Introduction to the International Actuarial Association’s
Solvency Working Party Report

As part of the response of the International Actuarial Association (IAA) to the International Association of Insurance Supervisors (IAIS) paper “On Solvency, Solvency Assessments and Actuarial Issues - An IAIS Issues Paper”, the IAA offered to support the IAIS in developing a solvency framework, consistent with the proposals for a new international accounting standard. In partial fulfillment of that offer, the IAA is pleased to contribute a report from an IAA Solvency Working Party for your consideration.

The IAA is committed to the effective supervision of insurance and fully supports the work of the IAIS in raising standards in all aspects of solvency management. In particular, the IAA continues to promote the highest standards of actuarial practice in regard to insurance finances. It is doing this by developing common standards for examining technical competence, for professional conduct and for disciplinary procedures, based on best practice internationally.

The report of the Solvency Working Party was prepared under the initiative and direction of the IAA Insurance Regulation Committee. This report focuses significantly on the classification of risks and the risk assessment process within insurers.

The report is not intended to express a sole, absolute opinion regarding the classification of risks or a unique process for solvency assessment within insurers. Regarding the classification of insurer risks, the report expresses one among a number of potentially useful approaches. It is important to note that differences in the status and importance of some types of insurer risks will occur due to differences in the types of products handled by each country and line of business. The IAA recognizes that, to the greatest extent possible, it is preferable to classify insurer risks in accordance with common ideas and terminology.

This report is furnished as an additional source or basis for deepening further discussion with regard to solvency issues. As part of its continuing offer of support to the IAIS in this area, the IAA Insurance Regulation Committee has launched a new Risk-Based Capital Solvency Structure Working Party to prepare a paper on the structure for a risk-based solvency capital system for insurance. The paper is to be specific and practical enough that its recommended principles and methods could be used as a foundation for a global risk-based solvency capital system for consideration by the IAIS. Once completed, the paper will be made publicly available by the IAA.