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**ISAP 7**

**International Standard of Actuarial Practice 7**

**“Current Estimates” and Other Matters in Relation to the IAIS Insurance Capital Standard**

**EXPOSURE DRAFT**

**10 February 2022**

**ISAP 7**

**“Current Estimates” and Other Matters in Relation to the IAIS Insurance Capital Standards**

Adopted by the IAA Council

[Date]

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# Preface

**This International Standard of Actuarial Practice (ISAP) is a model for actuarial standard-setting bodies to consider.**

The International Actuarial Association ([IAA](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/IAA.html)) encourages relevant actuarial standard-setting bodies to maintain a standard or set of standards that is substantially consistent with this ISAP to the extent that the content of this ISAP is appropriate for [actuaries](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) in their jurisdiction. This can be achieved in many ways, including:

* Adopting this ISAP as a standard with only the modifications in the Drafting Notes;
* Customizing this ISAP by revising the text of the ISAP to the extent deemed appropriate by the standard-setting body while ensuring that the resulting standard or set of standards is substantially consistent with this ISAP;
* Endorsing this ISAP by declaring that this ISAP is appropriate for use in certain clearly defined circumstances;
* Modifying existing standards to obtain substantial consistency with this ISAP; or
* Confirming that existing standards are already substantially consistent with this ISAP.

A standard or set of standards that is promulgated by a standard-setting body may be considered to be substantially consistent with this ISAP if:

* There are no material gaps in the standard(s) in respect of the principles set out in this ISAP; and
* The standard or set of standards does not contradict this ISAP.

Local jurisdictions may adopt variants of Insurance Capital Standards, and in that case a local actuarial standard-setter may need to adjust ISAP 7 accordingly.

If an actuarial standard-setting body wishes to adopt or endorse this ISAP, it is essential to ensure that existing standards are substantially consistent with [ISAP 1](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/Final_ISAPs_Posted/ISAP1_Review_adopted_1Dec2018.pdf) as this ISAP relies upon [ISAP 1](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/Final_ISAPs_Posted/ISAP1_Review_adopted_1Dec2018.pdf) in many respects. Likewise, any customization of this ISAP, or modification of existing standards to obtain substantial consistency with this ISAP, should recognize the important fact that this ISAP relies upon [ISAP 1](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/Final_ISAPs_Posted/ISAP1_Review_adopted_1Dec2018.pdf) in many respects.

If this ISAP is translated for the purposes of adoption, the adopting body should select three verbs that embody the concepts of “must”, “should”, and “may”, as described in paragraph 1.6. Language of [ISAP 1](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/Final_ISAPs_Posted/ISAP1_Review_adopted_1Dec2018.pdf), even if such verbs are not the literal translation of “must”, “should”, and “may”.

**This ISAP is a model standard of actuarial practice and, as such, is not binding on any** [**actuary**](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html)**.**

This ISAP was adopted by the [IAA](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/IAA.html) Council in [Date].

*[Drafting Notes: When an actuarial standard-setting organization adopts this standard, it should:*

1. *Replace “ISAP” throughout the document with the local standard name, if applicable;*
2. *Modify references to* [*ISAP 1*](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/Final_ISAPs_Posted/ISAP1_Review_adopted_1Dec2018.pdf) *in paragraphs 1.3., 2.1., 2.2.2., 2.3., 2.4., 2.5.1.,* [*2.7.1*](#_General_approach_for)*., 2.9., and 3.1. to point to the local standard(s) that are substantially consistent with* [*ISAP 1*](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/Final_ISAPs_Posted/ISAP1_Review_adopted_1Dec2018.pdf)*, rather than referring to* [*ISAP 1*](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/Final_ISAPs_Posted/ISAP1_Review_adopted_1Dec2018.pdf) *directly, if appropriate;*
3. *Choose the appropriate phrase and date in paragraph 1.7.;*
4. *Review this standard for, and resolve, any conflicts with the local* *[law](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Law.html) and code of professional conduct; and*
5. *Delete this preface (including these drafting notes) and the footnote associated with paragraph 1.7.]*

# Introduction

This International Standard of Actuarial Practice (ISAP) provides guidance to [actuaries](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) when performing [actuarial services](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuarial_Services.html) in connection with the Insurance Capital Standard (ICS) issued on [Date] by the International Association of Insurance Supervisors (IAIS)*.*

The Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) consists of both quantitative and qualitative supervisory requirements tailored to the complexity and international scope of Internationally Active Insurance Groups (IAIGs). The ICS is one of the components of ComFrame. In June 2017, the IAIS agreed to adopt ICS Version 2.0 as a stand-alone document, to be integrated into ComFrame at a future date.

On 2 November 2017, at its Annual Conference in Kuala Lumpur, the IAIS announced a unified path to convergence of group capital standards, in furtherance of its ultimate goal of a single ICS that includes a common methodology by which one ICS achieves comparable (i.e., substantially the same) outcomes across jurisdictions. The Kuala Lumpur Agreement (KL Agreement) sets out that implementation of ICS Version 2.0 will be conducted in two phases:

* A five-year “monitoring period”, during which ICS Version 2.0 will be used for confidential reporting to the Group-wide Supervisor and discussion in supervisory colleges. During the monitoring period, ICS results will not be used as a basis for triggering supervisory action.; and
* The “implementation of the ICS as a group-wide Prescribed Capital Requirement (PCR)”, a solvency control level above which the supervisor does not intervene on capital adequacy grounds

A group which reports under ICS is responsible for the information reported. This means it is responsible for, amongst other things, assumptions and the calculations in its ICS submissions.

Nevertheless, [actuaries](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) providing [actuarial services](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuarial_Services.html) in connection with ICS may be advising the group on decisions, providing any calculations or information required, or undertaking some combination of these.

The IAA intends this ISAP to:

* Facilitate convergence in standards of actuarial practice in connection with ICS;
* Increase public confidence in [actuarial services](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuarial_Services.html) provided in connection with ICS; and
* Demonstrate the [IAA](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/IAA.html)’s commitment to support the work of the IAIS in achieving high quality, comparable capital standards .

# General

* 1. Purpose **–** This ISAP provides guidance to [actuaries](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) when performing [actuarial services](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuarial_Services.html) in connection with capital standards promulgated by the IAIS, specifically the ICS. Its purpose is to increase [intended users](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Intended_User.html)’ confidence that:
* [Actuarial services](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuarial_Services.html) are carried out professionally and with due care, consistently with the ICS;
* The results are relevant to their needs, are presented clearly and understandably, and are complete; and
* The assumptions and methodology (including [models](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Model.html) and modelling techniques) used in the [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html)’s contribution to the ICS submission are disclosed appropriately.
  1. Scope – This ISAP applies to actuaries when performing [actuarial services](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuarial_Services.html) related to the ICS submissions. This ISAP addresses:
* The adaptation of the value of insurance liabilities to an ICS current estimate basis, where such is defined in accordance with IAIS requirements; and
* Such elements of the ICS that require [professional judgment](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Professional_Judgment.html).
  1. Relationship to ISAP 1 – Compliance with [ISAP 1](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/Final_ISAPs_Posted/ISAP1_Review_adopted_1Dec2018.pdf) is a prerequisite to compliance with this ISAP. In particular by the nature of the exercise, [actuarial services](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuarial_Services.html) related to the ICS submissions will frequently fall within the scope of [ISAP 1](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/Final_ISAPs_Posted/ISAP1_Review_adopted_1Dec2018.pdf) section 2.3.[[1]](#footnote-2), section 2.6.[[2]](#footnote-3), and whichever of 2.7.[[3]](#footnote-4), 2.8.[[4]](#footnote-5) and 2.9.[[5]](#footnote-6) may be applicable.
  2. Relationship to ICS **–** The guidance in this ISAP complements the guidance in ICS Version 2.0, which is not repeated in this ISAP.
  3. Defined Terms **–** This ISAP uses various terms whose specific meanings are defined in the Glossary. These terms are highlighted in the text with a dashed underscore and in blue, which is a hyperlink to the definition (e.g., [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html)). This ISAP also uses terms defined in the IAIS Glossary and ICS, in which case they have the same meaning. These terms are highlighted in the text with a double underscore and in orange colour (e.g., current estimate).
  4. Cross-References **–** This ISAP refers to the content of the ICS. If the ICS is subsequently amended, restated, revoked, or replaced after [Date], the [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) should consider the extent to which guidance in this ISAP is still applicable and appropriate.
  5. Effective Date – This ISAP is effective for {[actuarial services](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuarial_Services.html) performed/[[actuarial services](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuarial_Services.html)](#actuarial_services) commenced/[[actuarial services](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuarial_Services.html)](#actuarial_services) performed relevant to an ICS submission[[6]](#footnote-7) on or after [Date]

# Appropriate Practices

1. Relevant Knowledge Requirements– In applying [ISAP 1](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/Final_ISAPs_Posted/ISAP1_Review_adopted_1Dec2018.pdf) paragraph 2.2.[[7]](#footnote-8), the [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) should have or obtain sufficient knowledge and understanding of information necessary to perform the assignment:
2. The ICS, in particular the requirements in relation to current estimates;
3. How those current estimates will be used to determine the capital requirements;
4. Any local regulatory requirements relating to the ICS;
5. The business environment in which the group operates, including the financial market(s) from which it obtains [data](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Data.html);
6. The group’s products and operations;
7. The methodologies and assumptions used by the group in other relevant contexts and the rationale to help identify modifications needed to comply with ICS guidance; and
8. How [law](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Law.html) affects the application of ICS.
9. Materiality **–** The [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) should understand the distinction between materiality with respect to the [actuarial services](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuarial_Services.html) and to the preparation of an ICS submission:
   * 1. When appropriate for the [work](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Work.html), the [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) should seek guidance from the [principal](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Principal.html) or the group regarding materiality.
     2. In applying [ISAP 1](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/Final_ISAPs_Posted/ISAP1_Review_adopted_1Dec2018.pdf) paragraph 2.4.[[8]](#footnote-9), the [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html)’s threshold of materiality with respect to the [actuarial services](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuarial_Services.html) should not be greater than the group’s threshold of materiality for its ICS submission.
     3. In all following paragraphs of this ISAP, any use of “material” or “materiality” is with respect to the [actuarial services](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuarial_Services.html) carried out in accordance with this ISAP.
10. Proportionality **–** In applying [ISAP 1](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/Final_ISAPs_Posted/ISAP1_Review_adopted_1Dec2018.pdf) paragraph 1.5.[[9]](#footnote-10), and in particular paragraph 1.5.2, the [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) should take into account materiality. In addition, the degree of refinement in specific assumptions or methods recommended by the [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) should be proportionate to their possible impact on the results of the [actuarial services](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuarial_Services.html).
11. Contract Recognition, Contract Boundaries and Time Horizon **–** The [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) should consider whether the treatment of contract recognition, contract boundaries, time horizon, and contract derecognition under ICS are different from those adopted under the financial statements. Where they are different, the relevant ICS assumptions should be treated as being subject to [ISAP 1](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/Final_ISAPs_Posted/ISAP1_Review_adopted_1Dec2018.pdf) paragraph 2.7.3  or 2.8.4  The [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) should disclose to the [principal](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Principal.html) the [work](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Work.html) undertaken to identify what adjustments may or may not need to be made, including the rationale for, and impact of, the adjustments on the above items.

2.4.1. Contract boundary – The current estimates reported in the ICS may need to be adjusted from those reported externally due to different contract boundary definitions for the ICS versus the group’s financial statements. The [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) should investigate whether such differences exist and make appropriate adjustments to the current estimates in the financial statements to the extent material differences exist.

## Methodology

2.5.1. Current Estimates - The [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) should consider whether the current estimates used for the ICS submission should be adjusted from those used for the group’s reported generally accepted accounting principles (GAAP) or statutory accounting principles (SAP) accounts. Any adjustments to the current estimates for ICS purposes should be treated as being subject to [ISAP 1](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/Final_ISAPs_Posted/ISAP1_Review_adopted_1Dec2018.pdf) paragraph 2.7.3 or 2.8.4 The [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) should disclose to the [principal](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Principal.html) the [work](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Work.html) undertaken to identify what adjustments may or may not need to be made, and the impact of the adjustments on the current estimates.

2.5.2. Management Actions - When determining current estimates for participating or adjustable products allowing for objective, realistic and verifiable management actions, the [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) should consider the following:

1. Objective – the circumstances under which particular management actions would be taken should be clearly defined and documented, and agreed by the relevant managing bodies in the group.
2. Realistic and verifiable – the management actions should:
   * 1. Be consistent with other assumptions and estimates within the ICS;
     2. Be consistent with relevant policies approved by the managing bodies and policyholders’ reasonable expectations, where applicable;
     3. Not be unduly dependent on actions by third parties such as other market participants; and
     4. Be reviewed in the light of actual management actions employed over time.

2.5.3. Options and Guarantees – Where valuation of options and guarantees for current estimates should be different from those adopted under the financial statements, the [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) should consider valuation methodologies, such as a stochastic approach, which take into account the expected cash flows relating to options and guarantees embedded in the insurance contracts.

2.5.4. ICS Capital Requirement

2.5.4.1. Grouping - The [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) should consider whether [professional judgment](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Professional_Judgment.html) is required in grouping business for calculating ICS values:

1. When deciding on the Homogeneous Risk Groups (HRGs) for life insurance risks, the [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) should consider whether the HRGs are set narrowly enough so that the policies in each risk group reflect similar risk characteristics.
2. When required to map non-life risks to the lines of business and the ICS Non-life Segments, the actuary should consider the relationship between the granular reporting of current estimates in the ICS with the segmentations reported externally in the group’s financial statements.

2.5.4.2. Risk Mitigation - The methodology chosen for allowing for risk mitigation in the ICS risk charges should ensure that the risk mitigation techniques (reinsurance or transfer of risk to the capital markets) are accurately and appropriately reflected. In assessing the effectiveness of the risk mitigation for ICS risk charges, the [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) should consider:

1. The structure of the risk mitigation, the history, where available, of the impact of the risk mitigation and if this experience is likely to remain relevant, and the impact of credit risk inherent in the risk mitigation transactions.
2. Under all reasonably foreseeable circumstances, whether the risk mitigation techniques are effective over the ICS time horizon and whether there are any conditions under which the risks would not be transferred or be mitigated.
3. Reinsurance Recoverable, Cash Flow Patterns by Reinsurer Financial Strength Rating **–**

The [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) should consider whether [professional judgment](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Professional_Judgment.html) and the use of approximate allocation processes are required to provide the requested reinsurance recoverable input into the ICS.

When providing these estimates or allocations, the [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) should consider the materiality of various estimate processes to the overall ICS result and should communicate any material assumptions or [professional judgment](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Professional_Judgment.html)s involved with such estimates or allocations to the [principal](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Principal.html).

When the [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) undertakes a review of the reinsurance recoverable, the [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) should review the allocations for reasonability, including the reasonability of the distribution by reinsurer credit rating and the reasonability of the estimated cash flow pattern.

In particular, the [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) should be aware of the:

1. Possibility that a difference between the contract boundaries and recognition criteria in the ICS versus the financial statements may have a material impact on the ICS result;
2. Potential for significant [professional judgment](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Professional_Judgment.html) in the allocation or assignment of ceded liabilities to particular reinsurers or reinsurers of a particular financial strength rating;
3. Possibility for multiple financial strength ratings to exist for a given reinsurer of the group and the resulting possibility of confusion in the application of those ratings; and
4. Possible existence of cessions to external pools and the possible need to look through to the ratings of the individual insurers that are part of those pools.

When advising the [principal](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Principal.html) on the measurement of ceded reinsurance contracts, the [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) should:

1. When estimating amounts recoverable under multiple reinsurance arrangements, consider whether and (if so) to what extent the order in which the reinsurance contracts apply would affect the estimates;
2. When estimating non-recoverable amounts, consider the:
   * Financial condition of the reinsurer and the existence of collateral; and
   * Possibility of disputes over recoverable amounts; and
3. Consider, where applicable, the impact of reinstatement premiums for ceded reinsurance contracts following claims.

## Assumption Setting

2.7.1. General considerations –The [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) should consider whether the assumptions under ICS should be different from those adopted under the financial statements. Where they are different, the relevant ICS assumptions should be treated as being subject to [ISAP 1](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/Final_ISAPs_Posted/ISAP1_Review_adopted_1Dec2018.pdf) paragraph 2.7.3 or 2.8.4. The [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) should disclose to the [principal](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Principal.html) changes in the assumptions, including the rationale for, and impact of, the changes.

2.7.2.Selecting Assumptions **-** Where the assumptions under ICS to calculate current estimates should be different from those adopted under the financial statements, the [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) should consider criteria and factors such as the following to select assumptions that are relevant to the current estimates:

2.7.2.1.Policyholder Behaviour/Lapsation

* + - * 1. Likely behaviour of policyholders, taking into account factors such as [anti-selection](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Anti_Selection.html) and the effects of non-financial considerations;
        2. Characteristics of how the insurance contracts are sold and serviced;
        3. Significant scheduled changes in premiums, charges, benefits or terms and conditions; and
        4. Any short-term spikes in cancellation rates created by the exercise of certain options.

2.7.2.2. Future Discretionary Benefits

1. Discount rates used to calculate the present value of the cash flows that are consistent with the investment returns anticipated in the estimates of the future cash flows. Returns on assets which are estimated using prospective expectations consistent with current expectations of future economic conditions; and
2. The associated impact, if any, on the estimates of future cash flows for cash flows which are subject to a floor or a cap.

2.7.2.3. Expenses

1. The group’s cost-accounting and expense allocation policies;
2. The group’s past experience and current business plans; and
3. Terms of any outsourcing arrangements.

2.7.2.4. Inflation

1. Relationship between the inflation and investment assumptions.

2.7.2.5. Currency Exchange

1. Current expectations of future currency exchange rates.

2.7.2.6. Insurance Risk

1. Characteristics of the insurance contract including the risks being insured;
2. Characteristics of the policyholder and the way the contract was sold;
3. Changes in risks due to, for example, pandemics, climate change impacts etc.;
4. Past experience of incurred claims, including patterns of delays in reporting and payment, and the relevance to expected future experience; and
5. Practices of the entities of the group, such as underwriting procedures and claims management.

2.7.3. Taxation Effects– When the [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) undertakes a review of taxation effects in the ICS balance sheet, the [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) should review the deferred tax adjustments resulting from the ICS adjustments.

## General Insurance Specific Issues

2.8.1. Premium Liabilities **–** The treatment of certain underwriting expenses such as general overheads can be a significant area of [professional judgment](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Professional_Judgment.html) in the calculation of the premium liability under the Market-Adjusted Valuation (MAV) approach. When the [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html)’s estimate of the premium liability includes such [professional judgment](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Professional_Judgment.html)s, these should be disclosed in a communication to the [principal](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Principal.html). If instead the [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) utilizes a premium liability valuation option under the ICS that does not require such [professional judgment](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Professional_Judgment.html)s, that should also be communicated to the [principal](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Principal.html).

2.8.2. Catastrophe Estimates **–**When the [actuarial services](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) include review of the catastrophe scenario and probable maximum loss (PML) estimates reported in that template, the [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) should review those catastrophe estimates for reasonability and consistency, including the consistency and comparability of the estimates across perils and jurisdictions.

1. Alternative Assumptions and Sensitivity Testing - In applying [ISAP 1](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/Final_ISAPs_Posted/ISAP1_Review_adopted_1Dec2018.pdf) paragraph 2.7.7.[[10]](#footnote-11) the [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) should consider the sources and degree of uncertainty the [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) has assessed in relation to the adjustment to the estimates in the financial statements and in the calculation of the values reported in the ICS submission. The [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) should disclose to the [principal](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Principal.html) the potential sources of uncertainty and, where appropriate, illustrate uncertainty by reference to possible scenarios.

# Communication

## Disclosures – In addition to complying with [ISAP 1](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/Final_ISAPs_Posted/ISAP1_Review_adopted_1Dec2018.pdf) Section 3. [Communication](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Communication.html), the [actuary](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Actuary.html) should provide to the [principal](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Principal.html):

* + 1. Descriptions of the changes and adjustments in assumptions or methods from those used in the financial statements (2.5.1., 2.7.)
    2. The following items, together with the rationale for and impact of the changes, where applicable:

1. Adjustments made to contract recognition, contract boundaries and time horizon (2.4.);
2. Material assumptions or [professional judgment](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Professional_Judgment.html)s involved with estimation or allocations for reinsurance recoverable (2.6.);
3. [Professional judgment](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Professional_Judgment.html)s included in estimates of premium liability (2.8.); and
4. Potential sources of uncertainty (2.9.).
   * 1. Any material uncertainties or limitations in the [law](https://www.actuaries.org/IAA/Documents/CTTEES_ASC/ISAPs_Glossary_Terms/Data.html) and the approach taken to these in the context of the calculation of current estimates.

1. Reliance on Others [↑](#footnote-ref-2)
2. Assumptions and Methodology [↑](#footnote-ref-3)
3. Assumptions and Methodology Set by Actuary [↑](#footnote-ref-4)
4. Assumptions and Methodology Prescribed (other than by Law) [↑](#footnote-ref-5)
5. Assumptions and Methodology Mandated by Law [↑](#footnote-ref-6)
6. *[Phrase to be selected and date to be inserted by standard setter adopting or endorsing this ISAP.]* [↑](#footnote-ref-7)
7. Knowledge of Relevant Circumstances [↑](#footnote-ref-8)
8. Materiality [↑](#footnote-ref-9)
9. Reasonable Judgment [↑](#footnote-ref-10)
10. Alternative Assumptions and Sensitivity Testing [↑](#footnote-ref-11)