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Report on the IAA Meeting in Nassau, the Bahamas, Nov. 15–17, 2012

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The prospect of an imminent exposure draft has caused energy to return to the International Actuarial Association (IAA) Committee on Accounting and the Subcommittee on Education and Practice (IAC). Both groups met during the IAA meetings in Nassau, the Bahamas. Discussions at the meetings were livelier than they have been recently. The accounting sessions weren't the only ones whose content interests financial reporting actuaries. The meetings of the Insurance Regulation Committee (IRC) addressed topics of interest as well. Tom Herget provided the information on the IRC.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

IASB-Related Activities

As this is being written, the International Accounting Standards Board (the board) has posted a timetable that calls for release of an exposure draft of the new insurance standard in the first half of 2013. This timing suggests that there may be a standard by early 2014, with reporting under the new standard as soon as 2017. Given the current pace of the board in its decision making, this timetable seems realistic, notwithstanding the history of delays in the insurance contracts portion of IFRS.

Because this exposure draft is the second one, the board will limit the number of areas on which it specifically requests feedback to avoid re-opening issues that have already been decided and sufficiently re-deliberated. In discussions at the meeting, it became apparent that some members of the IAC had discomfort with various aspects of the statement of comprehensive income presentation proposals and made differing conclusions about what was intended by the proposals for participating contracts.

The IAC is organizing to comment on the exposure draft, focusing on the limited number of topics for which the IASB is specifically requesting feedback. In addition, it plans to comment in advance of the exposure draft on the topics of particular urgency to actuaries and on which the IAA hopes to have some influence before the exposure draft is released.

When the new standard on insurance becomes effective, the existing International Actuarial Notes (IANs) on IFRS 4 will be largely outdated. The IAC is also planning to write no fewer than a dozen IANs on a fairly comprehensive set of topics related to the new standard. Some of these can be seen as revisions to existing IANs, but many will be completely new. The large set of IANs will likely be accompanied by a road map to the standard that directs the reader to the IAN that is applicable to a given topic or issue. The IAC is seeking help for the drafting.

MONOGRAPHS

The monographs on discounting and risk margins, which have been mentioned in past reports on the IAA, continue to make progress, with publication expected in 2013 and 2014, respectively. Aided by the substantive input from reviewers, the monographs promise to be quality documents that will be helpful to actuaries in practice.

The monograph on discounting is now over 350 pages. The length reflects the complexity of the subject and the willingness of the writers from Milliman to incorporate the improvements suggested by reviewers. Actuaries who find the length daunting will be comforted to know that a summary section is in the works.

The monograph on risk margins is being developed by a highly collaborative effort. The drafting team from Deloitte has proactively sought input from interested parties about current practices in quantifying risk and their possible applications to IFRS.

COOPERATION WITH THE PENSIONS COMMITTEE

In addition to co-developing the monograph on discounting, the IAC and the Pensions Committee are exploring how to meet the expectations of the IAA's Memorandum of Understanding with the IASB. There was no action taken in this regard.

The two groups are also comparing how the insurance standard and the pension standard address discounting and risk margins. As they currently stand, there are

Reliance on Rating Agencies

The G-20, through its Financial Stability Board, wants diminished reliance on the ratings produced by firms such as Moody's, Standard & Poor's and Fitch. The International Association of Insurance Supervisors (IAIS) believes that this is impractical and is trying to craft a report so stating. The IRC may provide assistance to the IAIS with this report.

Solvency II

The IRC received an update on Solvency II in Europe. This topic is of interest to North American insurers, as those with European ownership or European branches will be living with it. The combination of eurozone issues and low interest rates has delayed the implementation of Solvency II. According to one knowledgeable observer, Solvency II implementation would cause the insolvency of over 90 percent of the life companies in Germany. Should such a solvency system force a society to lose its market for long-term guarantees and security? One wonders if the issue is with the capital adequacy of insurers or with the solvency standard itself.

differences, which raises the possibility that the IASB will eventually seek consistency of treatment or at least a rationalization of the differences. Discounting for insurance contracts is at the rate that reflects the characteristics of the contracts. This high-level, principled guidance leaves it to the insurer to determine the rate. For pension liabilities, by contrast, the rate is fairly well specified; it is a high-quality corporate bond yield. The approach to risk margins is even more distinct—insurance liabilities have one and pension liabilities do not.

INSURANCE REGULATION COMMITTEE

The "Purple Book"

Ten years ago the IAA created a series of white papers that were compiled into a "Blue Book" that provided input to supervisors about how to regulate insurers. This book will be updated and named the "Purple Book." Topics nominated for inclusion are non-proportional reinsurance, intragroup reinsurance, diversification, concentration, time horizon, group versus solo entities, risk margins, procyclicality and sovereign risk.

Reporting under Solvency II requires an opinion about actuarial items but does not require it to come from a qualified actuary. The regulations call for an "actuarial function" within each insurer to perform the valuations and prepare an opinion. This work must be performed by someone who is "fit and proper." Actuarial organizations are usually not recognized by law in Europe; there is a concern over denying other qualified people participation in the valuation process.

Common Framework (ComFrame)

ComFrame development is entering its third year. This is an effort led by the IAIS to provide a common understanding of how insurers that operate in many countries should be regulated. At the moment it focuses on using scenario and stress testing to determine needed capital. The IAIS has agreed to field test the regulation before making it final. The IAIS will decide next year how to do the field test, and the field testing itself will be completed in 2014.

In the current draft version of ComFrame, there is a

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provision for a group-wide actuarial opinion. This opinion covers at least the following: a) the reliability and sufficiency of the liabilities; b) the adequacy of reinsurance credit in the reserves; and c) an analysis of the current and future financial condition of the group given recent experience. "Reliability" refers to the accuracy of nation-specific reserves.

NEXT MEETING

The IAA meets again in May 2013 in The Hague. By that time the board should have made all of its decisions, and the IAC will be able to begin serious work on a comment letter and on IANs. There will undoubtedly be progress on regulatory matters that will be of interest to financial reporting actuaries. ■