

1 December 2003

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Dear Peter

Further to our comment letter on ED5 dated 20 October, please find below our additional comments on the debate around the use of “net cash flows” in the definition of insurance business (paragraph B21 of ED5).

We understand that there has been some discussion around the use of “net cash flows” in the determination of whether a contract should be treated as insurance or investment. In particular, I believe that the Board has stated that a contract where the death benefit is 101% of the surrender benefit should not be classed as insurance and that therefore the reference to “net cash flows” in B21 should be changed to “gross cash flows” or similar.

We believe that many such 101% contracts are indeed insurance because the materiality of the insurance risk should be looked at from the insurer’s view and not the policyholder’s. We can share with you some sample contracts to illustrate this. (Of course, the actual determination will depend on the specifics of the business, so we are not claiming this as a blanket determination for all 101% contracts.)

That it is significance for the insurer, not the policyholder, that is the basis for determination should I hope be clear because the financial reporting relates to the insurer and we wish “to provide information about the financial position, performance and changes in financial position **of [the insurer]** that is useful to a wide range of users in making economic decisions.”

Therefore, we hope that you will retain the current wording in Appendix B to the draft IFRS and will agree that materiality of risk should be looked at from the point of view of the insurer. (Thereby admitting the possibility of 101% business to be insurance.)

We do not consider this discussion to be purely academic - if AIDS, influenza, SARS or some other epidemic had been worse, those 101% contracts would have had a serious effect on profit. It would then be

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difficult to explain to shareholders that profit had been reduced by insurance claims on non-insurance business.

If you would like further input from us on these topics, please do not hesitate to get in touch with me.

Yours sincerely,

Steve Hardwick