September 15, 2006

Mr. Yoshihiro Kawai  
Secretary General  
International Association of Insurance Supervisors  
c/o Bank of International Settlements  
Centralbahnplatz 2, CH-4059  
Basel, Switzerland

Dear Mr. Kawai,

Re: Revised Guidance Paper on Risk Transfer, Disclosure and Analysis of Finite Reinsurance

On behalf of the International Actuarial Association (IAA), I am pleased to transmit our comments and recommendations in response to the request for comments on the July 2006 Revised Guidance Paper on Risk Transfer, Disclosure and Analysis of Finite Reinsurance.

Our response has been prepared by the Reinsurance Subcommittee of the Insurance Regulation Committee of the IAA.

If, upon reading these comments, you identify any points that you would wish to pursue, please do not hesitate to contact the chairperson of the Subcommittee, Michael Eves, or any of the other members of the Subcommittee. The IAA will be pleased to develop these ideas further with you.

Yours sincerely,

Yves Guérard  
Secretary General

Attachment: Comments

cc: Jukka Rantala  
    Bryan Fuller  
    Luc Cardinal
International Actuarial Association
The International Actuarial Association (the “IAA”) represents the international actuarial profession. Our fifty-five 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.

Due Process
These comments have been prepared by the Reinsurance Subcommittee of the Insurance Regulation Committee, the members of which are listed below by name and association. 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.

Members of the IAA Reinsurance Subcommittee
Michael Eves Chairperson
Erik T Alm Svenska Aktuarieföreningen
Jesus Alvarez Marcén Colegio Nacional de Actuarios A. C
Réjean Besner Society of Actuaries
Paul Braithwaite American Academy of Actuaries
Ashish Desai Actuarial Society of India
Stephen Devine Society of Actuaries in Ireland
Yasuhide Fujii Institute of Actuaries of Japan
Monica Hainer
Alan Joynes
Eberhard Müller
John C Narvell Casualty Actuarial Society
A. David Pelletier Canadian Institute of Actuaries
John P Ryan
Rolf Stölting
Brian Valentine

IAA Comments
The IAA welcomes the opportunity to comment on the latest draft of this important paper. Overall the paper is a good improvement on the earlier versions, and in particular it gives a useful overview of the subject. Detailed comments on individual paragraphs are provided below, in addition we would like to make some more general comments:
The paper should make clear when it is referring to general accounting standards as opposed to accounting for regulatory purposes.

If the IAIS would like insurance regulators to understand both the treatment in revenue and balance sheet of both regulatory reporting and general accounting, then this should be clearly stated.

The assessment of the amount of risk transfer is subjective as implied by the frequent references to remote, significant or material risk. The paper could be improved by starting with the concept that if the regulation applying to a particular reporting methodology under consideration requires reserves or capital to be held against a risk which is subsequently reinsured then those respective reserving and capital obligations should be released. It would then be consistent to refer to residual risks introduced by the reinsurance, for example, incomplete risk transfer, legal risk or credit risk.

Specific Comments

Paragraph 10 – It is not clear whether GAAP or regulatory accounting is referred to.

Paragraph 16 – In some jurisdictions (e.g., Canada) yearly renewable term (YRT) has a similar effect as coinsurance or modified coinsurance to relieve statutory strain.

Paragraph 33 – First bullet point. Implies that reinsurer’s do not underwrite. Should replace “the limit which it considers to be prudent” by “its retention limit”.

Paragraph 39 – There is a need to make clear that this refers to accounting for regulatory purposes.

Paragraph 40 – The last sentence is not true for YRT life reinsurance as the lapse and investment risks are not transferred.

Paragraph 69 – The paragraph seems out of context. The differences between “assumption reinsurance” and “indemnity reinsurance” go beyond the question of presentation in financial statements. The explanation of the concepts of assumption and indemnity could be moved to some other part of the paper.

Paragraph 119 – Add at the end of the last sentence “net of the reserve which the insurer has been holding on the reinsurer’s behalf”.

Paragraphs 273 – 278
This refers to GAAP, and not to regulatory statements. The FSA has developed rules and guidance for the determination of total financial resources.

In conclusion, we hope that our comments can be taken into account in the finalization of the document.
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 Atuária (IBA) (Brazil)
Canadian Institute of Actuaries/Institut Canadien des Actuaires (Canada)
Institut des Actuaires de Côte d’Ivoire (Côte d’Ivoire)
Hrvatsko Aktuarsko Drustvo (Croatia)
Cyprus Association of Actuaries (Cyprus)
Česká Společnost Aktuářù (Czech Republic)
Den Danske Aktuarforening (Denmark)
Egyptian Society of Actuaries (Egypt)
Eesti Aktuaaride Liit (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)
Magyar Aktuárius Társaság (Hungary)
Félag Islenskra Tryggingastæðifræðinga (Iceland)
Actuarial Society of India (India)
Persatuan Aktuaris Indonesia (Indonesia)
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)
Latvijas Aktuāru Asociācija (Latvia)
Lebanese Association of Actuaries (Lebanon)
Persatuan Aktuari Malaysia (Malaysia)
Colegio Nacional de Actuarios A. C. (Mexico)
Het Actuarieel Genootschap (Netherlands)
New Zealand Society of Actuaries (New Zealand)
Den Norske Aktuarforening (Norway)
Pakistan Society of Actuaries (Pakistan)
Actuarial Society of the Philippines (Philippines)
Polskie Stowarzyszenie Aktuarium (Poland)
Instituto dos Actuários Portugueses (Portugal)
Academia de Actuarios de Puerto Rico (Puerto Rico)
Singapore Actuarial Society (Singapore)
Slovenská Spolocnost Aktuárov (Slovakia)
Slovensko Aktuarsko Drustvo (Slovenia)
Actuarial Society of South Africa (South Africa)
Col.llegi d'Actuaris de Catalunya (Spain)
Instituto de Actuarios Españoles (Spain)
Appendix

Svenska Aktuarieföreningen (Sweden)
Association Suisse des Actuaires (Switzerland)
Actuarial Institute of the Republic of China (Taipei)
Faculty of Actuaries (United Kingdom)
Institute of Actuaries (United Kingdom)
American Academy of Actuaries (United States)
American Society of Pension Professionals & Actuaries (United States)
Casualty Actuarial Society (United States)
Conference of Consulting Actuaries (United States)
Society of Actuaries (United States)