



**ASSOCIATION ACTUARIELLE INTERNATIONALE  
INTERNATIONAL ACTUARIAL ASSOCIATION**

February 14, 2002

Mr. Knut Hohlfeld  
Secretary General  
International Association of Insurance Supervisors (IAIS)  
c/o BIS  
CH-4002 Basel  
Switzerland

Dear Mr. Hohlfeld,

**RE: Public Disclosure by Insurers**

Further to our letter of July 10, 2001 forwarding the International Actuarial Association's (IAA) draft comments on the Guidance Paper for Public Disclosure by Insurers, I am pleased to confirm that the IAA's due process is now complete. The draft comments were approved by the member associations for release as an IAA public statement, subject to certain revisions which are highlighted in the attached submission.

If, upon reading these revised comments, you identify any points that you would wish to pursue, please do not hesitate to contact the chairperson of the Committee on Insurance Regulation, Nigel Masters, or any of the other members of the Committee. The IAA will be pleased to develop these ideas further with you.

Sincerely,

Edward J. Levay  
President

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IAIS Secretariat (E-mail: [iais@bis.org](mailto:iais@bis.org))  
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***A Commentary on the Draft Guidance Paper  
on Public Disclosure by Insurers.***

***Published by the International Association of Insurance Supervisors:  
April 2001***

**International Actuarial Association**

The International Actuarial Association (the “IAA”) represents the international actuarial profession. Our Full Member actuarial associations exceed forty in number, and represent more than 95% of all actuaries practising 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 The IAA’s interest in the IAIS Draft Guidance Paper on *Public Disclosure by Insurer*, dated April 2000, is to assist the IAIS in developing high quality guidance on this very important topic. The IAA appreciates the opportunity to provide comments on this Draft Guidance.

**Due Process**

These comments have been prepared by the Insurance Regulation Committee of the IAA, the members of which are listed below by name and association. The comments have been formally approved by the member associations of the IAA as part of our due process procedures.

As a result of due process, a number of changes have been made to the draft statement sent to you in July 2001. The main changes are as follows:

- (1) the proposals for extending the disclosure of contingently material liabilities was regarded as too broad and revised wording regarding this disclosure are suggested;
- (2) the proposal that disclosure of the net and gross reinsurance position should be restricted was rejected and so our suggestion in this area has been removed;
- (3) concern that disclosure of actuarial bases could lead to the disclosure of commercially sensitive premium bases has been expressed;
- (4) concern that the disclosure of actuarial bases and the results of stress tests could lead to misunderstanding and unnecessary worry for policyholders is also expressed; and
- (5) it is proposed that the disclosure of a realistic estimate of the liabilities is useful information for policyholders.

**Members of the IAA Insurance Regulation Committee**

Nigel Masters  
David Hartman  
Félix Arias Bergadà  
Morris Chambers  
Isagani de Castro  
John Allan Feyter  
Rainer Fürhaupter  
Gyula Horvath  
Thomas Karp  
Jean-Michel Kupper

Chairman  
Vice-Chairman  
Col.Legi d'Actuaris de Catalunya  
Canadian Institute of Actuaries  
Actuarial Society of the Philippines  
New Zealand Society of Actuaries  
Deutsche Aktuarvereinigung e. V. (DAV)  
Hungarian Actuarial Society  
Institute of Actuaries of Australia  
Association Royale des Actuaire Belges

Won How Lo  
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Thierry Poincelin  
Jukka Rantala  
Angus John Robertson  
David Sandberg  
Simon Van Vuure  
Robert E Wilcox

Actuarial Institute of the Republic of China  
Den Norske Aktuarforening  
Cyprus Association of Actuaries  
Institute of Actuaries of Japan  
Istituto Italiano degli Attuari  
Institut des Actuaire  
Suomen Aktuaariyhdistys  
Faculty of Actuaries  
American Academy of Actuaries  
Het Actuarieel Genootschap  
Society of Actuaries; Conference of Consulting Actuaries

The IAA recognizes the importance of public disclosures in enhancing insurer solvency, and applauds the IAIS's well-written draft guidance paper in this area. There are, however, a few aspects where we believe the draft guidance could be improved and we will present our response in the following paragraphs firstly under general comments and then refer to specific points.

### **General comments**

We believe that the paper should recognise that the level and format of disclosure could vary by the manner by which it is disclosed, the intended audience to which it is addressed, and its intended purpose. For example, there may be a need to emphasise different risks and circumstances when disclosing for prudential supervisory purposes and when disclosing for regular marketing purposes. However, we believe that all disclosure by an insurer should be consistent between the different forms of disclosure and all critical information should be disclosed regardless of its purpose.

We have commented below on the need that "complete" disclosure should be balanced against the need for more focused disclosure. In particular we recommend that the disclosure should focus on material risks although there is a need to recognise that certain risks may not yet be material but it may be reasonably foreseeable that they could become so due, for example, to a ruling in a court being subject to appeal.

We believe that any public disclosure system should recognise that there may be confidentiality and business sensitivity issues of when and how it is appropriate to disclose certain commercial information. For example, an insurer may only wish to disclose certain material circumstances once it has made a sufficient assessment of a particular circumstance and is taking appropriate actions. Also, in some countries, disclosing the assumptions underlying the technical reserves is tantamount to disclosing the premium bases, which many insurers regard as sensitive commercial and proprietary information. As you recognise in your Paper, this needs to be weighed carefully against any potential benefits that disclosure may bring. However, we do agree that "all material information should be disclosed as soon as practicable" as described under paragraph 13.

The paper does not address market conduct issues such as product details, illustrations and other information on the company given by insurers at point of sale to potential policyholders. This is an important area of communication with policyholders and its exclusion from the discussion might be noted in the section on the scope of the paper.

The Paper proposes disclosure of actuarial assumptions. The actuarial assumptions and methodologies are often extremely technical and there is concern that readers who are not familiar with actuarial calculations will not understand, or may even misunderstand or be misled by, the published description of the bases. Ways of conveying the information without confusing the non-actuarial reader should be sought, perhaps through high level disclosure of the most financially important assumptions.

Similarly, we agree that risk management, for example through stress testing, is an essential process for management to undertake. However, the general publication of the results of such investigations is likely to give rise to misunderstanding and unnecessary concern amongst policyholders.

The discussion of actuarial bases and contingency reserves leads to the more general issue, which is the assessment of the level of prudence included in the technical provisions. Information on actuarial bases and stress testing is not a substitute for the direct disclosure of the value of the liabilities estimated on current realistic assumptions without prudential margins. A realistic estimation of liabilities is necessary for efficient capital markets, which, as indicated in paragraph 2 of the Paper, is important to maintain. We recognise that similar considerations are currently being researched by the International Accounting Standards Board, but believe that this is important information for prudential supervision as well.

Finally, the relevant information required to be disclosed may need to be amended for different types of insurers or territories. For example, the references to “triangulations” in paragraph 29 or the need to “report both claims incurred and paid” under paragraph 30 may not be appropriate for long-term business.

### **Specific points**

We comment below on specific paragraphs in the paper in the order under which they appear.

- 1 Paragraph 6 includes reference to "asbestosis experience". Unfortunately, asbestosis is just one of several medical conditions potentially caused by asbestos exposure, and is not the most deadly. As insurers generally track their claim liabilities for all asbestos-related conditions combined, rather than by specific medical condition, the more generic term of “asbestos experience” should be used in this paragraph, instead of “asbestosis experience”.
- 2 It may be worth rewording the first sentence of paragraph 7 as “insurers have a long tradition of basing estimation on actuarial techniques.” Further, paragraph 7 says that companies should disclose the assumptions underlying their reserve estimates (i.e., "technical provisions"). For a large general insurance company writing multiple products in multiple jurisdictions, a full disclosure of such assumptions could be dozens or hundreds of pages long. Such an extensive disclosure would be time-consuming to produce, and most likely not beneficial to the reader. More focused disclosures would be needed. Rather than requiring disclosure of all underlying assumptions, we recommend a required discussion of the most significant assumptions, particularly those subject to the most risk or that could materially affect the circumstances of the insurer.

We agree with the need to balance costs, including the competitive costs, of any disclosure with the benefits, as discussed in paragraph 8.

- 3 We should recognise in paragraph 12 that different market participants may find different information to be material as their decision making process could vary according to their particular needs.
- 4 Paragraph 16 discusses the need for disclosed information to be “complete”, and the need for “disaggregated” information. We are concerned that these desires may lead to overly voluminous disclosures that provide no focus on the most material risks. In our experience, too much information is sometimes as difficult to digest and utilize as too little. Therefore, we recommend that any requirement for “complete” disclosure be balanced against the need for focused disclosure, focused on the most material risks (not all material items, some of which may contain non-material risks). We also recommend that any disaggregated disclosure be similarly focused on material risks, rather than material items.

Furthermore, paragraph 16 requires information to cover “where relevant, those of the group of which it is a member”. The “relevance” principle described in the paragraph should be emphasised here to ensure that the information disclosed is appropriate for the insurer in question.

**Paragraph 17 should be re-worded to state "Disclosure is not required where the information is either not material or it is not reasonably foreseeable that the information could become material."**

- 6 The second sentence of paragraph 19 (shown below) discusses the conflict between relevance and reliability for some long-tail insurance liabilities:  
*"For example in some long-tail classes of insurance realistic projections as to the ultimate cost of incurred claims are highly relevant but, due to inherent uncertainties, not always fully reliable."*  
We are concerned with the open-ended nature of this example, as it does not provide any guidance on how such a conflict might be handled. Perhaps an additional sentence could be added at the end of this paragraph, such as, “There may be several possible approaches to such a conflict, such as disclosure of estimates for the portion of such liabilities that can be reliably estimated, with required discussion of the risks associated with those liabilities not reliably estimable.”
- 7 Paragraph 20 discusses the need for closed information to be “presented in accordance with any applicable generally accepted national and international standards and practices”. Such wording should be expanded to include disclosure based on regulatory accounting standards. Where regulatory accounting standards exist and are properly codified, publicly acknowledged and understood, disclosure under these standards should be acceptable (and in some jurisdictions and circumstances may even be preferable).
- 8 Paragraph 29 should state “historical patterns of claims development (‘triangulations’) for general business”.

- 9 The requirement, in paragraph 30, to “report both claims incurred and paid” is only appropriate for insurer writing general business.
- 10 Paragraph 33 may also wish to include a discussion on the insurer’s treatment of discretionary benefits, where applicable, including details of how such discretion is determined and applied.
- 11 Paragraph 34 may be strengthened by requiring disclosure that the insurer should disclose its ability to “meet obligations and provide a return on investment” under “realistic adverse scenarios” (or similar wordings) and actions that it may reasonably take under such scenarios. The suitable requirement for disclosure should take into account the considerations under the “principles on capital adequacy and solvency.”

We thank the IAIS for the opportunity to comment on the draft guidance in this area. As always, we are available to answer any questions related to the above comments or provide further assistance that may be of value to the IAIS.

***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 Actuaire Belges (Belgique)  
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)  
Estonian Actuarial Society (Estonia)  
Suomen Aktuaariyhdistys (Finland)  
Association des Actuaire de Bretagne (France)  
Association des Actuaire Diplômés de l'I.S.F.A. (France)  
Institut des Actuaire Français (France)  
Union Strasbourgeoise des Actuaire (France)  
Deutsche Aktuarvereinigung e. V. (DAV) (Germany)  
Hellenic Actuarial Society (Greece)  
Actuarial Society of Hong Kong (Hong Kong)  
Hungarian Actuarial Society (Hungary)  
Félag Íslenskra Tryggingastærðfræðinga (Iceland)  
Actuarial Society of India (India)  
Society of Actuaries in Ireland (Ireland)  
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)  
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