



**ASSOCIATION ACTUARIELLE INTERNATIONALE  
INTERNATIONAL ACTUARIAL ASSOCIATION**

January 12, 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 Common Structure for the Assessment of Insurer  
Solvency**

In response to the request for comments on the December 4, 2006 draft *IAIS Common Structure for the Assessment of Insurer Solvency*, 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 and have been reviewed by the Insurance Accounting and Insurance Regulation Committees. 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: Comments

cc: Mr. Rob Curtis  
Secretariat

**A Commentary on the  
DRAFT IAIS COMMON STRUCTURE FOR THE ASSESSMENT OF INSURER SOLVENCY  
Released by the International Association of Insurance Supervisors: December 4, 2006**

**International Actuarial Association**

The International Actuarial Association (the “IAA”) represents the international actuarial profession. Our fifty-five 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. The comments were reviewed by the Insurance Accounting and Insurance Regulation Committees. 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**

The IAA is most pleased to be of assistance to the IAIS in the development of this important paper. Overall, the IAA applauds the comprehensive approach to insurer solvency taken by the IAIS in this paper to insurer solvency. The paper takes (quite properly we believe) an integrated, internally consistent and “total balance sheet” approach to solvency assessment.

The IAA recognizes that the paper also identifies areas for further work and the IAA pledges its assistance (as appropriate) to the IAIS in their development. For example, the IAA could assist in areas such as:

- Further development of the total balance sheet approach
- Future financial condition reports
- Insurer risk management
- Internal models
- Asset-liability management risk
- Public disclosure of risk and solvency related information

In recognition that this paper is in the final stage of approval, the IAA is pleased to support this paper and provide some substantive comments in the paragraphs which follow.

## Substantive Comments

*Total Balance Sheet* – A very important element of the IAIS (and IAA) structure for solvency assessment is the “total balance sheet” (TBS) approach as recognized in Structure Element 4. However, the IAA is concerned that the wording chosen in the last sentence of paragraph 40 (and in Structure Element 4 itself) is more general than originally envisioned by the IAA (i.e. reference to “interdependence”) and it is not clear how these words are “*an extension of...the total balance sheet concept as adopted by the IAA*”. Perhaps the words “*an extension of, but*” could be deleted for clarity. The IAA is pleased to be quoted but requests that footnote 14 include a specific quote from the 2004 paper rather than an interpretation of the paper. The appropriate quote is as follows:

*“An insurer’s financial strength for solvency purposes requires appraisal of its total balance sheet on an integrated basis under a system that depends on realistic values, consistent treatment of both assets and liabilities and does not create a hidden surplus or deficit.”*

Despite the early favourable references to TBS in the paper, subsequent sections appear to focus significantly on the determination of technical provisions with only brief commentary on capital requirements. This balance of commentary seems contrary to the title of the paper. In our view, the assessment of insurer solvency begins with TBS. Total insurer assets should be sufficient, with a high degree of confidence, to withstand adversity emerging over a defined time horizon (e.g. one year) and still have sufficient assets to provide for the transfer of the remaining obligations to another insurer at the end of that time horizon or to run-off the remaining obligations.

*Valuation* – The word “valuation” is used 43 times in the paper. In most cases, its meaning is clear. However, in some cases the meaning is unclear and could have different meanings to different readers.

For example, when this word is used without additional description it can be assumed (especially by North American actuarial readers) that reference is being made to the process of determining the present value amount of an insurer’s obligations to its policyholders. This word can also have a very general meaning for the process of determining the present value amount of any series of cash flows (i.e. assets or liabilities).

The IAA suggests that,

- Some uses of “valuation” are unclear whether they refer solely to technical provisions or whether they also are referring to TBS capital requirements as well
- Some uses of “valuation” are clearly made with reference to technical provisions but similar comments could also be made with reference to TBS capital requirements.

The attached table (see Appendix A to this statement) identifies the 43 occurrences and the IAA view of their possible meanings.

*Paragraph 18, Footnote 6* – It should be clarified that underwriting risk includes unpaid claim liability estimation risk. The attached footnote is not clear enough on this issue. In the footnote, we suggest inserting “...also including claim liability estimation and expense risks.”

*Paragraph 41* – Actuaries involved in valuing insurance liabilities, particularly those practicing in the non-life area, may find this paragraph confusing as it is unclear whether it is suggesting a change in current practice. Currently, non-life actuaries use portfolio specific data, to the extent it is credible, as the starting point for valuing liabilities. Moreover, when actuaries use market information to supplement portfolio data, they are expected to justify the appropriateness of that data for valuing the specific portfolio at hand. This paragraph seems to suggest the opposite (i.e. use market information as the starting point and use portfolio specific information to supplement it to the extent that you can justify it). Therefore, we suggest adding on the following sentence to the end of paragraph 41:

*“Indeed, where financial markets provide only limited information useful for valuing insurance obligations, the solvency regime should recognize that portfolio specific data may provide the most relevant information for making an economic valuation of a specific portfolio”.*

*Structure Element 6, Paragraph 48, 49* – A company’s claims settlement practices can influence the value of their insurance liabilities and it is thus common practice for US actuaries, particularly those practicing in the non-life area, to reflect this in their valuations. These practices are generally considered to be a characteristic of the insurer holding the portfolio and may or may not be indicative of general market claim settlement practice. We suggest that the last sentence of paragraph 49 be worded as follows (change is italicized):

*“As far as these are sufficiently substantiated as representative of the portfolio, indicative of general market practice for the specific business practices applied and relevant and reliable for determining market consistent values, such specific characteristics should be taken into account in determining and assessing the adequacy of the technical provisions.”*

We suggest a similar change be made in Structure Element 6.

*Paragraph 51* – Premiums differ for participating (par) and non-participating (non-par) life insurance. Premiums for par insurance are set to be sufficient under most, but not all, likely adverse events, with dividends adjusting the cost to reflect current experience. Non-par premiums are established as a guaranteed cost to policyholders – nothing changes after issue. These fundamental differences are not covered in the current comments.

**Occurrences of the word “Valuation” within the IAIS Common Structure Paper  
and their possible meanings**

Occurrence	Location	Possible Meaning		
		Reference to Technical Provisions Only	Broader Reference Inclusive of Capital	IAA Comment
1	Table of Contents			
2	Exec Summary Page 5		✓	a
3	Exec Summary – Cornerstone IV	✓	✓	b
4	Exec Summary – Structure Element 6	✓		c
5	Exec Summary – Structure Element 9	✓		a
6	Pg 11, Par 7, ln 2	✓	✓	a
7	Pg 15, Par 20, ln 16		✓	a
8	Pg 18, Par 29, ln 1 (on pg 18)		✓	a
9	Pg 18, Par 30, ln 4		✓	a
10	Pg 18, Par 30, ln 8		✓	a
11	Title for Section 3.1.5			
12	Pg 20, Cornerstone IV	✓	✓	b
13	Pg 20, Par 41, ln 2		✓	a
14	Pg 20, Par 41, ln 4	✓	✓	b
15	Pg 20, Par 41, ln 5	✓	✓	b
16	Pg 21, Par 42, ln 1	✓	✓	b
17	Pg 21, Par 43, ln 2	✓	✓	b
18	Pg 21, Par 44, ln 1	✓	✓	b
19	Pg 22, Par 46, bullet 3	✓		c
20	Pg 22, Par 47, ln 1	✓		c
21	Pg 23, Structure Element 6	✓		c
22	Pg 23, Par 48, ln 1	✓		c
23	Pg 23, Par 51, ln 1	✓		c
24	Pg 23, Par 51, ln 2	✓		c
25	Pg 23, Par 51, ln 8	✓		c
26	Pg 23, Par 51, ln 12	✓		c
27	Pg 26, Structure Element 9	✓		a
28	Pg 26, Par 60, ln 1	✓		a
29	Pg 27, Par 61, ln 7	✓		a
30	Pg 27, Par 62, ln 5	✓		c
31	Pg 28, Par 65, ln 5	✓	✓	b
32	Pg 30, table description #1		✓	a
33	Pg 30, table description #2		✓	a
34	Pg 32, Par 83, ln 6	✓	✓	b
35	Pg 34, Par 94, ln 4	✓	✓	b
36	Pg 34, Par 95, bullet 8	✓	✓	b
37	Pg 41, Par 123, ln 3		✓	a

Occurrence	Location	Possible Meaning		
		Reference to Technical Provisions Only	Broader Reference Inclusive of Capital	IAA Comment
38	Pg 41, Par 123, ln 4	✓		a
39	Pg 41, Par 123, bullet 1	✓		a
40	Pg 41, Par 125, ln 1	✓		a
41	Pg 41, Par 125, ln 5		✓	a
42	Pg 42, Par 126, ln 8		✓	a
43	Pg 44, Par 139, ln 9		✓	a

IAA Comments:

- a. Reference to “valuation” is clear
- b. Reference to “valuation” is unclear as to whether it refers solely to technical provisions or whether it also refers to TBS capital requirements
- c. Reference to “valuation” is clearly made to technical provisions but similar comments could also be made with reference to TBS capital requirements

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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 Asociacija (Latvia)  
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