July 25, 2002

Mr. Knut Hohlfeld  
Secretary General  
International Association of Insurance Supervisors  
c/o Bank for International Settlements  
CH-4002 Basel  
Switzerland  

Dear Mr. Hohlfeld:

**RE: Joint Forum Core Principles Cross-Sectoral Comparison**

Further to my letter to you of February 21, 2002 forwarding the International Actuarial Association’s (IAA) draft comments on the *Joint Forum Core Principles Cross-Sectoral Comparison*, I am pleased to confirm that the IAA’s due process is now complete. The draft comments were approved by the member associations for release as an IAA public statement, with the addition of a sentence at the end of the third paragraph under **IAA Comments**.

You will find enclosed the IAA’s final response.

Yours sincerely,

Edward J. Levay, FIA  
President

cc: Nigel Masters (E-mail: nigel.masters@uk.pwcglobal.com)
A Commentary on the JOINT FORUM CORE PRINCIPLES CROSS-SECTORAL COMPARISON.

Released by the International Association of Insurance Supervisors: November 2001

International Actuarial Association
The International Actuarial Association (the “IAA”) represents the international actuarial profession. Our Full Member actuarial associations exceed forty 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. The IAA’s interest in the Joint Forum Core Principles Cross-Sectoral Comparison, is to assist the IAIS and other members of the Joint Forum in the work that will emerge from the completion of this comparison. The IAA appreciates the opportunity to provide comments on the document.

Due Process
These comments have been prepared by a committee of the IAA, the members of which are listed below by name and association. These comments, which were circulated for approval to the Full Member associations of the IAA as part of our due process procedures, have been approved as a public statement of the IAA.

Members of the IAA Insurance Regulation Committee
Nigel Masters Chairman
David Hartman Vice-Chairman
Jukka Rantala Vice-Chairman
Félix Arias Bergadà Col.Legi d'Actuaris de Catalunya
Morris Chambers Canadian Institute of Actuaries
Isagani de Castro Actuarial Society of the Philippines
Joubert Ferreira Actuarial Society of South Africa
Rainer Fürhaupter Deutsche Aktuarvereinigung e. V. (DAV)
Gyula Horvath Hungarian Actuarial Society
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
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
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
Robert E Wilcox Society of Actuaries; Conference of Consulting Actuaries
IAA Comments
The Insurance Regulation Committee of the IAA compliments the Joint Forum for having undertaken this initiative in March 2000. The Comparison Chart presented as Appendix B of the Joint Forum’s report constitutes a valuable reference for all segments of the global financial services sector. In the light of the analysis by the Joint Forum, we understand that the IAIS has appointed a task force to review the IAIS core principles and that the task force held its first meeting in January 2002 in Tokyo.

The report notes, rightly, that some of the similarities and differences in core principles across the three sectors are reflections of the intrinsic characteristics thereof. Nevertheless, since the core principles were first documented for each sector there have been significant evolutionary changes. For instance, the report itself identifies,

a) the increased provision of similar products and services in different sectors,
b) the continuing emergence in a number of jurisdictions of financial conglomerates, and
c) the establishment of integrated financial supervisors in a growing number of jurisdictions.

While recognizing that the three sectors have intrinsic differences, we see these abating as these changes move through the markets and around the world. Consequently, we recommend that, as the IAIS reviews its core principles, specific steps be taken, where appropriate, to reduce the differences in them between sectors. Further, as the other sectoral members of the Joint Forum address their own core principles in future, we recommend that they adopt the same approach, thereby engaging a convergence to parallel the developments in the financial services industry. Of course, to the extent that a specific sector may have certain characteristics that are unique to that sector, supervisory approaches addressing those characteristics would appropriately be unique to that sector.

This is especially important in the realm of Prudential Standards established by regulators to manage risks. The pertinent supervisor tools in this regard include

- setting capital requirements
- adopting good accounting and valuation practices
- establishing limits on particular assets and exposures
- implementing appropriate disclosure and reporting requirements.

To the extent that identical, or very similar, products are made available by purveyors in different financial sectors, it is important that the prudential standards that apply to them be essentially the same. To the extent that they are not, business decisions with respect to such products are in danger of being made on the basis of regulatory arbitrage, rather than for sound economic reasons. Ultimately, the consequence will be not in the public interest. **We urge, therefore, that every effort be made in modifying the core principles to eliminate, or at least to reduce, cross-sector inducements to exercise regulatory arbitrage. In fact, we would suggest that the Joint Forum, having completed the Cross-Sectoral Comparison, might itself turn its attention to considering these matters.**
FULL MEMBER ASSOCIATIONS OF THE IAA

Appendix

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 (Belgium)
Instituto Brasileiro de Atuária (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 Aktuaariryhmä (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 Íslandshafsins Tryggingsfélfræðinga (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)
Instituto dos Actuários Portugueses (Portugal)
Academia de Actuarios de Puerto Rico (Puerto Rico)
Actuarial Society of South Africa (South Africa)
Col·legi d'Actuaris 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)