

**Subcommittee on Actuarial Standards
Limassol – November 1 and 3, 2008
Minutes**

Attendees on November 1st or 3rd:

ACTUARIAL STANDARDS - David Congram, Co-Chairperson, Yutaka Amino (Japan), Félix Arias Bergoda (Spain), Guy Castagnoli (Switzerland), Mo Chambers (Canada), Jim Doherty (Canada), Stefan Engeländer (Germany), Mark Freedman (USA), Jacqueline Friedland (Canada), Burt Jay (USA), Kurt Lambrechts (Belgium), Bob Miccolis (USA), Jim Milholland (USA), Thomas Ringsted (Denmark), Matt Saker (UK), Derek Wright (U.K.), Makoto Yasunaka (Japan).

INSURANCE ACCOUNTING - Sam Gutterman, Chairperson, Gunn Albertsen (Norway), Ralph Blanchard (USA), Alexander Dollhopf (Sweden), Ad Kok (Netherlands), Jana Zelinková (Czech Republic).

INVITED GUESTS - Paul Seymour (Board for Actuarial Standards, UK), Mark Shapland (Milliman, Inc.), Janos Blum (Milliman, Inc.), Rob Esson (IAIS).

OBSERVERS - Allan Brender (Canada), Costas Constantinou (Cyprus), Bob Howard (Canada), Toshihiro Kawano (Japan), Jose Luis Lobera (Mexico), Yoshio Nakamura (Japan), Christos Patsalides (Cyprus), Frank Rasmussen (Denmark), Henry Siegel (USA), Masaaki Yoshimura (Japan), Thierry Poincelin (France), Charles Vincensini (France), Glenn Meyers (USA), Dave Pelletier (Canada), Amy Bouska (USA), Harry Panjer (Canada), Allan Kaufman (USA), Doug Van Dam (USA), Greg Martin (Australia), Hideyuki Yoshida (Japan), Ksenia Orekhova (Russia), Dmitry Mukhin (USA)

November 1

David Congram chaired the meeting and after introductions, the [minutes of the Quebec City meeting](#) of June 11 and 13, 2008 were approved as drafted. The preliminary agenda was accepted as appropriate for the meeting.

Educational Monograph on Stochastic Processes and Modeling in Financial Reporting and Capital Assessment

The stochastic modeling monograph was discussed at some length. This educational monograph is being funded by several organizations which have provided actuaries to serve on the oversight group. An outline of the monograph was provided (available from the IAA website).

Representatives from Milliman, Mark Shapland and Janos Blum, presented an update on the current status and summarized a few case studies prepared thus far. Examples of the case studies were presented. The intended audience for the monograph is practicing actuaries with some background in statistics and stochastic methods. The detailed outline of the project tasks were reviewed. There were suggestions for one or two additional case studies, particularly involving use of stochastic models in computing risk margins for financial reporting. There was discussion about an issue of how this monograph would be coordinated with the IAA Solvency Subcommittee, particularly the Internal Models Paper.

There was some discussion about the accompanying spreadsheet tool and whether access to Milliman's software would be needed in order to use the spreadsheet. The authors provided assurance that no special software would be needed.

The monitoring tool for the completion of the various sections, case studies and reviews of the monograph were presented. APOG reviews have been completed on the sections and comments have been sent to the authors. Two of the planned case studies are not yet drafted.

There were comments about including appropriate caveats about the use of the monograph, such as the assumptions regarding distributions, so as to prevent misuse of the case studies in actual practice.

Case studies

Two case studies were presented: one for non-life (to illustrate uncertainty in unpaid claim estimates) and another for life. There was another suggestion for one of the case studies to illustrate modeling the risk of mortality (longevity) trends. Additional discussion involved the treatment of interactions (correlations) and the possible modeling of management behaviour, e.g., delay in management actions or responses.

There was a suggestion to avoid use of the term "best estimate" terminology, possibly replacing it with another term such as "central estimate", "anticipated experience" or "point estimate". Additional thoughts/suggestions made in the course of the subcommittee discussions included: use of marginal distributions, noting that the QIS examples of marginal distributions were not working as expected; financial crisis scenarios, similar to modeling catastrophic events; use of stress testing against extreme scenarios; and development of examples of extreme scenarios.

Review

It was outlined that the current plan is to have three types of reviews of the draft monograph conducted. One is currently in place, the APOG; second is a group of graduate actuarial students; and third is a group of volunteers of practicing actuaries in different countries. Reviews are expected to be completed by March 2009 and the monograph completed and distributed by the next IAA meetings.

It was also noted that the UK Board for Actuarial Standards (BAS) will soon be releasing a discussion paper about a modeling standard for actuaries.

Other suggestions included adding/substituting a case study on Accounting or Solvency II and seeing if local associations would provide additional examples outside the educational monograph for a case study involving a local insurance product.

It was indicated that comments on the distributed case studies would be appreciated by the end of November and the meeting was adjourned.

Respectfully submitted,

Bob Miccolis

November 3

The meeting reconvened on November 3, 2008.

Discussion on the educational monograph on stochastic modeling applications was continued and the three types of planned review discussed once more. Committee members were asked to contact David Congram if they could recommend a graduate university or if they could assist in the identification of members who would be able to participate in the practice overview group. It was noted that:

- The target was distribution in the summer of next year for a final report
- Feedback on the case studies, which is due November 30, should be forwarded by email to David Congram.

Comments by committee members on process:

- a) Want to ensure internal consistency with other IAA papers
- b) Concept document (executive summary) might make sense
- c) Universities to contact
 - one should be British, since stochastic mortality is a hot topic there now
 - University of Waterloo (Canada) might be one
- d) Concern with a case study not yet completed
- e) There should be an accounting type example, relating somehow to risk margins or another accounting topic, since this was original intent
- f) Since we are getting Excel workbooks, thought was maybe individual national associations could do case studies that are specific to their country
- g) Maybe we should try to get this on various exam syllabuses.

Activity report

It was reported that Business Combination and Disclosure IASPs have been finalized and are now up on website. The balance of the items was to be discussed later on the agenda.

IASP 2 Exposure Draft – Actuarial Practice when providing professional services concerning financial reporting under IFRS

On the IAA Council agenda was a motion to approve the revised IASP 2 to include pensions and employee benefits based on comments received.

Background

- a) The amendments have been done at the initiative of the Pensions & Employee Benefits Committee
- b) Institute of Actuaries of Australia gave a good review and critique
- c) DAV from Germany did not think this was necessary and they were concerned about its possible use. The response to the DAV was that this Class 4 standard was an educational note and national associations did not have to apply it
- d) There was a good discussion on this point as others disagreed and thought this document was necessary, in particular, with respect to required disclosures of assumptions, rationale, etc.

- e) The Pensions & Employee Benefits Committee made a few revisions, based on some comments on wording
- f) Exposure comments have been reflected in the document

We required a vote on the revised IASP 2 so that it could go before Council. The Actuarial Standards Subcommittee of the Insurance Accounting Committee recommends approval of Motion of supporting revised IASP 2; motion passed; votes: Yes – 13
 No – 1
 Abstain – 2

IASP Revised Due Process – work with Professionalism Committee

Background and discussion

- a) Council Motion in Quebec City – split IASPs into International Actuarial Standards of Practice (IASP) and International Actuarial Notes (IAN).
- b) Subsequent discussions – majority of the Professionalism Committee voted not to have “Model” in title. The new IASP collapsed the old Class 1,2,3 standards into one. It is intended to fully include in the description of each IASP, that it is intended to be a model.
- c) The Subcommittee who drafted the standard must ultimately decide for each current Class 4 IASP whether to move to IASP, or move to IAN, or discard.
- d) For the transition, all prior IASPs are Class 4. After reformatting it is not intended to require a revote.
- e) Significant concern around wording of items such as *should*, *shall*, *must*, etc. If a document becomes an IASP “model” standard, then just in case a national association decides to adopt it without modification the wording needs to be appropriate. (Note.- national associations will have the right to modify the standard and use words of their own.) This is also a concern of the Professionalism Committee.
- f) Professionalism Committee is also aware of the need for a legal review.
- g) In all likelihood, prior IASPs, with the exception of IASP 2, will be IAN.
- h) Professionalism Committee will first provide the required guidance and formatting requirements.

Website and Translation status

- a) Received French translations and these have been reviewed; not yet on website.
- b) Translation into Spanish is on the Mexico Actuarial organization website and is accessible by the public. The plan is for the IAA to provide a link on the Mexico website.
- c) Translation into Japanese on the IAJ website but can only be accessed by IAJ members. IAJ will check to see if it can be made available to the public and if so then the link will be put onto the IAA website.
- d) Still working on way to get “Suggestion Box” or ‘Discussion Forum” on website; IAA website is getting a major revamp in 2009.

Planning

Approach to transition of current IASPs assuming the new Due Process is passed at Council:

- a) Feedback from Professionalism Committee:

- They intend to use the existing IASP 2 to develop the required format and approach. They have formed a working group and have requested a representative from this committee and work with them. A few people volunteered (Burt Jay, Stefan Engeländer and Jackie Friedland).
 - They want to have a template to us for next meeting
- b) Other IASPs – The question will be the required format again and the Professionalism Committee plans to address that after the Standard formats have been addressed. .

Possible move from IASP 2 to new IASP for Insurance Contracts Phase 2

We discussed the approach:

- a) 2013 will be earliest implementation date of standard, but ED is due at the end of next year
- b) There was a suggestion that we plan to start work based on the current IASB Discussion Paper and then modify the plan when the ED comes out.
- c) Data, modeling, assumptions, control environment are probably covered somewhere else.
- d) Most urgent questions will be background considerations actuaries should consider. We should review 2002 list. Discount rate, own credit, risk margin, calibration (if necessary), etc. Group volunteered to come up with recommended list of things we might cover in a note and come up with prioritization. Target for next meeting of this subcommittee.
- e) We need to send “Notice of Intent” to IAA Council if we intend to write an IASP. But, we probably do not need this notice if we want to start with an IAN.
- f) Some thought that since the actuary does not have a formal role with IFRS, it should be no more than a note, at least for the time being.
- g) Others thought we might have an opportunity to work with the IASB, in that they would put in IFRS statement that IAA will write actuarial guidelines. Some felt this was not a likely outcome.

Role of Subcommittee going forward, for example, more educational efforts:

- Get ready for Phase 2
- Educational efforts (e.g., upcoming monograph on stochastic modeling) – there was no agreement whether this should be handled at the subcommittee level or at the Insurance Accounting Committee level.

Respectively submitted,

Mark Freedman