



AMERICAN ACADEMY *of* ACTUARIES

March 24, 2011

Mr. Toshihiro Kawano, Chair
IAA Insurance Regulation Committee
Via email: Toshihiro_Kawano@aegonsonylife.co.jp

Re: IAIS ICP 14: Valuation for Solvency Purposes

Dear Chairman Kawano:

Attached are comments the American Academy of Actuaries'¹ Solvency Committee is submitting to the International Association of Insurance Supervisors regarding ICP 14.

Sincerely,

R. Thomas Herget, FSA, MAAA, CERA
Chair, Solvency Committee
American Academy of Actuaries

CC: Mr. Mel Anderson, NAIC Mel.Anderson@arkansas.gov
CC: Joe Fritsch, NAIC JFritsch@ins.state.ny.us
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¹ The American Academy of Actuaries is a 17,000-member professional association whose mission is to serve the public on behalf of the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

Overall ICP Comment Template

Please refer to the *Consultation Guide* for details regarding the status, supporting documentation and how to comment on the individual ICPs. Comments in this overall comment template should focus on changes as a result of the FSB recommendations and consistency and duplication issues within the context of the overall ICP material.

The deadline for comments from Members and Observers is **Tuesday 19 April 2011**.

Comments should be sent to the Secretariat (Nancy.Sinclair@bis.org).

Name/jurisdiction	Paragraph reference	Comment	Proposed resolution (for use of the Secretariat only)
American Academy of Actuaries	General	<p>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.</p> <p>We do feel, however, that most of this document supersedes the conveyance of principles and instead over-prescribes and is pre-emptive of certain approaches.</p> <p>For example, draft ICP 14 cites that that measurement should be done on an economic basis. It then contains citation and elaboration on only one type of economic valuation (14.5.4). There are many other types of economic valuation, such as amortized costs for assets and other book-value valuation systems for liabilities that should also be specifically allowed if we are going to be that specific in the guidance.</p> <p>The ICP should address principles only and permit actuaries to develop and apply techniques to achieve the goals of the principles.</p> <p>Please see ICP 15 or ICP 17 for well-crafted statements of core principles that do not overreach.</p> <p>Because the Committee believes ICPs in general and ICP 14 in particular should only address principles, we have intentionally omitted what would be numerous comments on the application guidance, rather than listing all that should be removed. Therefore, any omissions in this area should not be construed as agreement.</p>	
American Academy of Actuaries	14.3.3	<p>“Decision Useful”. Draft ICP 14 uses this term frequently. This concept should also appear in the Capital Adequacy ICP 17 since a</p>	

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		key purpose of valuation is to facilitate capital adequacy determination.	
American Academy of Actuaries	14.7	The margin for risk is called Margin over the Current Estimate (MOCE). In ICP 17, it is called "Risk Margin." (17.4.9 and 17.8.7). The ICPs should use the same terminology to describe this contingency.	
American Academy of Actuaries		We recognize that countries will need to make changes to comply with the new ICPs. However, we note that ICP 17 affirms current US practices (17.6.7) while ICP 14 proscribes practices or approaches (14.7.2 net premium approaches to valuation, 14.9.4 asset / liability mismatch reserving and 14.11.3 surrender value floor). In particular, the guidance appears to us to proscribe much of the current US solvency regulatory system; this is unjustified.	
American Academy of Actuaries	14.7.10,14.7.11 & 14.7.12	These sections address reconciling solvency and general purpose financial reporting. It is unclear as to how this will enhance solvency regulation. This work is not decision-useful.	
American Academy of Actuaries	14.7.10,14.7.11 & 14.7.12	These sections contain, effectively, disclosure requirements. Disclosure requirements belong in ICP 20	
American Academy of Actuaries	14.9.6	This section states that "risks with a wide probability distribution should have higher MOCEs than risks with a narrower distribution." This is true only if the distribution reflects both severity and frequency or if the benefits are fixed.	
American Academy of Actuaries		It would be useful if the ICP articulated principles on which risks should be reflected in the Risk Margin and which risks are to be covered by capital.	