Exposure draft of ISAP 4 - Actuarial Practice in relation to IFRS X Insurance Contracts

This document contains the exposure draft of proposed ISAP 4 – Actuarial Practice in relation to IFRS X Insurance Contracts (ISAP [4]). Please review this exposure draft and determine how you wish to address the issues it covers within your association. Comments (from your organization, your members, or other parties to which you forward these exposure drafts) should be addressed to ISAP4.ED.comments@actuaries.org with "ISAP – IFRS X" in the email header. The comment should make clear if it is a personal response or one representing a particular association, standard-setter, or other entity.

The preferred format for submitting comments is email or an MS Word (or equivalent) attachment. If a markup of the exposure draft is submitted we recommend using the Comment feature liberally, giving reasons for proposing the change. All comments will normally be posted to the International Actuarial Association website identifying the commenter(s). However, in exceptional cases, in response to a request which the IAA Secretariat is satisfied is for a valid reason, comments may be either posted to the website anonymously or withheld from the website.

The deadline for comments to be considered by the drafting committee is [Date].

This document was approved for exposure by the Actuarial Standards Committee on [Date].

NOTE:
This is a very early draft of some sections of expected ISAP 4 only for discussion purpose. The Task Force has focused so far on the section regarding 'Cash Flow Estimates' to generate discussion early on and receive comments from other ISAP task forces that will address the same topic. Future sections will be developed over the coming months.

ASSOCIATION ACTUARIELLE INTERNATIONALE
INTERNATIONAL ACTUARIAL ASSOCIATION

Exposure Draft of Proposed International Standard of Actuarial Practice4 (ISAP 4) Actuarial Practice in relation to IFRS X Insurance Contracts

NOTE: Defined terms in this Exposure Draft are marked in blue coloured text with dotted underline. The defined terms in the approved final ISAP will have hyperlinks to the relevant definition in the glossary. Please note that the hyper-links have not been created in this Exposure Draft.

Developed by the
Insurance Accounting Task Force of the
Actuarial Standards Committee

Exposure draft of ISAP 4 - Actuarial Practice in relation to IFRS X Insurance Contracts

[Date]

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Preface

[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 in paragraphs 1.3, 1.4, 2.2.1, 2.6, 2.6.7, 2.7.1, and 3.1 to point to the local standard(s) that are substantially consistent with ISAP 1, rather than referring to ISAP 1 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 and code of professional conduct; and*
5. *Delete this preface (including these drafting notes) and the footnote associated with paragraph 1.7.]*

This International Standard of Actuarial Practice (ISAP) is a model for actuarial standard-setting bodies to consider. The International Actuarial Association (IAA) encourages relevant actuarial standard-setting bodies to consider taking one of the following courses of action, if it has been determined that this ISAP is relevant for actuaries in their jurisdiction:

- Adopting this ISAP as a standard with appropriate modification, where items covered in this ISAP are not currently contained in existing actuarial standards;
- Endorsing this ISAP either as a new standard or as an alternative to existing standards;
- Modifying existing standards to obtain substantial consistency with this ISAP; or
- Confirming that existing standards are already substantially consistent with this ISAP.

Such an adopted standard (rather than this ISAP) applies to those actuaries who are subject to such body's standards, except as otherwise directed by such body (for example with respect to cross-border work).

If a course of action other than endorsement is chosen the actuarial standard-setting body should carefully review and appropriately address the possible effect that any apparently unsubstantial deviations from ISAP 1 may have on the guidance in this ISAP. The issue is important because this ISAP assumes that the actuary who asserts compliance with this ISAP must comply with ISAP 1.

When this ISAP is translated, 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, even if such verbs are not the literal translation of "must", "should", and "may".

This ISAP is not binding upon an actuary unless the actuary states that some or all of the work has been performed in compliance with this ISAP.

This ISAP was adopted by the IAA Council in [month year].

Introduction

This International Standard of Actuarial Practice (ISAP) provides guidance to actuaries when performing actuarial services in connection with IFRS X Insurance Contracts.

Note: *[An introduction is optional and may be modified by an adopting standard-setting body to suit local needs as long as it retains the description of the verbs "must", "should", and "may". Such modification does not constitute modification of the standard. The introduction usually also discusses the history of the development of the standard, and issues that have been crucial during this development.*

When a local standard-setting body adopts this ISAP, it might consider keeping the ISAP number, name, and date together with a local modifier (such as "France"). If, however, it uses its own numbering system it should cross-reference the ISAP identification in the introduction.

The *reporting entity* is ultimately responsible for the information reported in its IFRS reports, including the choice of methods and assumptions, within the guidelines set by IFRS X. The standard does not require *reporting entities* to take advice from an actuary. *Reporting entities*, however, normally seek advice from an actuary on the choice of methods and assumptions. As such, actuaries typically play a central role in the calculation of reported amounts relating to insurance contracts and in the drafting of various disclosures for long-term insurance contracts and liabilities for long-tail claims. Some *reporting entities* seek actuarial advice in respect of all assets and liabilities associated with insurance contracts. The *reporting entity* may also require actuaries to discuss these items with the auditor before the *reporting entity* finalizes its financial statements.

Comment [1]:
Better: It might be also in the responsibility of the actuary to discuss these items with the auditor or other institutions.
- otherwise use "IFRS report" instead "financial statement" to be consistent

Auditors, too, may seek advice from actuaries in assessing the choice of methods and assumptions used in relation to IFRS.

In some instances, there may be a need to reconcile statements prepared under other reporting requirements with IFRS reports and to explain the material differences between the two statements. With respect to the IFRS reports, the actuary should apply the proposed ISAP [4].

This ISAP is intended to:

- Provide useful and high quality guidance to actuaries providing actuarial services in relation to IFRS X, to facilitate widely accepted convergence of principle-based actuarial standards within and across jurisdictions;
- Increase public confidence in actuaries' services in relation to IFRS X, especially for the users of actuarial services in relation to IFRS X and other stakeholders having an interest in the quality of financial statements of insurers – thereby contributing to the public good;
- Increase *reporting entities*' and auditors' confidence in actuaries' services in relation to IFRS reporting of insurance contracts;
- Promote the development of the actuarial profession, as *reporting entities*' greater confidence leads them to expand their use of actuaries for IFRS reporting of insurance contracts; and

- Demonstrate the IAA’s commitment to support the work of the IASB in achieving useful financial statements.

1. General

1.1. Purpose – *[Discussion of the purpose of the standard should include the reasons why the standard is necessary and how it will serve actuarial practice.]* This ISAP provides guidance to actuaries when performing actuarial services in relation to IFRS X to give intended users confidence in particular that:

- Actuarial services are carried out professionally and with due care in compliance with IFRS X and taking into account the reporting entity's accounting policy;
- The results are relevant to their needs, are presented clearly and understandably, and are complete in the sense of IFRS X; and
- The assumptions and methodology (including, but not limited to, models and modelling techniques) used are documented appropriately and made available as required.

1.2. Scope – *[This section should state to which actuaries practising in which field the standard applies. The scope should define a specific area with definite boundaries.]* This ISAP provides guidance to actuaries when performing actuarial services in relation to IFRS X. The focus is on services provided for a reporting entity's preparation of an actual or pro-forma IFRS report that cover contracts falling in the scope of IFRS X. An actuary who is performing these actuarial services may be acting in one of several capacities, such as an employee, management, director, external adviser, auditor, or supervisory authority of the reporting entity.

1.3. Compliance – There are situations where an actuary may deviate from the guidance of this ISAP but still comply with the ISAP:

2. Law may impose obligations upon an actuary. Compliance with requirements of law that conflict with this ISAP is not a deviation from the ISAP.

1.1.1. The actuarial code of professional conduct applicable to the work may conflict with this ISAP. Compliance with requirements of the code that conflict with this ISAP is not a deviation from the ISAP.

1.1.2. The actuary may depart from the guidance in this ISAP while still complying with the ISAP if the actuary provides, in any report, an appropriate statement with respect to the nature, rationale, and effect of any such departure

1.2. Relationship to ISAP 1 – Any actuary who asserts compliance with this ISAP (as a model standard) must also comply with ISAP 1, except where ISAP 1 is overridden by this ISAP. Whenever guidance in this ISAP overrides the guidance in ISAP 1 the caption **[This paragraph replaces paragraph x.y [title of paragraph x.y] in ISAP 1]** will be shown at the start of the paragraph. References in ISAP 1 to "this ISAP" should be interpreted as applying equally to this ISAP, where appropriate.

1.3. Defined Terms – This ISAP uses various terms whose precise 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).

1.4. Cross-References – *[Include this section only if the ISAP explicitly refers to another document.]* When this ISAP refers to the content of another document, the reference relates to the referenced document as it is effective on the adoption date as shown on the cover page of this ISAP. The referenced document may be amended, restated, revoked, or replaced after the adoption date. In such a case, the actuary should consider the extent to which the modification is applicable and appropriate to the guidance in this ISAP.

1.5. Effective Date – This ISAP is effective for {actuarial services performed/actuarial services commenced/actuarial services performed relevant to an event}[1] on or after [Date]

[1] *[Phrase to be selected and date to be inserted by standard setter adopting or endorsing this ISAP.]*

3. Appropriate Practices

[This section is the heart of the standard. It should be organized by major topics or issues in a logical order. Frequently, the most important topics are addressed first. There is not an introduction or overview section unless adding one would help clarify the following sections.

This section should indicate how fundamental actuarial concepts and methodological principles should be applied in a variety of circumstances and should take into account problems arising from limited information, time constraints, and other practical difficulties, as well as conflicts with regulations or other restrictions.

Recommended practices should be straightforward, clear, and terse statements of actuarial guidance. Each item in the section offers direct guidance to the actuary. Guidance of an educational nature is inappropriate in the body of the standard and, if included, is placed in an appendix (which is non-binding).]

2.1 **Cash Flow Estimates -** The reporting entity is responsible for selecting the variables, including the discount rate, that underlie the reporting entity's estimates of the present value of future cash flows. The objective of projecting cash flows is to estimate the expected value of the full range of possible outcomes.

In estimating the fulfilment cash flows, the entity uses non-market variables and market variables. The actuary may advise the preparer regarding the selection of some or all of variables to be used in the estimates. In doing so, the actuary should be guided by paragraphs 2.6 – 2.9 of ISAP 1, taking into account IFRS X's requirements regarding assumptions used to measure the insurance liabilities.

Market variables are variables that can be observed in, or derived directly from markets (for example prices of publicly traded securities and interest rates). These estimates shall be consistent with observable market prices at the end of the reporting period. Non market variables are all other variables for example the frequency and severity of insurance claims and mortality.

While the reporting entity bears the formal responsibility for the selection of variables, the actuary has a professional duty to disclaim responsibility for that selection if, in the actuary 's professional judgment, that selection is inappropriate.

2.1.1 General Approach for Selecting Assumptions – When advising the preparer on the selection of actuarial assumptions, the actuary should:

a. Identify the types of assumptions needed to perform the actuarial services;

b. Select assumptions that are appropriately:

- Comprehensive, that is, include all cash inflows and cash outflows that relate directly to the fulfilment of the portfolio of contracts;
- Explicit to the extent required to get representational values. Hence most key assumptions, such as mortality and cancellations, will have explicit inputs into the calculation of expected future cash flows. Other assumptions, such as claims costs in estimates of liabilities for remaining coverage, may reflect the expected value of the claim on occurrence, and not necessarily explicitly entail a projection of the payment of claims. Nonetheless these values must be appropriately sensitive to changes in interest rates or to varying scenarios in multi-scenario calculations.
- Internally consistent, that is, in applying ISAP 1 paragraphs 2.7.5 (Individual Assumptions and Aggregate Assumptions) and 2.7.6 (Internal Consistency of Assumptions), considerations of consistency should include

Comment [DW2]: Do we really want to use must? I think should would be better

both market and non-market variables. When the valuation uses multiple scenarios, assumptions should be internally consistent across scenarios, reflecting interdependencies and potential effects on one variable of a change in another variable. Assumptions for reinsurance ceded should be consistent with assumptions for the direct contracts. Assumptions should be consistent across portfolios within the reporting entity.

- Reflective of the perspective of the entity (in so far as the requirement refers to fulfilment cash flows), provided that the estimates of any relevant market variables do not contradict the observable market prices for those variables. The actuary should review information on market expectations at the measurement date; and
- For non-market variables, representative of current expectations of future experience.~~,~~ ~~t~~That is, assumptions should be unbiased and avoid pessimism in response to uncertainty, or optimism, for example by anticipating improvements that cannot be supported. Allowance for uncertainty is allowed for in the Risk Adjustment only and not in the fulfilment cash flow.

  With respect to portfolio-specific assumptions, the actuary should review information that, in the actuary's professional judgment, is relevant to the portfolio covered.

  Assumptions should be consistent with the expectations regarding future management practices wherever management can influence cash flows (e.g. discretionary benefits, claims settlement or expense management)
- Where possible, supportable, that is assumptions should be based on the evidence available for the fulfilment cash flow of existing portfolios. Evidence includes the experience of the portfolio or similar portfolios of the reporting entity to the extent credible; analyses prepared by experts such as published tables or experience studies; studies or reports on general trends relevant to the particular assumption, for example expected future mortality improvement; the reporting entity's future expectations; and relevant factors known to the actuary that may affect future experience such as change in underwriting or administrative policies, coverage in a new market or, different distribution channels or marketing approaches In applying ISAP 1 paragraphs 2.3 (Reliance on Others), the actuary should assess the credibility of experience studies and use credibility procedures to combine the information from an insurers own experience with the information from, for example, industry studies, if the credibility procedures would result in a more appropriate basis for assumptions. The actuary should assess if evidence supports the presence of any anti-selection in the relevant portfolios and if so then incorporate the effect of the expected future anti-selection into the relevant assumption.
- Where one or more assumptions cannot be supported by relevant evidence, for example in the case of a totally new product, or a recent major change in the legislative environment, the actuary may need to extrapolate from whatever information is available.

c. Consider which parameters assumptions should vary by taking into account the degree to which a particular parameter (for example, gender, age, birth year,

Comment [3]:
I think this statement is better placed as a separate point below (see current e.)

Comment [4]:
Such situations do arise in practice.
A term is "informed guess"

Jim Milholland

But isn't this support. Assumptions should always be supportable. When evidence is thin or assumptions are heuristic, there are implications to the documentation, disclosures and the adjustment for risk. I would take out "when supportable". If we don't like "supportable, then maybe we say supported by the the evidence or by inference from such information as is available. And then add somethhing about the relationship to the adjustment for risk.

underwriting rating, or calendar year) is expected to affect future experience with respect to that assumption, and whether different assumption are appropriate for different segments of the covered portfolio;

d. The actuary should consider the nature of the variability in the potential outcomes of future cash flows and decide if the objective of estimating the expected value requires the consideration of multiple scenarios for that assumption. For example, the actuary should not use one single parameter if using that single parameter would underestimate or overestimate the fulfilment cash flow.

2.1.2 Mortality and Morbidity Assumptions

The following considerations, amongst others, may affect the selection of the mortality and morbidity assumptions for future experience:

- age, gender, smoking habits of the insured;
- occupation, health, lifestyle of the insured;
- duration since issue of contract;
- plan of insurance and the benefits provided (especially where antiselective lapsation is a factor);
- underwriting practices;
- whether it is a group or individual/single contract;
- source of funds;
- presence of discounts (e.g., group discounts offered where several individual policies are sold at once may involve less stringent medical or financial underwriting);
- size of contract;
- distribution system and other marketing practices;
- administrative and claims settlement practices;
- premium or benefit adjustment clauses including asymmetric features (return of excess premiums, participation in surplus, adjustment in onerous cases only) features
- return of premiums if no claims are submitted;
- participation rate (in group insurance)
- in addition, for disability benefits:
    - definition of disability;
    - cause of disability;
    - elimination period, guarantees, deductibles, coinsurance, policy limits, offsets, and other policy features;
    - seasonal variations;
    - environmental factors (e.g., changes in government offsets or health care programs; levels of unemployment);
    - interest rate scenario and other economic factors (e.g., cost of living adjustments) and the impact that economic circum-

Comment [5]:
I do not think this adds to what is written above on assumptions generally

Jim Milholland

I don't understand this. Assumptions are variables, so they vary. What is hard coded other than fixed features of the contracts. This s/b deleted or clarified.

DW – i think C should be deleted or at leat changed to „Consider which parameters within each assumption should vary …

stances are likely to impact claims incidence and termination rates;

- benefit type (e.g., a coverage that indemnifies a loss may not have as much potential for anti-selection as a scheduled policy payment).

- for estimates for reinsurance received to reflect the underwriting of the ceding insurer for automatic treaties and the underwriting of the assuming insurer for facultative treaties.

2.1.3 General Insurance Liabilities

General insurance covers a wide range of types of business, some of which provide single coverages, while others consist of packages of different cover-ages. Depending on the nature of the coverage or coverages provided, it may be appropriate for the actuary to consider, in assessing general insurance liabilities, matters such as:

- sums insured (noting that some coverages have no specific sum insured);
- premiums paid;
- other size or volume indicators;
- underwriting practices;
- claim incidence rates;
- seasonal and other patterns of claim incidence;
- claim reporting patterns;
- other indicators of the level of unreported claims (e.g. known natural disasters);
- numbers of reported claims;
- case estimates;
- other indicators of claim severity;
- patterns of claim development;
- patterns of claim settlement;
- patterns of claim payment;
- incidence and development of large claims;
- potential impact of catastrophes;
- economic influences;
- socio/politico/legal developments and trends;
- policy and claim expenses;
- reinsurance;
- prospective and retrospective experience rating arrangements.

In some cases, it may be appropriate to consider combinations of these matters, such as claim costs, not separated into frequency and severity.

The cost of some general insurance claims is pre-determined, conditional upon particular insured events. More usually, the insurance provides indemnity against actual losses and the value of those losses is often affected by various forms of inflation. In some cases, standard inflation indexes can be relevant. In others, special analysis is needed. (For example, the cost of imported car parts may be affected by exchange rates.)

In others, particularly liability insurance, claim costs are subject to both standard inflation and other forms of cost escalation, referred to in some jurisdictions as *superimposed inflation*. For example, damages awards for loss of future income may directly reflect wage levels at the time of award, but may also reflect changing societal and legal standards.

In some cases, it is appropriate to consider individual coverages, in others, it is appropriate to consider packages of coverages as a whole.

Some of these factors relate differently (or not at all) to pre-claim liabilities and to claim liabilities. IBNR (incurred but unreported claims) blurs such distinctions.

For many lines of business, the amount of claim liability may be segregated into the following components:

- case estimates;
- claim development;
- IBNR,

and/or into:

- claims:
- claim management expenses.

The actuary would consider the circumstances of the case in selecting assumptions. The available past claims experience may lack pertinence to assumptions about future claims experience as a result of internal changes, such as:

- underwriting practices;
- claims handling practice, including case estimation practice;
- reinsurance programs;
- data processing, accounting,

and as a result of external changes , such as inflation and changes in:

- the social, political, legal, regulatory and legislative environment;
- the economic environment;
- the reinsurance market.

2.1.4 Policyholder behavior assumptions – For many contracts, the actuary selects assumptions for contract provisions that allow or require a decision by the policyholder. This includes cancellation and, for some contracts, the amount or timing of premium payments, or the election of options. Cancellations may give rise to the payment of surrender or transfer value, to the granting of a paid-up policy, or to lapse without value. Possible elections could include conversion rights, purchase of additional insurance or switching between available funds. When determining policyholder behavior assumptions, the actuary should identify variables, observable in the market and/or in the relevant portfolio, that are materially interrelated to the policyholder behavior and reflect such interrelations in the assumptions.

The following considerations, amongst others, can affect the selection of expected assumptions for future policyholder behavior:

- Benefits and options provided;
- Contract duration or attained age;
- Premium frequency and payment method;
- Premium paying status;
- Size of contract;
- Relative advantages, to the counterparty, of lapsation/withdrawal and persistency;
- Surrender charges and/or persistency bonuses;
- Sophistication of counter-party and intermediary;
- Competitive situation for the product;
- Claims management practice;
- Prospective and retrospective experience rating arrangements;
- Interest rate scenario and other economic factors;
- Distribution system and other marketing practices; and
- Expected changes in aggregations as a result of changes in the entity's portfolio mix.
- Taxation upon withdrawal
- Cliffs created by sudden increases in benefits, generating lower lapse in the years immediately preceding the cliff and higher lapse upon attainment of the cliff or short term large spikes in cancellation rates created by large increases in premium on exercising certain options such as extension of a term insurance policy.

To determine the surrender value or transfer value payable on withdrawal, the actuary usually would take the following into account:

- Market variables assumed in the projection;
- Any guaranteed surrender or transfer value scale; and
- Policyholder owner reasonable expectations implicit in the contract.

The following considerations, amongst others, may affect the selection of expected assumptions to reflect the contract owner behavior:

- attained age of the life insured;
- duration since issue of policy;
- plan of insurance and the benefits provided;
- amount of benefits provided;

- historical premium patterns and mode of premium payment;
- contract competitiveness;
- distribution system and other marketing practices.

Policyholders' behavior may not appear to be fully rational, and assumptions about policyholder behavior do not necessarily assume that the policyholder makes the best economic decision when viewed from the perspective of the insurer. The actuary assesses the likelihood that policyholder behavior changes over time.

2.1.5 Management actions

The contractual definition may leave certain matters to the insurer's discretion, or it might be expected that the insurer provides non-contractual benefits such as the determination of additional participation benefits, experience-rating refunds, retrospective commission adjustments and premium adjustments.

In selecting assumptions for the insurer's exercise of discretion, the actuary should take the policyholders' reasonable expectations into account. Policyholders' reasonable expectations are expectations that arise from the insurer's communication in marketing and administration, from its past practice, from its current policy and from general standards of market conduct. Past practice includes the non-exercise of discretion.

In many classes of general insurance, underwriting and claims management practices can have a major influence on claims costs. Over-rigorous defense of claims, for example, can be counter-productive.

2.1.6 Expenses

Expense assumptions should reflect the future expenses associated with obligations arising from commitments the reporting entity has made on, or prior to, the measurement date, including some overhead expenses. The actuary usually selects assumptions so that the treatment of the transaction and incremental costs based on the measurement method can be appropriately and consistently established.

When setting expense assumptions, the actuary should take into account both:

- The entity's strategy for determining the level of service provided to policyholders (and its approach to claims management, if applicable); and
- The entity's efficiency in providing that level of service (and implementing its approach to claims management, if applicable).

Expenses include:

- "Allowed" acquisition expenses

  Acquisition expenses which are directly attributable and can be allocated on a rational and consistent basis to the individual portfolios of insurance contracts are allowed in the calculation of the insurance provision. Care should be taken to avoid an experience difference apparent at contract inception due to a

Comment [6]:
This needs to be re-written to make it consistent with the proposed standard. I would refer to the standard and to the companies expense allocation policies. I

difference in the actual versus assumed costs. Models should replicate actual costs at inception to within tolerances of materiality.

- Non allowable acquisition expenses
  All other acquisition expenses are not allowed for in the calculation of the insurance provision but are expensed as incurred.
- Policy maintenance expenses
  Expenses incurred for policy administration and maintenance, such as costs of premium billing and handling policy changes.
  It also includes any transaction-based taxes (such as premium taxes, value added taxes and goods and services taxes) and any levies (such as fire service levies and guarantee fund assessments).
- Claim management expenses
  Expenses incurred in processing and resolving claims under existing insurance contracts, including legal, investigation and processing costs. To avoid gaps or double counting, it is important to distinguish between external costs that are part of the claim and those that are part of claim management.

Those expenses may include fixed and variable overheads (such as the costs of accounting, human resources, information technology and support, building depreciation, rent and maintenance and utilities) that are directly attributable to the portfolio using methods that

- are systematic and rational, and are consistently applied to all costs that have similar characteristics; and
- ensure that the costs included in the cash flows that are used to measure insurance contracts do not exceed or fall short of the costs incurred.

To the extent that overheads cannot be included in deferrable acquisition costs, this may increase their allocation to other expenses.

Subject to specific market conditions, the expense assumptions will normally assume that the entity will maintain a reasonable level of new business and, therefore, the assumptions for the closed book, i.e., the book of policies in-force at the measurement date, can normally be based on the current level of economies of scale. To project improvements in economies of scale beyond the valuation date would usually depend on management expectations and plans and may be appropriate in certain circumstances if there is clear and reliable evidence that such plans are likely to be met and that the entity has exhibited the ability to achieve such cost reductions in the past.

Future expense cash flows are usually assumed to vary with assumed rates of general level of expense inflation in a reasonable manner. The starting point will normally be market levels of price and wage inflation consistent with the market assumption with respect to future interest rates. To this, the actuary would normally add a factor to reflect the issuer's level of expense inflation relative to the market levels of price and wage inflation, when justified by the different nature of the entity's business relative to that underlying observable market data, often set consistent with assumptions of future interest rates.

Where external parties provide services such as policy administration or fund management, the actuary would normally give appropriate consideration to the terms of

these agreements, including the possibility of termination of the agreement. Relevant expenses of the entity's holding company or any related company providing inter-group service would also be reflected.

2.1.7 Reinsurance - The assumptions on recovery on account of reinsurance ceded should take into account the financial condition of the reinsurer.

When projecting cash flows over future periods where little data exists, the actuary should consider the extent to which the insurer and the reinsurer each exercises its control over recapture, cancellation or commutation to its advantage.

2.1.8 Foreign Exchange – The actuary should be clear about the currency basis to support conversion to reporting currency and estimate future cash flows separately for each currency if contracts in a portfolio involve future cash flows in more than one currency (e.g. premiums and claims in one currency, commission and expenses in another currency)..

2.1.9 Discount Rate –

2.1.10 Inflation -

2.1.11 Using Prescribed Assumptions – When using assumptions prescribed by the preparer, the actuary should be guided by paragraph 2.8 of ISAP 1. If, in the actuary's professional judgment, assumptions prescribed by the preparer fail in a material manner to conform to IFRS X, other relevant IFRSs or the reporting entity's accounting policies, the actuary should be guided by paragraph X.

2.1.12 Reliance on other experts - The actuary typically has the greatest responsibility for the development of non-market assumptions. The actuary depends on other experts for data and inputs to the development process. Unless the actuary is able to development comfort with the information that comes from other experts, the actuary should seek representation from the expert providing the information regarding it completeness, accuracy and conformity to the specifications for the data. The actuary should state reliance on other experts when documenting or reporting on the actuarial procedures.

2.1.13 Change in Process for Developing Assumptions – The actuary generally should apply a consistent process from year to year to develop recommended assumptions for a particular insurance portfolio. When the actuary considers it appropriate to change the process used to develop a recommended assumption, the actuary should discuss the change with the preparer, including whether it would constitute a change in accounting policy. The actuary should not introduce such a change without being permitted by the accounting policy. Further, the actuary should seek guidance from the preparer regarding what, if any, information about the change should be provided in the report. For example, if the preparer determines that the change in the assumption-setting process may be subject to IAS 8, the preparer may ask the actuary to provide sufficient information about the nature of the change and its effect in the report to allow the preparer to derive the required disclosure information in the notes of the IFRS report.

2.1.14 Subsequent events

Comment [7]: From Francis: need to discuss the requirements as stated in ED B 44-48)

Formatted: English (United States)

Comment [8]: This should be either removed or turn into guidance specific to our subject. In its current form it seems to be covered by ISAP 1:2.3

[The ISAP drafters should consider which, if any, of the following paragraphs should be included.]

2.w **Basis for Conclusions**

2.x **Application Guidance**

2.y **Reliance on Data or Other Information Supplied by Others** – Guidance when relying on data or other information supplied by others.

2.z **Documentation** – Guidance with respect to retention of documentation that is disclosed only to specific users (such as auditors or regulators).

3. Communication

[If this standard includes any specific disclosures or communications that are, or are recommended, to be performed by the actuary they should also be listed here as a convenient reference. Otherwise this section should be omitted.]

1. [List the specific disclosure requirements for this particular subject matter, if any.]

APPENDIX

Appendix: Background and Current Practices

Note: this appendix is provided for informational purposes but is not part of the standard of practice. If the material considered for inclusion in an appendix would fit as well in an International Actuarial Note (IAN), a suitable IAN should be developed rather than placing the material in the appendix. In no event should the appendix be longer than the ISAP itself.

Background

[Historical facts that will help the reader understand the context within which the standard was created are included here. The transmittal memorandum provides background about the development of this standard, while the appendix provides background about actuarial practice itself. ISAPs will not necessarily have an appendix.

Text can be placed in paragraph form or with section titles as shown below.]

Section Title

Paragraph starts here . . .

Section Title

Paragraph starts here . . .