind of business. As has been the case for ages, these future losses will be compensated by future gains relating to other policyholders or other products. Only including the future losses does not result in a true and fair view. While this problem concerns the Dutch system in a rather terse form, we believe that it may represent an insurance-wide issue, since any form of risk diversification entails some solidarity within the system.

We therefore encourage you to refine the abovementioned criteria to ensure that the described situation does not occur. One can e.g. think of the following: even if on the level of the individual contract it may not be known precisely which good risk policyholders will prolong their contract, if a reliable estimate of renewals can be made on portfolio level, then

the value of such 'constructive assets' should be taken into account in determining the value of total insurance portfolio.

We hope these comments will be useful to you in the further development and finalisation of the standard on insurance contracts. Please do not hesitate to contact us in case of questions regarding our contribution.

On behalf of the Dutch health insurers,

Yours sincerely,
Zorgverzekeraars Nederland

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