

Mr David Boymal
The Chairman
Australian Accounting Standards Board
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Collins Street West VIC 8007
AUSTRALIA

Mr Peter Clark
Senior Project Manager
International Accounting Standards Board
30 Cannon Street
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30 October 2007

Dear Mr Boymal and Mr Clark

RESPONSE TO DISCUSSION PAPER: PRELIMINARY VIEWS ON INSURANCE CONTRACTS

Insurance Australia Group Limited¹ (IAG) is very supportive of the International Accounting Standards Board's continuing efforts to produce a standard that provides a comprehensive set of recognition and measurement criteria for insurance contracts. We also recognise the support being given by the Australian Accounting Standards Board to this process.

We appreciate the consultative process that has been entered into, including the roundtable sessions held in a number of countries including Australia, providing IAG and our peers with the opportunity to provide input.

As the largest underwriter of general insurance in Australia we have a presence in many industry bodies and are involved in many industry forums. For this reason IAG has provided input to a number of submissions from Australia responding to the Discussion Paper including submissions by The Insurance Council of Australia, The Accountants and Actuaries Liaison Committee, and the Institute of Actuaries of Australia. There are some differences in emphasis and on minor technical matters but we note the high degree of alignment between the responses regarding issues impacting general insurance contracts.

We write to note our support for those submissions and to highlight our key points. IAG supports the following positions:

- The proposed three building blocks are an appropriate basis for measuring insurance liabilities.
- The measurement objective of the model should be an entity-specific measurement using market consistent data where available. Targeting fair value measurement for a liability that does not have an active secondary market targets a theoretical model beyond the reach of the industry which could result in the preparation of financial reports that

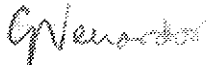
¹ Insurance Australia Group Limited (IAG) is an international general insurance group, with operations in Australia, New Zealand, the United Kingdom and Asia. IAG's businesses underwrite approximately AUD7.5 billion of premium per annum and employ around 16,000 people.

are of reduced reliability compared to those currently prepared in Australia.

- Diversification of risk is real and measurable and should be recognised. An accounting system for insurance contracts that does not recognise diversification and negative correlation where they exist, does not capture the economic substance of insurance, and therefore is of limited value.
- We believe that it is not appropriate for the credit characteristics of an insurance liability to be included in the measurement.
- All assets backing insurance contracts should be measured at fair value through profit or loss, where available under the relevant standard, when the insurance liabilities themselves are measured using a current value measurement with movements through profit or loss.

As an international general insurance group operating across various national boundaries we see great value in international alignment of accounting standards. We encourage the IASB to actively engage with the Financial Accounting Standards Board for involvement in the project and ultimate adoption of the final standard.

If you require any additional information, please contact myself or David Southwell, Senior Manager Group Reporting Policy on +61 2 9292 3390.



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