Glossary of Defined Terms Used in International Standards of Actuarial Practice

Proposed final version updated for ISAP 1A – Governance of Models and ISAP 5 – Insurer Enterprise Risk Models

Adopted by the IAA Council

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This glossary is the single repository of all defined terms used in the International Standards of Actuarial Practice (ISAPs). It is not an ISAP and has no authority of its own. Any defined term used in an ISAP (including any standard created by the adaptation of an ISAP by a standard-setter) takes the authority of that ISAP or adaptation. Defined terms and references to ISAPs 1 and 1A are indicated in ISAPs in blue text with a dotted blue underline (e.g. defined term) which is also a hyperlink to the definition in this glossary or to ISAP 1 or ISAP 1A.

Note: Hyperlinks have not been created in the proposed final version.

**Accepted Actuarial Practice (ISAP 1, 2)** – A practice or practices that are generally recognized within the actuarial profession as appropriate to use in performing actuarial services within the scope of an ISAP or the applicable professional standards of practice.

**Accounting Policies (ISAP 3)** – As defined by the International Accounting Standards Board (IASB) in paragraph 5 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, “the specific principles, bases, conventions, rules and practices applied by a [reporting] entity in preparing and presenting financial statements.”

**Actuarial Services (ISAP 1, 1A, 2, 3, 5)** – Services based upon actuarial considerations provided to intended users that may include the rendering of advice, recommendations, findings, or opinions.

**Actuary (ISAP 1, 1A, 2, 3, 5)** – An individual member of one of the member associations of the IAA.

**Adoption Date (ISAP 1)** – The date on which this ISAP was adopted as a final document by the IAA Council.

**Communication (ISAP 1,1A, 2, 3, 5)** – Any statement (including oral statements) issued or made by an actuary with respect to actuarial services.

**Constructive Obligation (ISAP 3)** – As defined by the IASB in paragraph 10 of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as amended in October 2010, by IFRS 9, Financial Instruments: “an obligation that derives from an [reporting] entity’s actions where:

a. by an established pattern of past practice, published policies or a sufficiently specific current statement, the [reporting] entity has indicated to other parties that it will accept certain responsibilities; and

b. as a result, the [reporting] entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.”

In paragraph 4(c) of IAS 19 Employee Benefits, the IASB further states “Informal practices give rise to a constructive obligation where the [reporting] entity has no realistic alternative but to pay employee benefits.”

**Employee Benefits (ISAP 3)** – As defined by the IASB in paragraph 8 of IAS 19 Employee Benefits, as amended through September 2014: “all forms of consideration
given by an [reporting] entity in exchange for service rendered by employees or for the termination of employment.”

**Enterprise Risk Model (ISAP 5)** – Those models that are developed to comprehensively and consistently evaluate the risks of an entity. Examples include internal models as specified by the International Association of Insurance Supervisors (IAIS), and capital models.

**Entity (ISAP 1, 1A, 2)** – The subject, in whole or in part, of the actuarial services, including an enterprise, an insurer, a pensions or benefits plan, a social security scheme, an individual, a government department or agency, a group, etc.

**Financial Analysis (ISAP 2)** – Any formal actuarial analysis. What constitutes a formal actuarial analysis is a matter for the actuary’s judgment but might include work required by law and work requested by the principal to inform decisions. A financial analysis might include but is not limited to:

a. Determination of discounted point in time values,
b. Projection of cash flows and associated fund values, and
c. Determination of future contribution rate(s).

**IAA (ISAP 1, 1A, 2, 3, 5)** – The International Actuarial Association.

**IAS 19 (ISAP 3)** – International Accounting Standard 19 Employee Benefits, including any Interpretations from the International Financial Reporting Interpretations Committee or the Standing Interpretations Committee thereon, as issued through September 2014.

**International Financial Reporting Standards (IFRSs) (ISAP 3)** – As defined by the IASB in paragraph 7 of IAS 1 Presentation of Financial Statements, as amended in June 2011, by Presentation of Items of Other Comprehensive Income (Amendments to IAS 1): “Standards and Interpretations issued by the International Accounting Standards Board (IASB). They comprise:

a. International Financial Reporting Standards;
b. International Accounting Standards; and
c. [International Financial Reporting Interpretations Committee] IFRIC Interpretations; and
d. [the former Standing Interpretations Committee] SIC Interpretations.”

**Intended User (ISAP 1, 1A, 2, 3, 5)** – Any legal or natural person (usually including the principal) whom the actuary intends at the time the actuary performs actuarial services to use the report.

**Law (ISAP 1, 1A, 2, 3, 5)** – Applicable acts, statutes, regulations or any other binding authority (such as accounting standards and any regulatory guidance that is effectively binding).

**Measurement Date (ISAP 3)** – The date as of which the value of an asset or liability is presented, whether or not the actual calculations have been made as of a different date and rolled forward or back to the measurement date.

**Model (ISAP 1A, 5)** – A simplified representation of relationships among entities or events using statistical, financial, economic, or mathematical concepts. A model has a
specification, uses assumptions, data, and methodologies to produce results that are intended to provide useful information on that system.

**Model Governance (ISAP 1A)** – The application of a set of procedures and an organizational structure designed so that intended users can place their confidence in the results of the model.

**Model Risk (ISAP 1A)** – The risk that, due to deficiency in the model or in its use, an intended user of the results of the model will draw an incorrect conclusion from those results.

**Opinion (ISAP 2, 3)** – An opinion expressed by an actuary and intended by that actuary to be relied upon by the intended users.

**Principal (ISAP 1, 2, 3)** – The party who engages the provider of actuarial services. The principal will usually be the client or the employer of the actuary.

**Professional Judgment (ISAP 1, 2, 3, 5)** – The judgment of the actuary based on actuarial training and experience.

**Report (ISAP 1, 1A, 2, 3)** – The actuary’s communication(s) presenting some or all results of actuarial services to an intended user in any recorded form, including but not limited to paper, word processing or spreadsheet files, e-mail, website(s), slide presentations, or audio or video recordings.

**Report Date (ISAP 2)** – The date on which the actuary issues a report to intended users. It usually follows the valuation date.

**Reporting Entity (ISAP 3)** – As defined by the IASB in paragraph 8 of Framework for the Preparation and Presentation of Financial Statements, adopted in April 2001: “an entity for which there are users who rely on the financial statements as their major source of financial information about the entity.”

**Scenario Test (ISAP 5)** – A process for assessing the impact of one possible event or several simultaneously or sequentially occurring possible events on an entity’s financial position.

**Social Security Program (ISAP 2)** – A program with all the following attributes regardless of how it is financed and administered:

1. Coverage is of a broad segment, or all, of the population, often on a compulsory or automatic basis;
2. Benefits are provided to, or on behalf of, individuals;
3. The program, including benefits and financing method, is prescribed by law;
4. The program is not financed through private insurance;
5. Program benefits are principally payable or delivered upon old age, retirement, death, disability, and survivorship, and the following benefits (if provided) are only ancillary to the principal benefit(s):
   a. Unemployment benefits;
   b. Medical expenses;
   c. Benefits provided due to work-related injuries, work-related death or occupational diseases;
d. Short term social assistance benefits (e.g. food stamps);

e. Benefits provided for disaster relief (e.g. insurance, or recovery funding, for flood, drought, hurricane/typhoon, earthquake/tsunami); and

f. Financial insurance or financial guarantees (e.g., for loans, bank deposits, pension payments, financial securities, insurance payments from insolvent insurers).

SSP (ISAP 2) – Social Security Program

Stress Test (ISAP 5) – A process for measuring the impact of adverse changes in one or relatively few factors affecting an entity’s financial position.

Subsequent Event (ISAP 1, 2) – An event of which the actuary becomes aware after the valuation date (or date to which the actuarial services refer) but before the actuary’s communication on the results of these actuarial services is delivered.

Valuation Date (ISAP 2, 5) – The effective date of the analysis by the actuary. It usually precedes the report date.

Work (ISAP 1, 2, 3, 5) – All actuarial activities performed by an actuary related to actuarial services. It usually includes acquisition of knowledge of the circumstances of the assignment; obtaining sufficient and reliable data; selection of assumptions and methodology, calculations, and examination of the reasonableness of their result; use of other persons’ work; formulation of opinion and advice; documentation; reporting; and all other communication.