



**ASSOCIATION ACTUARIELLE INTERNATIONALE
INTERNATIONAL ACTUARIAL ASSOCIATION**

August 30, 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**Re: IAA comments on the IAIS Draft Guidance Paper on Enterprise Risk Management
for Capital and Solvency Purposes**

In response to the request for comments on the July 1, 2007 draft IAIS *Draft Guidance Paper on Enterprise Risk Management for Capital and Solvency Purposes*, I am pleased to transmit on behalf of the International Actuarial Association (IAA) our comments and recommendations.

These comments have been prepared by the Financial Risks 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 Financial Risks Committee, David Kingston, or any of the other members of the committee. The IAA will be pleased to develop these ideas further with you. In particular, we continue to develop a Practice Note on the subject of Risk Management for Insurers that the IAIS may, in due course, wish to adopt as an accompanying document to the IAIS Risk Management Standard. We look forward to discussing both these documents further with you.

In addition, comments submitted by the American Academy of Actuaries, one of our Full Member associations representing the actuarial profession in the United States, are also included in a separate attachment. The Academy's comments were not received in time for consideration in our response.

Yours sincerely,

Yves Guérard
Secretary General

Attachment: IAA comments
AAA comments

cc: Mr. Rob Curtis, Chairman Solvency and Actuarial Issues Subcommittee

**A Commentary on the
DRAFT GUIDANCE PAPER ON
ENTERPRISE RISK MANAGEMENT FOR CAPITAL AND SOLVENCY PURPOSES
Released by the International Association of Insurance Supervisors: July 1, 2007**

International Actuarial Association

The International Actuarial Association (the “IAA”) represents the international actuarial profession. Our fifty-six 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 Financial Risks Committee of the IAA, the members of which are listed in an Appendix to this statement. 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

General

In the version provided the footnote on each page notes that there are 18 pages, whereas there are only 16 pages. It is not obvious if the footnote is wrong, or if pages are missing, but we have presumed the former.

Key feature 4

Insert ‘and objective assessment’ after ‘processes’ in third line.

Paragraphs 9,16

The word “realistic” (“realistic basis” in paragraph 9 and “realistic risk reporting” in paragraph 16) is not defined.

The difference or uniformity between “realistic” and the key word “economic” (“economic value”) in IAIS Standard on Asset & Liability Management (ALM) should be clearly described because it is generally understood that ERM includes ALM.

Paragraph 28

It appears that ALM in paragraph 28 could be narrowly interpreted unlike ALM in IAIS Standard on ALM which is interpreted as a corporate value optimization. However we assume that this was not the intention in paragraph 28.

The interpretation of ALM in the ERM framework should interface with IAIS Standard on ALM.

We also note that paragraph 28 also notes that “The IAIS expects to be able to provide further guidance material to support and complement this paper in 2008, based on this work of the IAA.”

Paragraph 11

In addition to contagion, diversification is an important group effect:

“...Where an insurer is a member of a group of companies, the risks and benefits arising from its being a member of the group should be considered together with the possibility of contagion and diversification effects arising from risks materialising elsewhere in the group ...”

Paragraph 15

It needs to be emphasised here that the “top down” approach needs to be combined with a “bottom up” approach (in particular with reference to identifying risks), even if this is also indicated in paragraph 16: “risk management should incorporate both 'top-down' and 'bottom up' approaches”

Paragraph 19

In addition, diversification is an important group effect: “...Other risks that should be considered include reputational and legal risks as well as ~~and~~ the contagion risks and diversification effects from being a member of a group...”

Paragraph 20

As well as establishing key risks, it is helpful to establish key indicators (for example if equity performance is important, a key indicators might be a relevant stock market index):

After identification of relevant risks, an insurer should highlight significant and material risks to be included in relevant, focussed management information, together with possible key leading indicators

Paragraphs 34-35

It is not obvious from these paragraphs that it is important that the risks and risk drivers are constantly reviewed, to ensure that new emerging risks are included.

A new paragraph to this effect? For example: “There should be a regular reassessment of the causes of risk, and the extent to which particular risks are material.”

Members of the IAA Financial Risks Committee

Thomas David Kingston	Chairperson
Anthony Coleman	Vice-Chairperson
Members Josep Lluís Álvarez Tora	Col.legi d'Actuaris de Catalunya
Jean Berthon	Institut des Actuaire
Paul Braithwaite	Casualty Actuarial Society
Kenneth Buffin	Conference of Consulting Actuaries
Malcolm Campbell	Svenska Aktuariieföreningen
Seamus Creedon	Institute of Actuaries
Paolo De Angelis	Istituto Italiano degli Attuari
Svetlana Dudkina	Eesti Aktuaaride Liit
Paul Gerard Duffy	Society of Actuaries in Ireland
Charles L Gilbert	Canadian Institute of Actuaries/Institut Canadien des Actuaire
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Janina Slawski	Actuarial Society of South Africa
Elina Tilta-Gerika	Latvijas Aktuaru Asociacija

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)
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Canadian Institute of Actuaries/Institut Canadien des Actuaire (Canada)
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Hrvatsko Aktuarsko Društvo (Croatia)
Cyprus Association of Actuaries (Cyprus)
Česká Společnost Aktuárů (Czech Republic)
Den Danske Aktuarforening (Denmark)
Egyptian Society of Actuaries (Egypt)
Eesti Aktuaaride Liit (Estonia)
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Deutsche Aktuarvereinigung e. V. (DAV) (Germany)
Hellenic Actuarial Society (Greece)
Actuarial Society of Hong Kong (Hong Kong)
Magyar Aktuárius Társaság (Hungary)
Félag Íslenskra Tryggingastærðfræðinga (Iceland)
Actuarial Society of India (India)
Persatuan Aktuaris Indonesia (Indonesia)
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)
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Pakistan Society of Actuaries (Pakistan)
Actuarial Society of the Philippines (Philippines)
Polskie Stowarzyszenie Aktuariuszy (Poland)
Instituto dos Actuários Portugueses (Portugal)
Academia de Actuarios de Puerto Rico (Puerto Rico)
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Actuarial Institute of Chinese Taipei (Taiwan)
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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)