



**ASSOCIATION ACTUARIELLE INTERNATIONALE
INTERNATIONAL ACTUARIAL ASSOCIATION**

April 30, 2009

Mr. Timothy Bishop
Organisation for Economic Co-operation and Development
Paris, France

Ms. Lone Mørup
International Association of Insurance Supervisors
Basel, Switzerland

Dear Sir and Madam

Re: IAA comments on IAIS / OECD Issues Paper on Corporate Governance

In response to the request for comments on the March 2009 IAIS / OECD Issues Paper on Corporate Governance, I am pleased to transmit on behalf of the International Actuarial Association (IAA) our comments and recommendations.

These comments have been prepared by the Enterprise and Financial Risk Committee of the IAA. If, upon reading these comments, you identify any points that you would wish to pursue, please do not hesitate to contact the chairperson of the committee, Tony Coleman, or any other members of the committee. The IAA will be pleased to develop these ideas further with you.

Yours sincerely

Yves Guérard
Secretary General

[Attachment](#): IAA comments

**A Commentary on the
ISSUES PAPER ON CORPORATE GOVERNANCE
RELEASED BY THE ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT
AND THE INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS: 13 MARCH 2009**

International Actuarial Association

The International Actuarial Association (the “IAA”) represents the international actuarial profession. Our sixty-two Full Member actuarial associations represent more than 95% of all actuaries practicing around the world. The Full Member associations of the IAA are listed in an Appendix to this statement. The IAA promotes high standards of actuarial professionalism across the globe and serves as the voice of the actuarial profession when dealing with other international bodies on matters falling within or likely to have an impact on the areas of expertise of actuaries.

Due Process

These comments have been prepared by the Enterprise and Financial Risk Committee, the members of which are listed in an Appendix to this statement. It has also been subject to the due process required for it to constitute a formal view of the IAA, and will be posted to the IAA’s official web site.

IAA Comments

The IAA appreciates the opportunity to comment on the Issues Paper and our detailed comments are set out below.

Introduction

Paragraph 15 – “Parent company” usually is the top company, which may or may not be part of the insurance group of companies in a conglomerate. Since the first sentence goes from small to large (“solo basis” to “group level”), we would suggest instead “not only at the company level, but also at group and/or parent company levels”.

Summary

Paragraph 18 – governance structures bullet point

Does “different regimes for mutuals” mean that mutuals might be structured differently in different jurisdictions? We would suggest that perhaps “structures” would be a better word than “regimes” in this case.

Paragraph 18 – control functions bullet point

The word “enhancing” in the first sub-bullet does not seem to fit. Dropping the word leaves a list of core elements of corporate governance control functions.

Foundation of Corporate Governance

Paragraph 21 – “It also has to be transparent” raises the question of “to whom and to what extent?” Some business decisions made in the “best interests of the insurer”, will not remain in the best interests of the insurer unless they remain confidential, at least so that competitors do not know them. While there is a need to document the rationale for significant decisions, complete transparency seems an excessive and perhaps unrealistic goal.

Paragraph 23 – “To which the insurer is exposed to” – suggest removing the second “to” (it is unneeded given the clause starts with “to which”).

Governance Structures

Paragraph 24 – Remove “in general” from first line because it seems to complicate the phrase. In the second line, remove “yet” – we believe it is unnecessary, especially since “despite the differences” itself provides the desired contrast from the first sentence.

Paragraph 25 – The second half of this paragraph, beginning with “The current financial market crisis”, does not deal with the subject “Different board structures” and should be removed from here. It would seem to fit better under “Qualifications of directors/significant owners” (paragraphs 37 and 38)

The last sentence is subject to differences of interpretation. Why do insurers emphasize recruiting from a large pool? Is it because there is a shortage of qualified recruits and the pool needs to be made larger? Is it because diversity of membership is critical to governance? What does “as large a pool as necessary” imply? Does a pool of two candidates meet the “as necessary” criterion? Is ongoing training of Boards a common practice today or should it be one? What does ongoing training look like? Do regular Board meetings count as ongoing training?

Paragraphs 28 to 32 – This section seems to provide more detail than needed to meet the purposes of the paper. It may be subject to early obsolescence as Board structures evolve.

Paragraph 28 – In the first bullet point, suggest a comma after “executive directors”.

”Outside” directors often are, or are encouraged to become, shareholders in the company of which they are directors. To the extent these holdings are not “significant” components of their wealth, they still might be considered independent (though they are, technically, owners).

Paragraphs 33 to 36 – The section “Powers, duties and responsibilities” (paragraphs 33 – 36) would seem to make more sense before the “One-tier and two-tier boards” section. For example, this “Powers” section defines the term “director” which the “One-tier” section uses without prior definition.

Paragraph 44 – The first sentence beginning “A board committee is an operating committee” seems redundant. Paragraph 43 seems to cover the topic of what a board committee is fairly well, so suggest deleting the sentence.

“Members drawn from the full board” – that may not always be true; for example, many remuneration or audit committees can only be populated by outside directors – another reason to simply delete this sentence.

“Employees are also represented in board committees”: usually an employee representative is on the full board (though the representative may serve on one or more board committees as well).

Therefore, it may be more appropriate to mention an employee or employee representative in the “Qualifications” section, perhaps after the current paragraph 38.

Paragraph 49 – Fourth bullet: remove “in respect” in second line (superfluous); remove “is done by shareholders at a shareholders meeting” (as this is not always true) with something more general such as “must be approved by shareholders”.

Paragraphs 53 and 54 – Though this section deals with “governance structure”, there appears to be no discussion of structure (e.g., board structure, committees, members, different responsibilities of senior management). Instead, the focus is on potential differences in policies and practice. It would be preferable to discuss the fact that the boards of subsidiary companies usually are made up (sometimes entirely) of parent senior management and/or board members, and the effect this may (or should) have on the subsidiary board operations.

Paragraph 55 – Mutuals (and cooperatives) The parentheses in this heading are not required. In the third line, it would read more easily if the sentence ended after the first word “insurers”, and the next sentence began, “However, the overall issues described in this paper apply to all insurers, including mutuals and cooperatives”.

Paragraph 81 to 85 – Seems like a slightly expanded version of the “Qualifications” section (paragraphs 37 – 38. This section is not part of the “Functions of the board”, and we suggest that it be removed from here and incorporated into the structure portion of the paper (currently in the aforementioned paragraphs 37 – 38).

Paragraphs 90 to 93 – “Board accountability to others” is a responsibility of the board, and as such is part of the structure of the board rather than a function. We suggest that this section be incorporated into the section “Powers, duties and responsibilities” (currently paragraphs 33 – 36).

Control Functions

Paragraph 110 – The expectation that a risk management policy is written to document the management of “each” risk may be unrealistic. Removal of the word “each” would preserve the point of the paragraph.

Paragraph 111 – This paragraph uses the word “all” which may imply a level of comprehensiveness that is not achievable today. In addition, the paragraph specifically calls out liquidity risk and derivative risk – risk areas certainly on everyone’s minds recently but probably not the top causes of insurer failure in the future.

Actuary

Paragraph 160 – We would prefer to clarify that actuaries are not required to meet all the listed functions in all jurisdictions. Therefore, the words “all or part of” should be added after “with regard to” at the end of the sentence before the bullet points.

Additionally, we propose the words "calculation or" be inserted at the beginning of the first bullet point and the words "by law or" be inserted after "set up" to better cover the requirements of actuaries in some jurisdictions.

Paragraph 160 and 163 – We are missing a distinction between the different roles actuaries can take within an enterprise, namely:

- as creator of insurance products and thus of risk emanating from these products;
- as appointed actuary representing the interests of the insured;
- as independent risk manager or risk controller (where actuaries by nature play a central role).

We would recommend a structure that reflects these roles in the paragraphs 160 and 163 and distinguishes between:

- liability risk – actuaries work in the context of pricing, reserving, profit participation, solvency, reinsurance;
- independent risk controlling – actuaries are needed for the quantification of risk emanating from the liabilities, and for liability side of ALM modeling;
- asset risk – the asset function needs to rely on actuarial expertise in order to develop and evaluate investment strategies that take into account restrictions and requirements coming from the liabilities.

Paragraph 164 – The phrase “ensuring that the pricing of insurance products adhere to an internal framework” implies that pricing of insurance products is subject to approval by the actuary. In many insurers this is not true – often the actuary recommends premium rates but does not have any right of final approval over the premium rates actually used. Also it is not the role of the actuary in many jurisdictions that risks be disclosed to policyholders.

Paragraph 168 – It is stated in the example that it would be an objective of the actuary to ensure that the policyholder dividends are "sufficient". Generally, the actuary has to ensure that the policyholder dividends are appropriate. We therefore propose replacing "sufficient" with "appropriate" in the last sentence.

Paragraphs 173 and 174 – These paragraphs read as if the most common practice is for the Board to do the performance review of, and set the budget for, the actuarial function. This is not common practice in many insurers in many jurisdictions. The paper may want to include a broader survey of approaches or indicate that the Board having these responsibilities is one alternative among many.

Relationship with Stakeholders

Paragraph 209 – The last sentence in the last bullet of this paragraph indicates that “special” compliance efforts are needed under certain circumstances. In many EU, US and Asian jurisdictions, these circumstances (requirements regarding treating customers fairly) are common, and the related compliance efforts are usual and customary. Consider removing the word “special” from the sentence.

Members of the IAA Enterprise and Financial Risk Committee

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Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires (Argentina)
Institute of Actuaries of Australia (Australia)
Aktuarvereinigung Österreichs (AVÖ) (Austria)
Association Royale des Actuaire Belges (Belgique)
Instituto Brasileiro de Atuária (IBA) (Brazil)
Bulgarian Actuarial Society (Bulgaria)
Canadian Institute of Actuaries/Institut Canadien des Actuaire (Canada)
Caribbean Actuarial Association
Actuarial Institute of Chinese Taipei (Chinese Taipei)
Institut des Actuaire de Côte d'Ivoire (Côte D'Ivoire)
Hrvatsko Aktuarsko Društvo (Croatia)
Cyprus Association of Actuaries (Cyprus)
Česká Společnost Aktuárů (Czech Republic)
Den Danske Aktuarforening (Denmark)
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Society of Actuaries in Ireland (Ireland)
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American Academy of Actuaries (United States)
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