



INTERNATIONAL ACTUARIAL ASSOCIATION

Meeting of the IAIS Task Force of the Actuarial Standards Committee Friday, April 10, 2015 – 10:00 – 12:30 Renaissance Zurich Tower Hotel, Zürich, Switzerland Minutes

Attendance:

Members Andrew Chamberlain [Chairperson and Liaison to ASC]
Clemens Frey
Jules Gribble
Tom Karp
Toshihiro Kawano
Francis Ruygt
Dave Sandberg

John Instance – Invited Guest
Amali Seneviratne – Staff Liaison

Observers Changwon Im
Maria Kamenyárova
Esko Kivisaari
Shukuei Lin
John Maroney
John Oost
Sangrae Park
Richard Roth
Masaaki Shigehara
Hsiu-Ting Yeh

1. **Opening of the meeting** – The Chair welcomed everyone. The members and observers introduced themselves.

2. The agenda was approved without change

3. **Feedback from the ASC meeting**

The Chair reported that the ASC was given a brief update on the work of the TF since London. Slow progress made since London due to several members of the TF being involved in drafting the Risk Book, which was priority. The TF will step up the pace with regular calls after the Zurich meetings. The ASC was requested to consider appointing a new TF member with P&C expertise. (*Later note: The ASC approved the appointment of Jacqueline Friedland (P&C Actuary, Canada) to the TF at their meeting on 11 April).*

4. Feedback from Insurance Accounting Task Force (ISAP 4)

It was noted that the ISAP 4 TF was further ahead with their Exposure Draft (ED). They were constrained somewhat by the progress made on IFRS X by the IASB. The TF will liaise closely with the ISAP 4 TF to avoid unnecessary differences in the guidelines on the common areas, to the extent possible. The different objectives of the two ISAPs will naturally lead to some differences. ISAP 7 is likely to be more prescriptive than ISAP 4, due to the requirements of the IAIS. Francis Ruygt is on both TFs, and will be relied on to keep the two groups informed of relevant updates.

At the end of the drafting process, it would be helpful to develop a statement around the key differences between ISAP 4 and ISAP 7 approaches to facilitate better understanding.

5. Update on activities of the IAIS since London

John Maroney and Jules Gribbles provided updates on the IAIS activities.

Following the developments after London, The IAIS is likely to be taking a slightly different direction than it had initially intended in terms of valuation of assets and the risk margin. The ultimate goal in the ICS is to establish a single valuation basis, but in the interim stages the ICS is likely two valuation approaches, namely, the market adjusted valuation approach and the GAAP plus approach. There is a strong desire to eventually reconcile/ bring together the two approaches, possibly after 2018. This slight change in direction has involved a lot of time and effort by the IAIS over the last few months. The current focus and effort of the IAIS is in to getting the field testing template and structures in place so that the request for data can go out to the approx. 35 volunteers at the end of April. The data received from the field testing will be analyzed in the third and fourth quarters of 2015.

The IAIS published an initial consultation paper on ICS in December 2015 with a relatively short consultation period. This was meant to be the first of a 4-5 year discussion to follow. The IAIS is still deliberating the responses received. There were several questions in the consultation paper regarding Current Estimates (CEs) and risk margins.

Comparability is the key factor. As such, the IAIS would prefer to use CEs without risk margins to facilitate better comparability. The Chair reminded the meeting that the SOI for ISAP 7 specifically states that ISAP 7 will follow the decision of the IAIS in this regard.

The next consultation on ICS is planned in December 2015. Some jurisdictions are considering moving into having different approaches to locked-in discount rates; if any changes get adopted by these jurisdictions they will flow through to some of the work on the ICS.

It would be helpful if the IAA identifies the unanswered questions and their implications and bring them to the IAIS for debate. The IAA and the IAIS will have to work in parallel. In the absence of definitive information the TF should identify the most likely IAIS approach and continue to work in that space. The Chair stated that the objective of drafting the position papers was to identify the unanswered questions. Getting such questions resolved through the IAIS or other sources was critical to moving forward with the drafting.

6. Discussion – draft position papers

6.1 [Framework document](#) (Jules Gribbles, Tom Karp)

The framework document was discussed inviting comments from the group. There was general agreement to the content in the e-mail exchange between Jules and Tom. A clarifying statement of what a “best estimate” is would be helpful to tighten the framework. It should recognize that the best estimate is not a single answer, but may be an answer within an acceptable range. Clearly there will be “bad” estimates and “poor” estimates based on how far the answer deviates from the acceptable range. What should be the level of uncertainty in a good “best estimate”? A process for getting a best estimate would be to compare actuals vs. expected over a period of time. A best estimate should narrow the gap between the actual and expected. Should a process of comparing actual to expected over the years be built into the guidelines explicitly? It was noted that the best estimate that is being considered is an estimate of the mean and not an estimate of the 50th percentile.

6.2 [Mortality and Morbidity Assumptions](#) (Dave Sandberg)

The content of Dave’s paper was noted and noted that there is no “right” answer to any of the element, just a reasonable range.

Mortality: The distinction between volatility and uncertainty should be recognized. In terms of the level of detail, it was agreed that the TF would consider all the details at this stage and later decide what should be moved elsewhere e.g. appendix, educational note.

Morbidity: There are various ways of looking at morbidity. For short term morbidity, the proportion sick approach may be better suited and for long term coverage the claims incidence and duration approach may be better suited.

- Factors such as economic conditions and the nature of the product will impact morbidity rates.
- The distinction between morbidity products sold by Life insurers and health insurers should be identified. The nature of the product can attract different populations.
- For both mortality and morbidity there are factors that will affect the general population and there are factors that will affect the insured population.
- Mortality and morbidity experience can be different for group insurance and individual insurance; this may be particular to some countries.

Dave will re-write the note and try to have the contents validated by health insurance experts in the US.

6.3 [Discount Rates](#) (Andrew Chamberlain)

Andrew will re-work the paper considering the work done by the ISAP 4 TF and the different asset valuation approaches that may apply.

It was suggested to consider the implications of low/negative interest rates.

New innovative product design can add complexity. How should current estimates of non-guaranteed benefits be reflected in the ISAP? Should the TF consider a separate paper on options?

6.4 [Unexpired Premium / Risk reserves](#) (Clemens Frey)

Clemens presented some initial ideas on Outstanding Claims Reserves including IBNR. The ideas were influenced by the discussions in Solvency II and put together by a small group of German actuaries.

6.5 Other

7. **Next steps and timeline prospect**
Schedule monthly calls of the task force.