



**ASSOCIATION ACTUARIELLE INTERNATIONALE  
INTERNATIONAL ACTUARIAL ASSOCIATION**

January 5, 2005

Mr. Henning Göbel  
Chair, Enhanced Disclosure Subcommittee  
International Association of Insurance Supervisors  
c/o Bank for International Settlements  
CH-4002 Basel, Switzerland  
(Email: [henning.goebel@bafin.de](mailto:henning.goebel@bafin.de))

Dear Mr. Göbel,

**Re: IAA comments on the Draft Standard on Disclosures Concerning Investment Performance and Risks for Insurers and Reinsurers**

In response to the request for comments on the Draft Standard on Disclosures Concerning Investment Performance and Risks for Insurers and Reinsurers, I am pleased to transmit on behalf of the International Actuarial Association (IAA) our comments and recommendations.

These comments have been prepared by the Insurance Regulation 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, Jukka Rantala, or any of the other members of the committee. The IAA will be pleased to develop these ideas further with you.

Yours sincerely,

Yves Guérard  
Secretary General

cc: Alex Lee ([alex.lee@bis.org](mailto:alex.lee@bis.org))  
Jukka Rantala ([Jukka.Rantala@etk.fi](mailto:Jukka.Rantala@etk.fi))

Attachment

**A Commentary on the  
CONSULTATION PAPER ON THE DRAFT STANDARD ON DISCLOSURES  
CONCERNING INVESTMENT PERFORMANCE AND RISKS FOR INSURERS AND REINSURERS  
Released by the International Association of Insurance Supervisors: September 2004**

**International Actuarial Association**

The International Actuarial Association (the “IAA”) represents the international actuarial profession. Our fifty 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 Insurance Regulation Committee, the members of which are listed below by name and association. 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.

**Members of the IAA Insurance Regulation Committee**

Jukka Rantala	Chairperson
David Sandberg	Vice-Chairperson
Andrew Chamberlain	Institute of Actuaries
Morris Chambers	Canadian Institute of Actuaries/Institut Canadien des Actuaire
Isagani de Castro	Actuarial Society of the Philippines
Joubert Ferreira	Actuarial Society of South Africa
Kavassery S Gopalakrishnan	Actuarial Society of India
David Hartman	Casualty Actuarial Society
Gyula Horváth	Magyar Aktuárius Társaság
Christiane Hwey-Jen Tsai	Instituto Brasileiro de Atuária (IBA)
Thomas Karp	Institute of Actuaries of Australia
Toshihiro Kawano	Institute of Actuaries of Japan
Philipp Keller	Association Suisse des Actuaire
Jean-Michel Kupper	Association Royale des Actuaire Belges
Won How Lo	Actuarial Institute of the Republic of China
Helge-Ivar Magnussen	Den Norske Aktuarforening
Bruce Maxwell	Society of Actuaries in Ireland
Dina Mikelsone	Latvijas Aktuaru Asociacija
Ibrahim Muhanna	Lebanese Association of Actuaries/Cyprus Association of Actuaries
Gennaro Olivieri	Istituto Italiano degli Attuari
Ian Perera	New Zealand Society of Actuaries
Thierry Poincelin	Institut des Actuaire
Angus John Robertson	Faculty of Actuaries
Göran Ronge	Svenska Aktuarieföreningen

## **Members of the IAA Insurance Regulation Committee (cont.)**

Norma Alicia Rosas	Colegio Nacional de Actuarios A. C.
Richard Roth	Conference of Consulting Actuaries
Antonia Maria Sánchez Moreno	Col.legi d'Actuaris de Catalunya
Rolf Stölting	Deutsche Aktuarvereinigung e.V. (DAV)
Simon Van Vuure	Het Actuarieel Genootschap
Therese Vaughan	American Academy of Actuaries
Eret Võsa	Eesti Aktuaaride Liit
Stuart Wason	Society of Actuaries

## **IAA Comments**

The Insurance Regulation Committee of the International Actuarial Association has reviewed the September 2004 draft of the captioned paper. The IAA appreciates the opportunity to respond to this paper at its draft stage. In general we think that the proposal is a well thought out document. Our comments are intended to put sharper focus on the aspects we consider to be most important.

In general, we would like to point out the following areas:

1. According to paragraph 2.1 there seems to be an expanded focus on disclosure beyond the regulator's traditional focus on protecting the policyholder, that is, on the solvency of the insurance company. While the solvency of the company is obviously a key element in policyholder protection, the regulator may also take cognizance of the interests of other parties. However, we also see some drawbacks in that approach. We are concerned with possible deviations/diversions from the basic mission of supervision. Given finite supervisory resources, responsibility (especially implied responsibility) for other interests needs to be carefully disciplined. It is important to consider the extent to which the disclosure required by the regulators should take into account other interests than those of the policyholders and how much of the interests should be left to other disclosure standards. In any case, we agree that for practical reasons integration and coordination of the regulatory standards and IFRS is important.
2. The draft standard is on investment disclosure with only minor emphasis on liability related information. For example, while the Appendix on page 22 includes a short example on interest rate sensitivity which reflects the interaction of assets and liabilities, it focuses only on duration. However, it is the net exposure of the assets in relation to the liabilities that is arguably the greatest risk for companies that have significant amounts of interest-sensitive business. The emphasis placed on the asset side may be better suited to a banking environment where the liabilities, typically, are managed in respect of a very short economic time horizon, due to the highly liquid nature thereof. The liabilities of a life insurer can be much more complex. For example, the investment risks in the draft document seem not to recognize the investment guarantees provided in variable annuities sold in the U.S. and other countries, apparently because they appear on the liability side of the balance sheet. Other insurance liabilities can reduce asset risk due to constraints on the liquidity of the liability. Hence the disclosure of the asset side information, without the disclosure of the links to the liability side items the assets are covering, may be only of limited use.

3. The draft standard seems to rely on the view that it is desirable to have an extensive disclosure. We are concerned that the details may obscure the main issues. A disclosure should allow a user/reader to focus on the critical items without having to winnow them from a large volume of data. One way to achieve this might be to separate the requirements into primary and secondary information, the latter becoming the supplementary details.
4. While it is sensible to make use of market discipline in monitoring the solvency of the insurance companies, we think that its usefulness in insurance is of a different nature than in banking. First, the number of transactions between insurance companies is much less than between banks, which diminishes the value of peer control. Second, insurance products and their interaction with assets can be so complex that only very well informed market participants can sensibly use the information. Thus, disclosure to regulators may be more beneficial (and again keep the focus on what is needed for supervision, not investing) than a generic (and likely simplified) disclosure to the general public.
5. The main point of measuring investment performance and risk is to ensure that investment managers first have set sensible objectives, and second have delivered against them. There is ample coverage of the former in the paper, but it would be helpful if there were more discussion on the necessity of the latter, particularly in overall and in qualitative terms as it relates to the liabilities.
6. Many countries have significant disclosure requirements (set by government and security markets) while other countries have fewer requirements. Supervisors should therefore apply the principles of materiality and practicality according to the circumstances of the jurisdiction, because of the diverse investment environments, to determine the disclosure requirements for implementation in each jurisdiction. Regarding the aspects referred to in our point 2 above and in paragraph 22 of the draft standard, that would also allow disclosure of whether the insurance company is investing on an agency (fee-for-service) basis; is investing on behalf of the policyholders and providing meaningful investment guarantees; or is investing either shareholders' funds or funds awaiting payout to policyholders where there is not an investment component. That is to distinguish between cases where the investment risk is borne by the investor, the company or is shared between the two.
7. Proper implementation requires having these new disclosure requirements replace the current ones, instead of being in addition to those which exist now.
8. Finally, we emphasize that adequate lead time should be provided for implementation of these disclosure standards.

## Responses to Specific Questions

**Question 1:** *Do you feel that the standard's approach of making all types of information required under the standard generally available is appropriate? If not, what alternative approach would be more appropriate?*

**Response:** In general we think that this type of information should be generally available. However, for many the level of detail could obscure the main thrust. A simple summary could be useful for them. We also refer to our earlier comment that the focus seems to be strongly on asset related information at the expense of pertinent liability related information.

**Question 2:** *Are there other needs of specific types of market participants that you feel the standard should address?*

**Response:** There needs to be more balance between liability and asset related information, and the net risk exposure of the company. The surplus of the company is also critical for a complete assessment of a company, and we are not sure how that will be part of the overall disclosures, particularly in respect of anticipated risk-based capital requirements and disclosure.

**Question 3:** *Do you feel that the approach of requiring disclosure on both valuation bases is appropriate?*

**Response:** From an investment performance and risk aspect, market value is much more important than book value, but book value may be necessary for other purposes such as regulatory accounting needs. While we understand that this standard is not about valuation, we note that there is no discussion of what to present when no market values are known, and/or there are divergent views on how to determine an estimated market value. This becomes even more important when the joint performance of assets and liabilities are considered. Current public accounting directions to move increasingly to a mixture of book and market values on different sides of the balance sheet have raised our concerns that the true underlying position of the company may become less clear. An insurance contract defines sets of tangible and intangible options for both policyholders and shareholders. While the tangible options may be captured in a market value measurement, they may be offset or compounded by an intangible option on the other side of the balance sheet.

**Question 4:** *Do you feel that it is appropriate for insurers belonging to an insurance group or financial conglomerate to make disclosures individually? What is your opinion on consolidated disclosure?*

**Response:** The document focuses on reporting at the legal entity level. We do think it appropriate that insurers belonging to a group or conglomerate make disclosures individually. For many market participants, individual disclosure would be very important. For example, it is the legal entities who have made the contract with the policyholder. For others, such as shareholders, the consolidated information might be more important.

If consolidated disclosure is imposed, many practical comparability issues arise. For instance, how would a company with holdings in other countries present its balance sheet disclosures to its domestic regulator if a combined solvency understanding is desired? For companies operating in multiple jurisdictions, book value definitions will vary by country. In addition, there may be a decision to use one country's GAAP basis as a basis for all book values.

**Question 5:** *To what extent is qualitative information about investment objectives, policies and management needed to form an opinion of an insurer's investment activity?*

**Response:** Qualitative information is needed, we agree, but we direct your attention to our specific comments on the details of the proposed standards. Some companies could feel that some of the required disclosures are proprietary in nature. On the other hand, the qualitative statement of investment objectives, attitude to risk, and measurement of both is essential. Delivery of actual results in support of these objectives is even more important and needs more emphasis (and may need either a regulator or independent assessment of these). Performance should be against company-specific targets rather than indices (except for specific cases). Benchmarks need to be stated and justified, particularly in the light of ALM and risk models being used. A description of the basis of modeling (especially ALM and risk modeling) would be a worthwhile addition to the disclosure requirements. This is an area where disclosure to the regulator may be more valuable than to the general public.

**Question 6:** *What are the specific difficulties that you envisage insurers would face when they attempt to comply with the requirements set out in that section of the standard?*

**Response:** We see no problems of any consequence for an insurer that is already using sophisticated information storage and measurement techniques. However, there may be grave difficulties for any insurer still using more traditional techniques. In some cases the level of detail could be considered onerous, especially by small companies. In addition, consideration should be given to the fact that in some countries, the accumulation of data at this level of detail may not be possible. For example, it is not clear that the value of a sectoral breakdown between financial services would justify the costs of collecting it. In the end, it may be unreasonable to require so much information that an outsider can recalculate the investment performance parameters. If, however, this is desirable, then an outside audit of performance and risk may be more appropriate.) Summary and overall information is most useful, and there is a danger that too much information will obscure the fundamentals. For publicly-traded companies, voluminous disclosure may lead to less understanding since in that environment only very carefully defined and focused public explanations can be given to a few select questions. Disclosure to regulators on a confidential basis may lead to a much more informed and productive dialogue.

**Question 7:** *What is your opinion on the structure of the sample disclosure format?*

**Response:** The sample disclosure detail looks reasonable (although see our response to Questions 8 and 9).

**Question 8:** *To what extent do you feel that the requirements on performance measurement are adequate? Are there other measurements that would be useful? If so, please explain?*

**Response:** We feel that the qualitative issues highlighted by Question 5 are more important than the detailed measurement requirements. The market value of the portfolio is critical, the return on market value is critical, and performance measurement should be done on a market value basis. Therefore, the performance measured by historical costs may be less useful, the split between income and capital gains may be of limited use, and the split between accrued and paid income may not be relevant. Moreover, the proposal for performance disclosure requires a detailed and comprehensive accounting set up. It assumes that information such as income, realized gains/losses, unrealized gains/losses by asset class is being captured and booked.

The hedging disclosures on an asset class basis may or may not be appropriate, depending on what the company is hedging. For example, a company could have in place either a macro hedge or a liability hedge, and allocating a hedge to an asset class may not be meaningful. Developing a reasonable set of disclosures regarding hedging and the effectiveness of the hedge deserves in our view to be developed further than is the current case.

**Question 9:** *Do you believe that the standard should adopt a more or less prescriptive approach in regard to disclosure of investment risk exposure? If so, in what way should the standard be modified?*

**Response:** A less prescriptive approach would be preferable. More attention should be directed at qualitative aspects of portfolio management and less on detailed quantitative disclosures. We believe that companies should have flexibility in establishing disclosure standards for their businesses. For example, companies may have some measures such as Value At Risk (VAR) that they feel communicates the risk profile of their business better. For some companies, investment risks may not represent a major exposure, yet a “one size fits all” approach to this amount of disclosure could actually mislead readers of their financial statements. It is not clear to us whether this level of disclosure would benefit policyholders or shareholders of companies that have little in the way of interest-sensitive business on their balance sheet. From a regulatory point of view and from the point of view of an investor, the setting of sensible targets for asset performance in relation to liabilities, taking account of underlying risks, and delivery on these is what we think as essential.

<b>Paragraph No.</b>	<b>Comments/proposed edits</b>
17	A third dimension of matching assets and liabilities for an insurance company might be the long term economic profit made by the company.
Tables 3 & 4 Annex 1	Should leave open the possibility for companies to use internal ratings in the “breakdown by credit rating.”

Paragraph No.	Comments/proposed edits
13 & 19	<p>This could lead to the situation where companies that do more and better stress testing or more sophisticated risk modeling could feel that they are being penalized since they have to disclose more. Some companies may feel that they are being required to disclose proprietary information if the regulatory disclosure is made public.</p> <p>The goal of increased transparency is good for policyholders and shareholders. However, these paragraphs may not contribute greatly to this goal, since they are dependent on whether a company performs the specific modeling mentioned.</p> <p>Consistent with paragraph 50 of the IAIS standard on disclosure concerning technical performance and risks for non-life insurers and reinsurers, paragraph 13 would be improved by adding that disclosure standards do not require public disclosure of the actual financial results of the stress tests scenarios.</p> <p><i>“50. Public disclosure of the actual financial results of the stress test scenarios might assist users to assess an insurer’s ability to withstand adversity. On the other hand, stress testing is a key management tool to help insurers understand the consequences of adverse situations. Stress testing might not achieve this key objective if insurers were required to publicly disclose the actual stress test results. For this reason, this standard does not require such disclosure.”</i></p> <p>Paragraph 19 may be better suited to require disclosure to the regulator. Otherwise, the level of technical detail may overwhelm the lay reader and may reveal proprietary information to the sophisticated reader.</p>
14	We support this view.
23	This would best be structured in the way that a company manages its businesses, for example, as is done in the current U.S. GAAP segment reporting requirements.
36	<p>We generally agree with this section. It might be useful to include a list of derivative instruments which are authorized to be used, and a list of authorized uses of investments (e.g., can be used to equitise cash flows before investment in physical securities).</p> <p>The breakdown between derivatives used for hedging and other purposes will be referred to in the forthcoming international accounting standards (which require some derivatives to be nominated as being for hedging purposes).</p>

**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/Institut Canadien des Actuaire (Canada)  
Cyprus Association of Actuaries (Cyprus)  
Česká Společnost Aktuárů (Czech Republic)  
Den Danske Aktuarforening (Denmark)  
Egyptian Society of Actuaries (Egypt)  
Eesti Aktuaaride Liit (Estonia)  
Suomen Aktuaariyhdistys (Finland)  
Institut des Actuaire (France)  
Deutsche Aktuarvereinigung e. V. (DAV) (Germany)  
Hellenic Actuarial Society (Greece)  
Actuarial Society of Hong Kong (Hong Kong)  
Magyar Aktuárius Társaság (Hungary)  
Félag Islenskra 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)  
Latvijas Aktuaru Asociācija (Latvia)  
Lebanese Association of Actuaries (Lebanon)  
Persatuan Aktuari Malaysia (Malaysia)  
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)  
Polskie Stowarzyszenie Aktuariuszy (Poland)  
Instituto dos Actuários Portugueses (Portugal)  
Academia de Actuarios de Puerto Rico (Puerto Rico)  
Singapore Actuarial Society (Singapore)  
Slovensko Aktuarsko Društvo (Slovenia)  
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)  
Actuarial Institute of the Republic of China (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)  
Society of Actuaries (United States)