



**ASSOCIATION ACTUARIELLE INTERNATIONALE
INTERNATIONAL ACTUARIAL ASSOCIATION**

April 30, 2010

Mr. Rob Curtis
Chairman
Solvency and Actuarial Issues Subcommittee
International Association of Insurance Supervisors
Basel, Switzerland

Dear Sir

Re: IAA comments on the IAIS consultation on draft standard and guidance papers for solvency purposes

In response to the request for comments on the March 2010 consultation on draft standard and guidance papers for 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 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, Toshihiro Kawano, 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: Mr. John Maroney, Principal Administrator

[Attachment](#): IAA comments

**A Commentary on the
Consultation on Draft Standard and Guidance Papers for Solvency Purposes
Released by the International Association of Insurance Supervisors: 26 February 2010**

International Actuarial Association

The International Actuarial Association (the “IAA”) represents the international actuarial profession. Our sixty-three 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.

Due Process

These comments have been prepared by the Insurance Regulation Committee, 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

Our comments are provided in the attached comment templates:

[Appendix A](#) – Guidance paper on Capital Adequacy for Regulatory Solvency Purposes

[Appendix B](#) – Standard on Capital Adequacy for Regulatory Solvency Purposes

[Appendix C](#) – Guidance paper on Enterprise Risk Management for Solvency Purposes

[Appendix D](#) – Standard on Enterprise Risk Management for Solvency Purposes

[Appendix E](#) – Guidance Paper on Regulatory Investment Requirements for Solvency Purposes

[Appendix F](#) – Standard on Investment Regulatory Requirements for Solvency Purposes

[Appendix G](#) – Guidance paper on the Use of Internal Models for Regulatory Capital Purposes

[Appendix H](#) – Standard on the Use of Internal Models for Regulatory Capital Purposes

**Member and Observer Comments on IAIS Draft paper:
Guidance paper on Capital Adequacy for Regulatory Solvency Purposes
Draft, 26 February 2010**

Name	Section or paragraph reference	Comment
IAA	Par 6	Footnote 2 is missing.
IAA	Par 14	Add “the” before “determination”
IAA	Par 16	The term “financial conglomerates” is used here for the first time, without defining what it means. We suggest that it be defined in par 1. The rest of the guidance does not refer to how insurers in “financial conglomerates” are to be treated, except probably as “insurance legal entities”. Are the principles for conglomerates and groups not the same? Also, in the document there are many references to “insurer”. We suggest that it is upfront stated that when talking about an “insurer”, what is meant is an “insurance legal entity”
IAA	Par 22	The “9” at the end must be superscripted.
IAA	Par 29	There is double full stop at the end
IAA	Par 30	Suggest a better wording would be “More specifically, undertaking a solvency assessment of an insurance group falls into two broad sets of approaches:”
IAA	Par 31 - 34	Suggest for better readability start with the current paragraph 34, to be followed by 31 – 33, with appropriate headings before 31 and 33.
IAA	Par 31 and 32	Reference is made to “group level focus” and “group focus”. For consistency, and to prevent confusion, we suggest using the same term throughout.
IAA	Par 32 and 33	In case of aggregation method, consistency of valuation standards or solvency regimes which are applied to each insurance legal entity needs to be considered.
IAA	Par 41	The term “high quality capital” is used without definition. Is that the same as “going concern capital”. A definition or description would add value
IAA	Par 42	There is a reference to a paragraph without stating the number. It should be 40

IAA	Section 4.1	We suggest that reference should be made to the fungibility of capital in this section
IAA	Par 42	The type of assets assigned to surplus... our experience has been that well-performing assets have been assigned to lines of business and impaired assets or illiquid assets (such as the home office) get relegated to surplus. Forcing these types of assets up into the lines of business, in order to get higher quality assets aligned with required surplus, will be a new practice for some insurers.
IAA	Par 55	True. However, capital at group level may be insufficient while acceptable for individual insurance legal entities (for example because of double-counting). If no action can be taken at group level, why bother doing the calculations in the first place. Could add that action can and should be taken in such circumstances. It is actually addressed later on (see par 68)
IAA	Par 69	Delete full stop at start of sentence
IAA	Par 68 and many others	The terms “insurance legal entity” and “legal entity” are used interchangeably. Is that intentional? If not, better to standardize.
IAA	Par 91	The comma before the 99% TVaR must not be superscripted
IAA	Par 94	During these shock tests, what assumptions should be made about non-guaranteed elements, such as excess interest. Can the Guidance specify what to do about discretionary items so that all companies perform this test consistently?
IAA	Par 107	Delete the “:” after the heading
IAA	Par 193	Change “a insurance legal” to “an insurance legal”
IAA	Par 196	Change “policy holders” to “policyholders”
IAA	Not referenced	Frequency of calculation. Can the Guidance recommend the frequency of performing the Capital Adequacy tests? The trend may be more important than the actual number itself, our thought as that these numbers should be calculated and reviewed quarterly where necessary.
IAA	Not referenced	Definition of insurance. Is the Guidance paper the place to define what types of products should be regulated as insurance? Credit Default Swaps? Letters of Credit?

**Member and Observer Comments on IAIS Draft paper:
Standard on Capital Adequacy for Regulatory Solvency Purposes
Draft, 26 February 2010**

Name	Section or paragraph reference	Comment
IAA	Par 10	Delete “that is applied”, and add “This should include both PCR and MCR.”
IAA	Section 4	Suggest a paragraph dealing with fungibility. Could be part of the existing par 19
IAA	Par 19	After insurer, add “,or insurance group,”

**Member and Observer Comments on IAIS Draft paper:
Guidance paper on enterprise risk management for solvency purposes
Draft, 26 February 2010**

Name	Section or paragraph reference	Comment
IAA	General	We favour an approach for the risk management of groups which is based upon the approach to insurance legal entities but also adds several features specific to group issues. The approach will require insurance groups to ensure that all material risks arising from the legal entities within the group should be recognized and covered by the insurance groups. The approach will cover governance, capital management and risk management issues.
IAA	24	As an illustration, it may be good to state the tail correlation which means, for example, risks that show no strong dependence under normal economic conditions, such as underwriting risks (e.g. CAT risks) and market risks, could be more correlated in a stressed situation.
IAA	31	“...contained in section 3.2 below.” should be updated to “...contained in section 4.2 below.”
IAA	34	With regard to the statement “Stress testing ... may also be used ... where the use of a model may be cumbersome.”, the term “cumbersome” would sound ambiguous. As the intention does not appear to limit the use of a model, further clarification would be needed. An alternative description could be such as “where the use of a model may not be a good solution from cost-benefit perspective”, as illustrated by the following example.
IAA	44	The current guidance states “a description of the insurer's policies towards ... the use of financial instruments such as derivatives...” in paragraph 34. Due to the deletion of the reference to the use of financial instruments, “reinsurance” appears to be too specific in the context of the proposed draft guidance. “risk mitigation strategies” which would include both reinsurance and derivatives could be more appropriate in this context.
IAA	48	ALM definition in ERM Guidance (Paragraph 48) is conventional and may be understood as allowing classical ALM approaches without economic valuation of liabilities. But Requirement 2 of ALM Standard exclusively requires ALM based on economic value and there is no reference to

		<p>ALM Standard in ERM Standard/Guidance and Investment Standard/Guidance.</p> <p>So we propose that it should be noted to refer ALM Standard in ERM Guidance (Paragraph 48) or should be inserted the sentence “ALM should be based on economic value and should consider the change in economic value that will arise from an appropriate range of scenarios” between the paragraphs 48 and 49.</p>
IAA	74	“(refer to section 2.1)” is incorrect, as the section 2.1 has been removed.
IAA	95	“As noted in paragraph 97,...” would have been inherited from the reference to paragraph 43 of the current (October 2008) guidance paper. As that paragraph does not seem to exist in the current draft, the reference should be deleted.

**Member and Observer Comments on IAIS Draft paper:
Standard on enterprise risk management for solvency purposes
Draft, 26 February 2010**

Name	Section or paragraph reference	Comment
IAA	7	<p>This item should include insurance risks that provide unhedgeable financial market benefits or uncapped insurance benefits or other insurance transactions that are subject to less governance or regulation. Or a parallel item should be added for these insurance benefits. There also should be a recognition of counterparty risk, especially to counterparties that have major exposures to the types of risks referred to in this section.</p> <p>For investments, there should also be special recognition of investments that are not traded on a public exchange in the risk management policies. Especially in situations where there is only one likely counterparty for sale of an investment because of its unique nature, which should be recognized as additional counterparty risk.</p>
IAA	15	<p>The statement that the insurer's board is responsible for the ORSA is confusing. Does that mean that the board is NOT responsible for any of the other parts of the Enterprise Risk Management function described in the report? If not, what does it mean?</p>
IAA	16	<p>The added item relating to Group Risk might also demand its own point under Risk Management policy as well. Among the things that needs to be addressed in the ORSA relating to Group Risk is the fungibility of capital as well as the double counting of capital throughout a group. In addition, the ORSA needs to make sure that there are no risks of a group that are not being captured. This is a particularly important item with the large complex groups.</p>

**Member and Observer Comments on IAIS Draft paper:
Guidance Paper on Regulatory Investment Requirements for Solvency Purposes
Draft, 26 February 2010**

Name	Section or paragraph reference	Comment
IAA	22	While the guidance on the aggregation of investments for regulatory purposes at a group level is broadly fine, it may be appropriate to have more focused guidance. For instance: “In stressed situations there will tend to be much greater restrictions on movements and realisation of investments within the group. Therefore the regulatory regime will at least need contractual evidence of the ability to use assets for solvency purposes before allowing their inclusion for group purposes”
IAA	24&25	While these paragraphs deal adequately with the broad transparency issues for the regime, it would be helpful if the need for disclosure of intra-group investments, and particularly those of a derivative nature, could be mentioned specifically
IAA	28,29,30	There is the scope for the guidance to be more specific here about the type of investment that would be deemed inappropriate from a regulatory perspective at group level (e.g. internal arrangements that do not include watertight contracts in terms of security and liquidity in stressed situations)
IAA	39	A stronger form of guidance would be a comment along the lines that an insurance group’s internal governance structure should adequately deal with any exposure aggregation (and any other group-related) issues.
IAA	43 to 46	Disclosure of cross-border and cross-entity arrangements would help with the decision on which assets to include for regulatory purposes at a group level.

**Member and Observer Comments on IAIS Draft paper:
Standard on investment regulatory requirements for solvency purposes
Draft, 26 February 2010**

Name	Section or paragraph reference	Comment
IAA	6	The standard could be augmented to include a specific comment on constraints for intra-group assets (either as part of clause 6 or as a new clause 7)

**Member and Observer Comments on IAIS Draft paper:
Guidance paper on the use of internal models for regulatory capital purposes
Draft, 26 February 2010**

Name	Section or paragraph reference	Comment
IAA	general	In our view the inclusion of the insurance-group perspective to the guidance paper is very helpful.
IAA	Par. 1	This Para partially duplicates the preamble
IAA	Footnote 17	These are ...
IAA	Par. 37	There is a word missing: Provided the reduced scope of the internal model is soundly justified, the use of a partial internal model could be
IAA	Par. 53	In case that the supervisors involved decide to have independent approval processes for an insurance group's internal model it should be avoided that the approval criteria applied are somehow contradictory. One should not have requirements made by one supervisor which would prevent the other supervisor from approving the model We suggest that this matter needs further consideration by the IAIS. (c.f. last sentence in Par. 42)
IAA	Par. 60	We appreciate the suggested option to have one of the supervisors authorized by the others to perform the approval proves together with the insurance group. In our view this should enable the involved parties to set up efficient ways to perform the approval process.
IAA	Par. 62	This paragraph deals with the case that a model on group-level may appear to be appropriate given the nature, scale and complexity of the underlying risks, a part of it related to one single member of the group may not be considered to be appropriate. The situation may show up the other way. Often an internal model of a group is constructed by starting from internal models considered to be appropriate for the respective group members. This proceeding results in models on group level which may appear to be overly complex considering the nature, scale and complexity of the underlying risks on group level. This should not prevent the supervisor to give approval to the group model.

IAA	Par. 63	We suggest using the terminology stochastic simulation models instead of stochastic models. Simulation techniques are often used in the context of internal model construction because of the complexity of the underlying risk situation and interaction of various variables used. However in some cases one would not need to simulate, for example if we assign a probability to a specific scenario. Whenever a probability distribution is specified in relation to specific events we would have a stochastic model in place.
IAA	Par. 79	Taking the overall purpose of an internal model into account the requirement made in this paragraph that the insurer’s senior management should take responsibility to ensure full embedding the model within the insurer’s risk and capital management process appears to be reasonable to us. It is less clear to us, why it would be necessary to embed the model fully in other operational procedures of the insurer. We suggest to be either more specific here or not to refer to the other operational processes here. (C.f. our comment to Requirement 10 of the respective Standard)
IAA	Par. 83	We support the statements made in this paragraph. The results obtained by the group model need to be supported or accepted at least by local board or local senior management, at least to a degree, though it has to be appreciated that factors at a local level can impact quite differently from at group level, and the local requirements may focus elsewhere.
IAA	Par. 92; 3 rd sentence	We suggest using ‘underlying model structure ’ instead of ‘underlying model assumptions’: Otherwise there could potentially be some misunderstanding as ‘model assumption’ may refer to almost every parameter used within the model.
IAA	Par. 103	The paragraph relates to information the supervisor needs prior to or during the internal model approval process. Shouldn’t this be moved to or integrated in Section 4 ?

**Member and Observer Comments on IAIS Draft paper:
Standard on the use of internal models for regulatory capital purposes
Draft, 26 February 2010**

Name	Section or paragraph reference	Comment
IAA	Para 4	We suggest referring explicitly to the current risk position of the insurer as follows: “...the insurer to adopt risk modelling techniques and approaches appropriate to the nature, scale and complexity of the risks incorporated within its strategy, business objectives and its current position in constructing its internal model for regulatory capital purposes.”
IAA	Para 6	We suggest clarification as follows: “ ... the insurer to demonstrate to the supervisor that the model is appropriate ...”
IAA	Para 10	To the difference between a model being embedded into the insurers strategy etc. or fully embedded is not clear. This should be clarified and most probably the references should be to sufficient embedding to achieve stated objectives.

Appendix I

Members of the IAA Insurance Regulation Committee

Toshihiro Kawano	Chairperson
Lutz Oehlenberg	Co-Vice-Chairperson
James E Rech	Co-Vice-Chairperson
Mohamed Adlioui	Institut des Actuairens en Belgique
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Andrew Chamberlain	Institute of Actuaries
Angel Crespo Rodrigo	Instituto de Actuarios Españoles
Kris DeFrain	Casualty Actuarial Society
Marius Du Toit	Actuarial Society of South Africa
Patrick Healy	Society of Actuaries in Ireland
Gyula Horváth	Magyar Aktuárius Társaság
Thomas Karp	Institute of Actuaries of Australia
Philipp Keller	Association Suisse des Actuairens
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Stuart Wason	Society of Actuaries
Igor Zoric	Udruženje Aktuara Srbije

Full Member Associations of the IAA

Caribbean Actuarial Association
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)
Bulgarian Actuarial Society (Bulgaria)
Canadian Institute of Actuaries/Institut Canadien des Actuaire (Canada)
Actuarial Institute of Chinese Taipei (Chinese Taipei)
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Hellenic Actuarial Society (Greece)
Actuarial Society of Hong Kong (Hong Kong)
Magyar Aktuárius Társaság (Hungary)
Félag Íslenskra Tryggingastærðfræðinga (Iceland)
Institute of Actuaries 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)
The Actuarial Society of Kenya (Kenya)
Latvijas Aktuaru Asociācija (Latvia)
Lebanese Association of Actuaries (Lebanon)
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Colegio Nacional de Actuarios A. C. (Mexico)
Association Marocaine des Actuaire (Morocco)
Het Actuarieel Genootschap (Netherlands)
New Zealand Society of Actuaries (New Zealand)
Den Norske Aktuarforening (Norway)
Pakistan Society of Actuaries (Pakistan)

Actuarial Society of the Philippines (Philippines)
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Russian Guild of Actuaries (Russia)
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Slovenska Spolocnost Aktuarov (Slovakia)
Slovensko Aktuarsko Društvo (Slovenia)
Actuarial Society of South Africa (South Africa)
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Svenska Aktuarieföreningen (Sweden)
Association Suisse des Actuaires (Switzerland)
Society of Actuaries of Thailand (Thailand)
Faculty of Actuaries (United Kingdom)
Institute of Actuaries (United Kingdom)
American Academy of Actuaries (United States)
American Society of Pension Professionals & Actuaries (United States)
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