

RAC plc

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

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Dear Mr Clark

ED5 - INSURANCE CONTRACTS

I write on behalf of RAC plc in response to the above Exposure Draft, and specifically:

Question 1(a) - Scope and,

Question 2 - Definition of an Insurance Contract.

This letter relates primarily to the RAC Motoring Services supported "Roadside, Recovery, and At Home" elements of our Roadside Assistance Service ('Breakdown Activities').

We are concerned that ED5 appears to include our breakdown activities within its scope, because of the breadth of definition used for 'insurance' and the reference in Appendix B17 (j) to 'travel assistance'.

RAC's breakdown activities are not, we believe, those of an insurer in the usual sense because:

1. We do not compensate our members when they suffer a breakdown.
2. Each callout (approx. 90% of which are met by our employed patrols) has little incremental cost as the bulk of breakdown assistance is provided through our own resources.
3. We do not usually replace damaged items or put the member back into the position they were in prior to the breakdown – for example, where a part is replaced this is separately paid for by the member (eg a battery). Instead, the member is brought to their nearest garage, or to home or destination, depending on the circumstance and membership terms.
4. The need to provide assistance (and the related cost) is known within hours; unlike the 'long-tailed' liabilities of insurance. The number of call-outs is also limited.

This position is supported by the recognition in the Financial Services & Markets Act 2000 (Regulated Activities) Order 2001 that our Breakdown Activities are not 'regulated insurance'. This exemption is a long-standing one, existing in UK law since the inception of the Insurance Companies Regulations 1981. We thus consider the same arguments should apply in relation to ED5.

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Page 2

Our "Roadside, Recovery, and At Home" products are the bulk of our breakdown business (£256m in 2002), whilst our Onward Travel product (which provides additional services following a breakdown incident in the UK), which is FSA regulated, comprised only £4.2m of revenue in 2002. This product is only sold bundled with those other products, and is incidental to them. I believe it would be inappropriate (and potentially costly) to the business to include any of our breakdown activities within the scope of an Exposure Draft aimed at insurance.

As this is such a significant issue for us, and potentially out of proportion to the nature of the underlying products, we would like to meet you to discuss this further if you are not minded to exempt such activities.

Yours sincerely

Richard J Pennycook
Group Finance Director