



**ASSOCIATION ACTUARIELLE INTERNATIONALE
INTERNATIONAL ACTUARIAL ASSOCIATION**

August 30, 2007

Mr. Yoshihiro Kawai
Secretary General
International Association of Insurance Supervisors
c/o Bank for International Settlements
CH-4002 Basel
Switzerland

Dear Mr. Kawai,

Re: IAA comments on the IAIS Draft Guidance paper on capital requirements

In response to the request for comments on the July 1, 2007 IAIS Draft Guidance Paper on Capital Requirements, I am pleased to transmit on behalf of the International Actuarial Association (IAA) our comments and recommendations.

These comments have been prepared by the Solvency Subcommittee 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 Solvency Subcommittee, Stuart Wason, or any of the other members of the subcommittee. The IAA will be pleased to develop these ideas further with you.

Yours sincerely,

Yves Guérard
Secretary General

Attachment: IAA comments

cc: Mr. Rob Curtis, Chairman Solvency and Actuarial Issues Subcommittee

**A Commentary on the
DRAFT GUIDANCE PAPER ON CAPITAL REQUIREMENTS
Released by the International Association of Insurance Supervisors: July 1, 2007**

International Actuarial Association

The International Actuarial Association (the “IAA”) represents the international actuarial profession. Our fifty-six 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. The IAA appreciates the opportunity to provide comments on this IAIS document.

Due Process

These comments have been prepared by the Solvency Subcommittee of the Insurance Regulation 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 and General Remarks

General

The paper is generally very well written and we offer few changes.

The paper contains little on the important topic of controls and reviews of capital requirement calculations.

Section 1, Paragraph 2

The text “(in addition to its technical provisions)” should be deleted.

Section 2, Paragraph 7

The second sentence states that “technical provisions represent the expected amount ... required to fulfil... obligations.” This may be incomplete as technical provisions also include a risk margin.

KF#1

The second sentence implies that the valuation method at the end of the risk horizon is necessarily consistent with that used in the technical provisions. We would prefer a more general statement that assets are sufficient to mature the liabilities with a reasonable margin over the remaining lifetime. Some frameworks define the valuation method at the end of the risk horizon independent of any accounting basis.

Paragraph 28

We wonder if the IAIS should give the impression that jurisdictions may reasonably aim for a zero-failure objective as the capital levels required may be prohibitive.

Paragraph 34

ORSA is not defined and many readers may not be familiar with its meaning.

Paragraph 35

This paragraph introduces the concept of future financial position. The IAA prefers to distinguish between an insurer's current financial position and an insurer's future financial condition. It should be made clear that capital requirements are related solely to an insurer's current financial position.

On the other hand the future financial condition analysis is a most useful tool to assess an insurer's future financial position in each year of a projection period according to a series of scenarios of plausible adversity. This analysis is a most useful "what if" tool for the senior management and Board of an insurer. It is typically a confidential analysis which, in some jurisdictions, is required to be provided to the supervisor. The IAA is most supportive of the value of this analysis and suggests that we would be pleased to work with the IAIS in developing application guidance in this area. These comments are also pertinent to KF#5 and paragraph 46.

Paragraph 37

This paragraph is unclear. We agree that two possibilities exist for the relationship between PCR and MCR: two separate methods, or one method with two levels. The second type of relationship can have several practical expressions: PCR as a multiple of MCR, different CTE/percentile levels, etc.

KF#4

We suggest that this KF is too open-ended and should instead focus on the need for consistency of underlying principles among the methods used.

Paragraph 43-45

These paragraphs seem to envision either a standard approach or internal models, but no hybrid situations (such as the use of internal models for only a portion of the risks, where appropriate, with the use of standard approaches for other risks). These paragraphs should acknowledge the possibility of a continuum from the use of no internal models, where appropriate, to the partial use of internal models, where appropriate, to the possible total replacement of the standardized approach by internal models, where appropriate.

Paragraph 51

We suggest that dispute risk is inherent in any reinsurance transaction and should be included explicitly.

Paragraph 53

The paragraph is a bit vague and introduces new terminology: "shock period & effect horizon" versus "time horizon and terminal provisions". We believe this is a key point (i.e. that a one year time horizon captures lifetime risks) and should be made clearer.

Paragraph 57

The inclusion of expected variation with respect to actuarial assumptions in the calculation of technical reserves seems inconsistent with the general trend toward using best / current estimates. The technical provisions include both a best estimate liability and an explicit provision for risk margin, and the risk margin may not necessarily include an expected variation in every assumption. For example, the level of future renewal premiums may not significantly change the calculated liability. Instead, risks due to policyholder behavior should be modeled via dynamic assumptions.

Appendix A

Members of the IAA Solvency Subcommittee

| | |
|--------------------------------|--|
| Stuart Wason | Chairperson |
| H.W.M. Van Broekhoven | Vice-Chairperson |
| Mohamed Adlioui | Association Royale des Actuaire Belges |
| Allan Brender | Canadian Institute of Actuaries |
| Tenny Siu Pong Chong | Actuarial Society of Hong Kong |
| Anthony Coleman | Institute of Actuaries of Australia |
| John Norman Darvell | Faculty of Actuaries |
| Felipe Gomez Rojas | Instituto de Actuarios Españoles |
| R Kannan | Actuarial Society of India |
| Toshihiro Kawano | Institute of Actuaries of Japan |
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| Dieter Köhnlein | Deutsche Aktuarvereinigung e.V. (DAV) |
| Christoph Krischanitz | Aktuarvereinigung Österreichs (AVÖ) |
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| Helge Ivar Magnussen | Den Norske Aktuarforening |
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| Maria Jesus Romero Santo-Tomas | Col.legi d'Actuaris de Catalunya |
| Norma Alicia Rosas | Colegio Nacional de Actuarios A.C. |
| Richard Roth | Conference of Consulting Actuaries |
| Arne Sandström | Svenska Aktuarieföreningen |
| Nino Savelli | Istituto Italiano degli Attuari |
| Tim Sheldon | Institute of Actuaries |
| Alkis Tsimaratos | Institut des Actuaire |
| H.W.M. Van Broekhoven | Het Actuarieel Genootschap |
| Johanna Elizabeth Van Heerden | Actuarial Society of South Africa |
| Therese Vaughan | American Academy of Actuaries |
| Marcela Vítková | Ceská Spolecnost Aktuárù |
| Eret Vösa | Eesti Aktuaaride Liit |
| Roberto Westenberger | Instituto Brasileiro de Atuária (IBA) |
| Igor Zoric | Udruženje Aktuara Srbije |

Full Member Associations of the IAA

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 Actuaires Belges (Belgique)
Instituto Brasileiro de Atuária (IBA) (Brazil)
Canadian Institute of Actuaries/Institut Canadien des Actuaires (Canada)
Institut des Actuaires de Côte d'Ivoire (Côte d'Ivoire)
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Cyprus Association of Actuaries (Cyprus)
Česká Společnost Aktuárů (Czech Republic)
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Eesti Aktuaaride Liit (Estonia)
Suomen Aktuaariyhdistys (Finland)
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Persatuan Aktuaris Indonesia (Indonesia)
Society of Actuaries in Ireland (Ireland)
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Istituto Italiano degli Attuari (Italy)
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Den Norske Aktuarforening (Norway)
Pakistan Society of Actuaries (Pakistan)
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Polskie Stowarzyszenie Aktuariuszy (Poland)
Instituto dos Actuários Portugueses (Portugal)
Academia de Actuarios de Puerto Rico (Puerto Rico)
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Col.legi d'Actuaris de Catalunya (Spain)

Instituto de Actuarios Españoles (Spain)
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Association Suisse des Actuaires (Switzerland)
Actuarial Institute of Chinese Taipei (Taiwan)
Faculty of Actuaries (United Kingdom)
Institute of Actuaries (United Kingdom)
American Academy of Actuaries (United States)
American Society of Pension Professionals & Actuaries (United States)
Casualty Actuarial Society (United States)
Conference of Consulting Actuaries (United States)
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