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30 Cannon Street, London EC4M 6XH  
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**Re: ED 5 Insurance Contracts**

Dear Peter,

My comment regards question 10 – Disclosure of the fair value of insurance assets and insurance liabilities. For me is the question whether this disclosure is useful and possible in the case of life insurances for substandard lives. These policies have special conditions as higher premiums due to the medical situation of the assured life.

As actuary of a reinsurance company dealing only with substandard lives I am specially interested in this situation. In my view there are three aspects which makes fair value accounting difficult to imagine in the case of substandard lives.

**1. No general accepted valuation method**

The fair value is the amount for which the insurance could be exchanged between knowledgeable, willing parties in an arm's length transaction. For the assessment of the fair value of a life insurance in case of a substandard risk you need not only the elements of the insurance contract, but also

- the medical evidence obtained for the assessment of the risk,
- a medical officer and
- a policy for selection of risks.

There does not exist a general accepted rule for risk selection. By way of example I mention a pool of nine reinsurers that existed until 1995. The pool was a last chance for declined risks. The working method of the pool was based on the difference between the risk assessments of the members : it was sufficient that three members accepted the risk, even when all the others declined.

In other words: what could be the fair value of an insurance that after most "willing parties" should have been declined??

**2. Humanity**

The policyholder has of course a financial reason to purchase a life insurance. The case of substandard lives shows that life insurance is more than a financial instrument. It is linked to a real human being. The insurer has confidential elements about his impaired medical situation. Does the insured like that he (with for example his heart attack) is considered to be the object of a bargain between insurers? It looks not in line with our legislation on privacy.

### **3. Outdated medical file**

A death risk is accepted on recent medical evidence. When the insured want to shift to another insurer this new insurer wants new medical evidence. Fair value accounting cannot deliver this. So the "willing parties" are placed in a situation that does not exist in the real world. This asks for arbitrary rules for the way the parties are supposed to consider the possibly changed health situation of the insured. For substandard lives this is much more uncertain.

Yours sincerely,

Herman van Rees