



**ASSOCIATION ACTUARIELLE INTERNATIONALE
INTERNATIONAL ACTUARIAL ASSOCIATION**

April 19, 2011

Mr. Stuart Wason
Chair, Joint Valuation Working Group
International Association of Insurance Supervisors
Basel, Switzerland

Dear Sir

Re: IAA comments on draft ICP 14 Valuation

In response to the request for comments on the February 18, 2011 IAIS draft ICP 14 Valuation, 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 in cooperation with the Committee on Insurance Accounting. If, upon reading these comments, you identify any points that you wish to pursue, please do not hesitate to contact the chairperson of the Insurance Regulation Committee, Toshihiro Kawano, care of the IAA Secretariat. The IAA will be pleased to develop these ideas further with you.

Yours sincerely

Jean-Louis Massé
Secretary General

[Attachment](#): IAA comments

**A Commentary on the
DRAFT ICP 14 VALUATION**

Released by the International Association of Insurance Supervisors: February 18, 2011

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. The IAA appreciates the opportunity to provide comments on this IAIS document.

Due Process

These comments have been prepared by the Insurance Regulation Committee, in cooperation with the Committee on Insurance Accounting, 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

The total balance sheet approach which requires that all assets and liabilities of the insured be included and (14.0.4) valued consistently (14.2) forms a reasonable basis for and a sound underlying principle for the evaluation of the financial health of an insurer.

We do feel, however, that some elements of this document supersede the conveyance of principles and instead in prescriptive. For example, the ICP contains elaboration on only one type of economic valuation (14.5.4). Other types of economic valuation are not described.

Paragraph 14.0.5 Chart

Although we understand the intent of this chart, it may not clear to all readers. We believe that the intent is to focus on a comparison between capital resources and required regulatory capital, and that capital resources are the difference between assets and liabilities. One approach might be to have two separate charts: (1) determining capital resources as the difference between assets and liabilities and (2) comparing capital resources and minimum required capital.

Paragraph 14.0.10

Note that in addition to assets potentially having their value reduced in adverse circumstances, the value of the obligation may also increase, e.g., through adverse policyholder behaviour (lapse of life insurance contracts, increase in disability or workers compensation claims or increase in directors and officers claims). This point should be mentioned here.

Paragraph 14.1

Lack of description of asset valuation. Although this ICP goes into a great deal of detail into the valuation of liabilities of insurance, there is limited description of the valuation of assets, other

than indicating in 14.5.3 that amortized cost should not be used (if this is the intent of 14.5.3). Is this asymmetry of discussion of the valuation of assets and liabilities intentional?

Paragraph 14.1.2

Although the choice between the recognition between these two dates (or a combination, e.g., later of bound date and inception date (assuming inception date is the date coverage begins), it does not reach a conclusion. Why is this discussion included here?

A major recognition issue involves reinsurance for risk-attaching treaties where the treaty covers future underlying direct insurance. This issue should be addressed here.

Paragraph 14.1.3

The parenthetical phrase “(or a part of an insurance contract)” should be placed before “within”, because it is also in the context of technical provisions.

Paragraph 14.2

We agree that consistency of asset and liability measurement is very important.

Paragraph 14.2.3

In the second line, it is not clear what “value” is referred to – an asset, a liability, capital or income? Depending on what this refers to, 14.2.2 and 14.2.3 may be inconsistent.

Paragraph 14.2.5

It is unclear how this paragraph will be used. It indicates that valuations can be different in different jurisdictions – what happens in a multi-national insurer when inconsistent measurement of arises – does this mean it is impossible to obtain a consistent measurement for a group?

Paragraph 14.3.2

Reference to “risk management processes” may be better as “internal control processes”? The latter is more typically associated with data to be used for financial reporting purposes.

Paragraph 14.3.2

The intent of the last half of this paragraph is unclear. It does not provide any guidance as to whether market-based or entity-specific measurement should be used (or preferred)

Paragraph 14.3.3

The second sentence, describing the use of subjectivity, seems to be more appropriate in the section on reliability rather than this section on decision usefulness

Paragraph 14.3.4

Reference is made to a dysfunction or anomalous operation. Note that unreliable market values can exist in thinly traded markets or if a financial instrument is privately placed. We also don't believe “some” as a modifier to “judgment” adds anything, as it unclear how to assess the different between degrees of judgment.

In the sixth line it may more appropriately be expressed as “a market price may not necessarily provide a reliable basis for a reliable valuation.”

Paragraph 14.3.5

We don't understand why there is a “, for example,” in the first line. We suggest that the second sentence may be better expressed as “The use of an internal model may enable the insurer to better represent the characteristics of their risks...”

Paragraph 14.3.7

Possibly the second sentence might be better begun as “Insurer should provide transparent information about the approaches they have taken to the valuation...”

Paragraph 14.4.1

The end of this paragraph refers to transparency and comparability. Possibly this might be better expressed in terms of the objectives indicated in 14.3, reliability, decision-usefulness and transparency. Alternatively, 14.3 might also include a section on comparability.

Paragraph 14.5.5

“... is based upon” might be somewhat better than “accords with”.

Paragraph 14.5.8

Fourth from the bottom line. It might be better expressed as “...should provide guidance as to the appropriate values or adjustments insurers...”

Paragraph 14.5.9

Fifth line. “be available regarding” may be more accurate than “exist about”.

Paragraph 14.9.4

The fifth sentence might be clarified to better discuss “insurer specific”. We believe this refers to specific to the insurer's operation other than relative to its portfolio of contracts – otherwise insurer specific assumptions regarding its expenses, mortality selection, ... might be included, which does not appear to be its intent.

The principles which risks should be in MOCE and in which risks should be in capital could be better articulated.

Paragraph 14.10.2

Fourth line “to” should be “based on”.

Paragraph 14.11.1

Calculation of the current estimate of embedded options and guarantees may require stochastic simulation and calculation of MOCE over such current estimate may require stochastic on stochastic simulation.

The following sentence should be added after the paragraph: “In the calculation for embedded options and guarantees, simplified methods may be allowed to achieve the practicability.”

Appendix A

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