



**ASSOCIATION ACTUARIELLE INTERNATIONALE
INTERNATIONAL ACTUARIAL ASSOCIATION**

May 9, 2008

Mr. Rob Curtis
Chair, Solvency and Actuarial Issues Subcommittee
International Association of Insurance Supervisors
c/o Bank for International Settlements
CH-4002 Basel
Switzerland

Dear Mr. Curtis,

Re: IAA comments on the IAIS Standard and Guidance Paper on the Use of Internal Models for Regulatory Capital Purposes

In response to the request for comments on the March 10, 2008 IAIS Standard and Guidance Paper on the Use of Internal Models for Regulatory Capital 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 Solvency Subcommittee of the IAA and have been reviewed by the Insurance Regulation Committee. 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: IAA comments

cc: Mr. Nobuyasu Sugimoto
Vice-Chair, Solvency and Actuarial Issues Subcommittee

**A Commentary on the
STANDARD AND GUIDANCE PAPER
ON THE USE OF INTERNAL MODELS FOR REGULATORY CAPITAL PURPOSES
Released by the International Association of Insurance Supervisors: March 10, 2008**

International Actuarial Association

The International Actuarial Association (the “IAA”) represents the international actuarial profession. Our fifty-eight 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 these IAIS documents.

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. 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.

GUIDANCE PAPER ON THE USE OF INTERNAL MODELS FOR REGULATORY CAPITAL PURPOSES

General Comments

It would be preferable if the terminology used within the insurance industry for this very important new topic area could be harmonized where possible. For key terms such as “statistical quality”, “validation” and “calibration” the IAA would appreciate an opportunity (perhaps within the context of the common glossary project) to reach common ground with the IAIS on the use of these terms or other appropriate terms.

We suggest that the GP make reference to the appropriate use independent reviews of the internal model periodically as well as the on-going role of the audit function.

Requirement 2

The terms PCR and MCR appear without previous definition.

Paragraph 25

While the IAA is supportive of this paragraph, the examples given might not give the reader sound guidance for the dimensions of “modelling criteria”. While the IAA prefers a different set of words such as “risk assessment framework”, we would rather see this paragraph refer to the basic ingredients of “confidence level”, “risk horizon” and “terminal provision” (at the end of the risk horizon). We worry that some readers might misconstrue the one year example given as not including risks beyond the first year.

Paragraph 27

This paragraph states that “rerunning the model on different modelling criteria should not prove onerous.” The IAA notes that changing the “risk horizon” (i.e. from lifetime to one year) is a non-trivial change involving considerable specialist and computer expertise. A change such as this would have considerable cost and time resource issues as well as requiring an in depth study of cross-industry and cross-risk calibration. We recommend removal of this sentence.

Paragraph 40

Insurers are accustomed to dealing with data statistical credibility issues as part of their business. It is common for an insurer to have partial but not full statistical credibility with respect to the experience/exposure data in some parts of its operations. It is a valid statistical method to blend the observed (not fully credible) company experience with similar (but credible) industry experience in determining an appropriate assumption to be used for pricing, valuation etc purposes. This paragraph might be interpreted to imply that company and industry experience can only be used in a mutually exclusive manner; hence we suggest that it be rephrased to clarify that such is not the intent.

Paragraph 43

The IAA wonders whether the last sentence in this paragraph is helpful or necessary. What might be more helpful is a brief description of the types of tests to be conducted, or state that these tests will be set by the supervisor or the IAIS might leave this topic to the related IAA guidance paper. In addition, the reference to back testing might be improved either by its deletion or by making reference to the fact that for insurance modelling it is expected that back testing will be more likely used as a Type 2 (demonstrating through past example that the model is not proper) rather than a Type 1 test.

STANDARD ON THE USE OF INTERNAL MODELS FOR REGULATORY CAPITAL PURPOSES**General Comments**

The IAA is very supportive of this standard and recommends that as global insurer, actuarial and supervisory experience with internal models develops, then this standard can be re-visited and expanded as necessary to reflect such increased experience. The IAA will continue to develop detailed guidance for its members on the topic of internal models and appreciates feedback from the IAIS on topics for further development.

It would be preferable if the terminology used within the insurance industry for this very important new topic area could be harmonized where possible. For key terms such as “statistical quality”, “validation” and “calibration” the IAA would appreciate an opportunity (perhaps within the context of the common glossary project) to reach common ground with the IAIS on the use of these terms or other appropriate terms.

Paragraph 2

The terms PCR and MCR appear without previous definition.

Members of the IAA Solvency Subcommittee

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Philipp Keller	Vice-Chairperson
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Full Member Associations of the IAA

Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires
(Argentina)
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Association Royale des Actuaire Belges (Belgique)
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Bulgarian Actuarial Society (Bulgaria)
Canadian Institute of Actuaries/Institut Canadien des Actuaire (Canada)
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New Zealand Society of Actuaries (New Zealand)
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Pakistan Society of Actuaries (Pakistan)
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Actuarial Society of South Africa (South Africa)
Col.legi d'Actuaris de Catalunya (Spain)
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Svenska Aktuarieföreningen (Sweden)
Association Suisse des Actuaires (Switzerland)
Actuarial Institute of Chinese Taipei
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)
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