



ASSOCIATION ACTUARIELLE INTERNATIONALE INTERNATIONAL ACTUARIAL ASSOCIATION

11 October, 2000

Sir Bryan Carsberg
Secretary-General
International Accounting Standards Committee
166 Fleet Street
London EC4A 2DY
United Kingdom

Dear Sir Bryan:

On behalf of the International Actuarial Association (IAA), I am pleased to transmit the attached response to the International Accounting Standards Committee (IASC)'s Insurance Issues Paper, prepared in response to your request for comments. On 31 May we transmitted a draft response that was subject to our due process procedures. Only minor editorial changes have been made to that draft as a result of our due process.

During our due process procedures, IAA members unanimously expressed their support for the broad thrust of the IAA's response. It is important to note that at this stage in the development of accounting standards for insurance contracts and the complexity of the issues involved, it cannot be expected that all members have the same view on each and every issue. Several of our member organizations emphasized that a number of issues remain to be developed during the remainder of this IASC project. In particular, there was considerable sentiment not only further to develop the replicating portfolio and market value margin approach to the asset and liability method, but that other methods (some particularly identified the embedded value method) should also be studied for their potential applicability. Further evidence of the range of views currently held on individual issues can be obtained through a review of the individual submissions that eight of our member associations made directly to the IASC (from Australia, Canada, Germany, Japan, the Netherlands, the U.K., and the U.S.).

In addition, several of our members expressed their opinion that many practical issues remain unresolved, particularly the need for an adequate period to implement the likely standards.

The International Actuarial Association (IAA) is the organization representing professional actuarial associations internationally. We are not a trade association and we do not represent the interests of either clients or employers. As actuaries, we have developed significant experience and expertise in the assessment of the value of contingent cash flows. Using this experience, actuaries hope, as a profession, to continue to provide assistance to the IASC in enhancing the

practice of accounting on an international level, through the development of objective and meaningful standards which will command respect from users of financial statements. We applaud the IASC in its efforts to develop a set of international accounting standards applicable to insurance. We hope that our comments to this point have been of value and we look forward to providing further assistance during the remaining portion of this project.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'C. Prime'.

Catherine Prime
President, IAA

International Actuarial Association
Comments on
The Insurance Issue Paper
of the
International Accounting Standards Committee

THE INTERNATIONAL ACTUARIAL ASSOCIATION

The International Actuarial Association (the “IAA”) represents the international actuarial profession. Our forty three member actuarial associations represent more than 95% of all actuaries practicing around the world. 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 upon, the areas of expertise of actuaries.

The IAA appreciates this and other opportunities to provide input to, and assistance in, the development of accounting standards relating to insurance. We commend the efforts of the IASC Steering Committee and its supporting staff in the discussion and presentation of the important and relevant issues associated with this project. We expect that, during the remaining portion of this challenging and highly significant project, we will have additional opportunities to provide further input to the IASC. As development continues, our views may also evolve, responding to the issues raised.

DUE PROCESS

These comments of the IAA, including various individual issue papers, have been prepared by the IASC Insurance Accounting Standards Committee of the IAA, the members of which are listed below by name and association. The member associations of the IAA are also listed in an Appendix to this statement. The comments have been exposed to, and completed the IAA’s required due process procedures.

MEMBERS OF THE IASC INSURANCE ACCOUNTING STANDARDS COMMITTEE

Sam Gutterman	(Chair)
Francis Ruygt	(Vice-chair)
Clive Aaron	Institute of Actuaries of Australia
William Abbott	Institute of Actuaries
Yutaka Amino	Institute of Actuaries of Japan
Félix Arias Bergadá	Col.legi d'Actuaris de Catalunya
Dan Barron	Israel Association of Actuaries
Morris W Chambers	Canadian Institute of Actuaries
Paolo De Angelis	Istituto Italiano degli Attuari
Mariano Gongora Roman	Instituto de Actuarios Españoles
Eva Gustafson	Svenska Aktuarieföreningen
Steve Handler	Actuarial Society of South Africa
Eckhard Hütter	Deutsche Aktuarvereinigung e.V.
Tony Jeffery	Society of Actuaries in Ireland
Liyaquat Khan	Actuarial Society of India
Jean-Pierre Lassus	Institut des Actuaire Français
Won How Lo	Actuarial Institute of the Republic of China
Steve Lowe	Casualty Actuarial Society
Jose Manuel Mendez	Colegio Nacional de Actuarios A. C.
Bruce D Moore	American Academy of Actuaries
Markku Paakkanen	Suomen Aktuaariyhdistys
Bill Robertson	Faculty of Actuaries
Richard S Robertson	Society of Actuaries
Eike Steinmann	Association Suisse des Actuaire
Bjarni Thordarson	Félag Islenskra Triggingsærdfrærdinga
Gérard Vandenbosch	Association Royale des Actuaire Belges

General Comments

Our response has been tailored both to respond directly to the issues raised and preliminary views expressed by the Steering Committee, and to address selected issues that we believe warrant additional discussion. As a result, the attached has been organized in the following three segments:

1. **Executive summary.** This portion provides highlights of the current conclusions that the IAA has reached.
2. **Basic issues response.** This portion responds directly to the issues raised in the *Insurance Issues Paper*. For ease of use by the IASC, our discussion of these issues follows the format provided in Appendix E of the *Insurance Issues Paper* document.

3. **Separate issues papers.** This portion presents enhancements of our comments on the Basic Issues in (2), covering selected important topics in individual issues papers. The issues commented on cover the following topics (identifying the relevant Basic Issue or Sub-issue):
- a. Features of insurance contracts (Sub-issue 1B)
 - b. General overview of a possible approach to insurance liabilities – valuation and capital requirements (Basic Issues 4, 5, 6 and 11)
 - c. Valuation of risk adjusted cash flows and the setting of discount rates – theory and practice (Basic Issues 5 and 11)
 - d. Future investment margins (Basic Issue 5 and Sub-issue 11G)
 - e. Market expectations regarding experience assumptions (Sub-issue 6D)
 - f. Insurance contract renewals (Sub-issue 6A)
 - g. Catastrophe provisions (Sub-issue 7H)
 - h. Minimum liability floor (Sub-issue 8D)
 - i. Effect of insurer’s credit standing on insurance liability (Sub-issue 11I)
 - j. Role of the actuary.

Please let us know if the IASC Steering Committee would like elaboration or enhancement of any of the comments we have presented. We expect that a significant effort will be required to develop a quality set of international insurance accounting standards. We hope to provide objective assistance to the IASC in their development.

IAA MEMBER ASSOCIATIONS

Full Members

Comisión de Actuación Profesional – Actuarios — Consejo Profesional de Ciencias Económicas de la Capital Federal (Argentina)
Institute of Actuaries of Australia (Australia)
Aktuarvereinigung Österreichs (AVÖ) (Austria)
Association Royale des Actuaire Belges (Belgium)
Instituto Brasileiro de Atuária (IBA) (Brazil)
Canadian Institute of Actuaries (Canada)
Cyprus Association of Actuaries (Cyprus)
Česká Společnost Aktuárů (Czech Republic)
Den Danske Aktuarforening (Denmark)
Egyptian Society of Actuaries (Egypt)
The Actuarial Society of Finland (Finland)
Association des Actuaire de Bretagne (France)
Association des Actuaire Diplômés de l'I.S.F.A. (France)
Institut des Actuaire Français (France)
Deutsche Aktuarvereinigung e. V. (DAV) (Germany)
Hellenic Actuarial Society (Greece)
Actuarial Society of Hong Kong (Hong Kong)
Félag Íslenskra Tryggingastærðfræðinga (Iceland)
Actuarial Society of India (India)
Society of Actuaries in Ireland (Ireland)
The Israel Association of Actuaries (Israel)
Istituto Italiano degli Attuari (Italy)
Institute of Actuaries of Japan (Japan)
Japanese Society of Certified Pension Actuaries (Japan)
Colegio Nacional de Actuarios A. C. (Mexico)
Het Actuarieel Genootschap (Netherlands)
New Zealand Society of Actuaries (New Zealand)
Den Norske Aktuarforening (Norway)
Actuarial Society of the Philippines (Philippines)
Instituto dos Actuários Portugueses (Portugal)
Actuarial Society of South Africa (South Africa)
Col.legi d'Actuaris de Catalunya (Spain)
Instituto de Actuarios Españoles (Spain)
Svenska Aktuarieföreningen (Sweden)
Association Suisse des Actuaire (Switzerland)
The Actuarial Institute of the Republic of China (Taiwan, Republic of China)
Faculty of Actuaries (United Kingdom)
Institute of Actuaries (United Kingdom)

American Academy of Actuaries (United States of America)
American Society of Pension Actuaries (United States of America)
Casualty Actuarial Society (United States of America)
Conference of Consulting Actuaries (United States of America)
Society of Actuaries (United States of America)

Observer Members

Instituto Actuarial Argentino (Argentina)
Caribbean Actuarial Association (Caribbean)
Asociación Colombiana de Actuarios (Colombia)
Croatian Actuarial Association (Croatia)
Union Strasbourgeoise des Actuaire (France)
Actuarial Society of Ghana (Ghana)
Hungarian Actuarial Society (Hungary)
Persatuan Aktuaris Indonesia (Indonesia)
Korean Actuarial Association (Korea)
Latvian Actuarial Association (Latvia)
Association Luxembourgeoise des Actuaire (Luxembourg)
Persatuan Aktuari Malaysia (Malaysia)
Asociacion Mexicana de Actuarios A.C. (Mexico)
Nigeria Actuarial Society (Nigeria)
Pakistan Society of Actuaries (Pakistan)
Polskie Stowarzyszenie Aktuariuszy (Poland)
Association of Actuaries and Financial Analysts (Republic of Georgia)
Singapore Actuarial Society (Singapore)
Slovak Society of Actuaries (Slovakia)
Slovenian Association of Actuaries (Slovenia)
Türkiye Aktüerler Dernegi (Turkey)
Actuarial Society of Zimbabwe (Zimbabwe)