



## Comment Template

### **Draft Statement of Intent (SOI) for ISAP [7] – “Current estimates” and other matters in relation to the IAIS capital standards**

1. Do you agree an ISAP is needed on “current estimates” and other matters in relation to the IAIS capital standards?

Yes

No

2. Are any of the proposed topics inappropriate for inclusion in ISAP [7]?

Yes

No

If yes, please explain why the particular topic should not be included.



**3. What other topics should be included in this ISAP?**

**Please cover why you wish guidance in this area and if appropriate provide an example to illustrate the issue. Please note that the ISAP is not intended to address unique, country-specific issues. Member associations and local actuarial standard setting organizations could address such issues by providing additional guidance to their members as the ISAP is adopted, or adding such additional guidance within the local adaptation of the ISAP.**

Please see Attachment 1

**4. Please use this space for any additional comments not covered above.**

Please see Attachment 2

**5. Please provide the name of the person completing the consultation response, association and email address for further clarifications (if needed).**

<b>Name</b>	Jules Gribble and John Maroney
<b>Organisation</b>	International Association of Insurance Supervisors
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<b>Type of response</b>	<input type="checkbox"/> <b>Personal</b> <input checked="" type="checkbox"/> <b>Organization</b>

**IMPORTANT:**

Please check if the relevant check boxes are ticked appropriately and save the file renamed with the organization's or individual's name (e.g., SOI\_CommentTemplate\_[NAME].Doc).

E-mail the file as an attachment to [SOI.ISAP7.comments@actuaries.org](mailto:SOI.ISAP7.comments@actuaries.org), with "ISAP[7]" in the e-mail header. Please respond by Friday, 5 September 2014.

## **Attachment 1: Comments re Item 3**

### **a) Margins:**

From the perspective of establishing technical provisions, current estimates go 'hand in hand' with margins. At a high level the IAIS's BCR will likely include some or all margins in capital resources for BCR purposes. It therefore would be useful to have discussion of the purpose and role(s) of margins considered.

### **b) Variation between valid current estimates:**

The draft ISAP makes, entirely appropriately, reference to the role of actuarial judgement in developing current estimates. This implies there may be no single 'correct' outcome for a current estimate amount. At the other extreme, there can be outcomes which would be generally considered inappropriate for use as a current estimate amount. A core IAIS objective, as noted in the IASP, is for convergence of actuarial practice, and so outcomes, across jurisdictions to promote comparability of results across jurisdictions. In this setting, some discussion of the range of acceptable amounts for use for current estimate purposes would be of value. This may be of value to the actuarial profession, but it would also be of considerable value to users of actuarial outcomes as it would both emphasise that there is no single 'correct' outcome for current estimates and provide some guidance on how assessment of acceptable levels of variation might be made. It is fully acknowledged that this is a difficult task. However, it is also the case that if the IASP and actuarial professions do not consider this sort of issue and provide guidance then others, perhaps less qualified and insightful, will none the less form opinions and make judgements.

### **c) Purpose of current estimates:**

The ISAP notes that the current estimate basis used for IAIS purposes will be defined in accordance with IAIS requirements. This highlights the issue that current estimates may vary according to their purpose and intended use. It would therefore be useful to include some discussion of purpose of current estimates and perhaps encourage the use of the term current estimates (and best estimates more widely) to be placed into a context of 'current (best) estimates for the purpose of ...'. This would assist avoiding confusion and misunderstanding.

### **d) Defining current estimates:**

The ISAP notes that the IAIS currently defines current estimates in terms of the mean of a distribution. While this may be a standard way of thinking of current estimates, it is suggested that this approach may confuse the means of obtaining a current estimate with the ends (objectives) for seeking that current estimate. This is particularly the case when there may be other valid approaches used for determining current estimates. It is therefore suggested that the distinction between means and ends be clarified. At a principle level a current (best) estimate can be described as an estimate which is neither deliberately overestimated nor deliberately underestimated. Then the means of obtaining it via the mean of a distribution is clearly a powerful one (but not necessarily the only one).

## **Attachment 1: Comments re Item 4**

### **a) Support IAIS development of global insurance capital standards:**

There are several references to the IAIS made in the draft Statement of Intent for IASP7. The IAIS welcomes support and input from the IAA.

### **b) Following IAIS:**

The IAIS notes the IAA statement regarding following the IAIS: *‘For the BCR itself (i.e., the minimum amount to be held by an insurer in addition to the “current estimate” liabilities) and possibly later for the ICS itself, the opposite approach is envisaged, where only those areas where specific IAIS requests are received or where clearly the IAIS requirements lead to actuarial judgement will be addressed in the ISAP.’* (bottom of page 2).

The IAIS recognises that for such a process to be effective, timely input from the IAIS and constructive discussions with the IAA are necessary. The IAIS is committed to making this process effective.