January 29, 2003

Mr. Michael Hafeman  
International Association of Insurance Supervisors  
c/o Bank for International Settlements  
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Switzerland  
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Draft Guidance Paper on the Use of Actuaries as Part of a Supervisory Model

Dear Mr. Hafeman:

Further to my predecessor’s letter to you of October 4, 2002 forwarding the International Actuarial Association’s (IAA) draft comments on the IAIS’s Draft Guidance Paper on the Use of Actuaries as Part of a Supervisory Model, I am pleased to confirm that the IAA’s due process is now complete. The draft comments, as submitted, have been approved by the member associations for release as an IAA public statement and are enclosed for your files.

Yours sincerely,

W. James MacGinnitie  
President

cc: Nigel Masters (Email: nigel.masters@uk.pwcglobal.com)  
Knut Hohlfeld (Email: Knut.Hohlfeld@bis.org)
International Actuarial Association
The International Actuarial Association (the “IAA”) represents the international actuarial profession. Our Full Member actuarial associations exceed forty-five in number, and represent more than 95% of all actuaries practising 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
This is the final version of the IAA’s comments that have been prepared by the Insurance Regulation Committee of the IAA, the members of which are listed below by name and association.

Members of the IAA Insurance Regulation Committee
Nigel Masters  Chairman
David Hartman  Co-Vice-Chairman
Jukka Rantala  Co-Vice-Chairman
Félix Arias Bergadà  Col.legi d'Actuaris de Catalunya
Morris Chambers  Canadian Institute of Actuaries/Institut Canadien des Actuaires
Isagani de Castro  Actuarial Society of the Philippines
Joubert Ferreira  Actuarial Society of South Africa
Rainer Fürhaupter  Deutsche Aktuarvereinigung e. V. (DAV)
K.S. Gopalakrishnan  Actuarial Society of India
Gyula Horváth  Magyar Aktuárius Társaság
Thomas Karp  Institute of Actuaries of Australia
Jean-Michel Kupper  Association Royale des Actuaires Belges
Won How Lo  Actuarial Institute of the Republic of China (Taiwan)
Helge-Ivar Magnussen  Den Norske Aktuarforening
Ibrahim Muhanna  Cyprus Association of Actuaries, Lebanese Association of Actuaries
Ryoichi Nakamura  Institute of Actuaries of Japan
Gennaro Olivieri  Istituto Italiano degli Attuari
Rossano Orsini  Instituto Brasileiro de Atuária (IBA)
Ian Perera  New Zealand Society of Actuaries
Thierry Poincelin  Institut des Actuaires
Angus John Robertson  Faculty of Actuaries
David Sandberg  American Academy of Actuaries
Simon Van Vuure  Het Actuarieel Genootschap
IAA Comments
By way of a general comment, we suggest the paper clarifies the scope of the enterprises to which it applies. It clearly addresses life and property-casualty insurance companies, but it would be helpful to clarify whether health insurance companies, pension plans and reassurance companies also fall within its scope. The statutory use of actuaries in these areas is in its infancy, and needs recognition as practice areas for this purpose. It would also be helpful to know whether the paper extends to specific roles filled by actuaries such as the actuarial trustee required for German health insurance.

Our comments below are sequenced by paragraph number referring to the numbering in the 17 April 2002 draft released on May 3.

Paragraph 7
While we realize that the quoted paragraph is from a March 2000 Issues Paper, we are concerned that the sentence "mathematicians and economists with insights in and experience from the insurance business may play this part as well as 'actuaries' in the narrow sense of the word" is in this paper. The IAA appreciates that in some jurisdictions, for budgetary and other reasons, credentialed actuaries are not always employed by companies and supervisors. However, when mathematicians and economists are used, we respectfully request that they be called mathematicians and economists, and leave the use of the term "actuaries" to apply only to credentialed actuaries. Our experience is that there is value in maintaining discipline about the use of the term "actuaries" and that companies and supervisors who use actuaries who are fully qualified members of a member association of the IAA benefit from the fact that those individuals abide by a code of conduct, standards of practice and are subject to disciplinary procedures. The IAA cannot control the use the term "actuary," but we can control the professionalism of those who are members of the IAA member associations.

Paragraph 9
This paragraph quotes the definition of "actuary" as set out in the IAIS glossary. We think that the definition is weak and will be proposing that the definition in the IAIS glossary be strengthened to place more emphasis on being a fully qualified member of an actuarial association which is a full member of the IAA as defining an actuary.

Paragraph 10
In general, the draft paper may not put enough emphasis on specific issues of non-life insurance and this paragraph is an example of that. We would suggest in the second line that the words "in particular" be replaced by "for example in life insurance." In the next sentence, following "mortality and morbidity" the phrase "claim frequencies and severities" could be inserted to be inclusive of non-life.

Paragraph 13
The fourth sentence of this paragraph reads "The auditor, if not possessing this expertise, may engage...." We strongly feel the sentence should read "The auditing firm, if not possessing this expertise, should engage...." This whole section on the relationship between auditors and actuaries goes to the heart of peer review. We are pleased to see a similar item in paragraph 72 in regards to supervisory authorities.
Paragraphs 17 - 27
These paragraphs discuss the spectrum of supervisory models. We note that certain authorities approach direct supervision through a series of thorough but infrequent visits, perhaps once every third year. The IAA believes that close and continuous monitoring of an insurer's development from an actuarial perspective is the more effective approach. Thus systems of direct monitoring would, in our view, benefit from being supplemented by using company actuaries, or outsourcing that function, so that continuous monitoring can be achieved. In paragraph 19, we would suggest the insertion of "adverse" between "serious" and "impact" in the last line.

Paragraph 32
There appears to be a mismatch in the second sentence where, in the first case, reports are "required" but, in the second case, involvement of the actuaries is only "encouraged." In either case, the legal liability of the actuary should be considered and an appropriate level of protection provided.

Paragraph 34
One way that the International Actuarial Association can be helpful is through mutual recognition agreements between actuarial associations as well as by promoting actuarial education and educational standards.

Paragraph 37
Conclusion 6 refers to the extent to which the profession is well organized. The International Actuarial Association stands ready to help identify which associations are "well organized."

Paragraph 39
Some IAA member actuarial associations make special efforts to support members working for supervisory authorities, such as through the use of expense reimbursement for professional committee participation or through reduced seminar fees.

Paragraph 44
In the first bullet we would suggest making the word "standard" in the first line plural and deleting the words "tables (e.g., mortality)." In this way it would expand to both life and non-life applications.

Conclusion 9
As worded, this conclusion states the appointment of a particular responsible actuary should be subject to supervisory approval. This could turn out to be a large administrative function. We would suggest that the appointment of a particular responsible actuary should be subject to the supervisor's determination that qualification conditions have been satisfied and the supervisor should have the capacity to have an unsatisfactory appointee removed from the position.

Paragraph 52
In the third bullet we would suggest adding the word "relevant" prior to the word "practice." We recommend that the criteria in first three bullet points should always be required for a responsible actuary.
Paragraph 62
We wonder if this conflict can be avoided in small companies. Perhaps it would be helpful to insert the concept of the materiality in this paragraph. This type of potential conflict should be decided case by case. Board members in a stock company may have shares in that company and still they are not banned from making decisions. Moreover, an actuary, at times, is regarded as the guardian of the policyholders' interests and it could be argued that that role could be only strengthened if he/she is a policyholder him/herself!

Paragraph 82
Conclusion 14 should be expanded to make reference to various lines of business, since the advice of an actuary varies by line of business.

Paragraph 88
We emphasize that this paragraph is essential. In that regard, Conclusion 4 and 17 should include a reference to protection established by law.

The Insurance Regulation Committee of the International Actuarial Association appreciates this opportunity to comment on this draft guidance paper and welcomes any request for elaboration in respect of any of its comments or inquiries regarding other aspects of this topic.
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 Actuaires Belges (Belgique)
Instituto Brasileiro de Atuaária (IBA) (Brazil)
Canadian Institute of Actuaries (Canada)
Cyprus Association of Actuaries (Cyprus)
Česká Společnost Aktuářů (Czech Republic)
Den Danske Aktuarforening (Denmark)
Egyptian Society of Actuaries (Egypt)
Estonian Actuarial Society (Estonia)
Suomen Aktuaariyhdistys (Finland)
Institut des Actuaires (France)
Deutsche Aktuarvereinigung e. V. (DAV) (Germany)
Hellenic Actuarial Society (Greece)
Actuarial Society of Hong Kong (Hong Kong)
Hungarian Actuarial Society (Hungary)
Félag Islenskra Tryggingastærdférainga (Iceland)
Actuarial Society of India (India)
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)
Lebanese Association of Actuaries (Lebanon)
Colegio Nacional de Actuarios A.C. (Mexico)
Het Actuarieel Genootschap (Netherlands)
New Zealand Society of Actuaries (New Zealand)
Den Norske Aktuarforening (Norway)
Actuarial Society of the Philippines (Philippines)
Polskie Stowarzyszenie Aktuarium (Poland)
Instituto dos Actuários Portugueses (Portugal)
Academia de Actuarios de Puerto Rico (Puerto Rico)
Slovensko Aktuarsko Drustvo (Slovenia)
Actuarial Society of South Africa (South Africa)
Col.legi d'Actuarius de Catalunya (Spain)
Instituto de Actuarios Españoles (Spain)
Svenska Aktuarieföreningen (Sweden)
Association Suisse des Actuaires (Switzerland)
Actuarial Institute of the Republic of China (Taiwan R.O.C.)
Faculty of Actuaries (United Kingdom)
Institute of Actuaries (United Kingdom)
American Academy of Actuaries (United States)
American Society of Pension Actuaries (United States)
Casualty Actuarial Society (United States)
Conference of Consulting Actuaries (United States)
Society of Actuaries (United States)