

ISAP 1 General Actuarial Practice – Exposure Draft

ISAP 1 General Actuarial Practice

July 2011

This document contains the exposure draft of proposed *ISAP 1 General Actuarial Practice*. Please distribute this draft to members of your association and your local standard setter(s). Comments (from your organization or your members) should be addressed to ISAP.comments@actuaries.org with “ISAP 1” in the e-mail header.

The preferred format for submitting comments is e-mail or an MS Word (or equivalent) attachment. Please do not send comments as a PDF file. If you submit a mark-up of the actual document please use track changes in MS Word and be sure to include comments explaining why you think each proposed change is necessary.

This exposure draft has been prepared largely in conformance with the template originally developed by the IAA Professionalism Committee, but with some modifications. Comments are welcome on both the content of this exposure draft as well as its revised format.

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 is 1 December 2011.

This document was approved for exposure by the Interim Actuarial Standards Subcommittee of the Executive Committee of the IAA in July 2011.

ISAP 1 General Actuarial Practice – Exposure Draft

**International Standard of Actuarial Practice 1
(ISAP 1)
General Actuarial Practice**

**International Actuarial Association
Developed by the General Task Force**

of the

Interim Actuarial Standards Subcommittee

**Adopted by IAA Council
[Month Year]**

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Introduction 1

[Introduction 1 should be deleted when a standard setting organization adopts this standard.]

This INTERNATIONAL STANDARD OF ACTUARIAL PRACTICE (ISAP) is a model for ~~member organizations and other~~ actuarial standard setting bodies to consider adopting. 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.

The INTERNATIONAL ACTUARIAL ASSOCIATION (IAA) encourages ~~member organizations and other relevant~~ actuarial standard setting bodies to consider taking one of the following courses of action, where it has been determined that this standard may be relevant for actuaries in their jurisdiction:

- adopting this ISAP as a standard with or without modification, where items covered in this ISAP are not currently contained in an existing actuarial standard
- ~~or to endorse~~ ing this ISAP as a standard as an alternative to existing standards,
- modifying existing standards to obtain substantial consistency with this ISAP,
- confirming that existing standards are already substantially consistent with this IASB. ~~Such an adopted standard (rather than this ISAP) is binding on 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).~~

When the standard is translated, the adopting body should select three verbs that embody the concepts of “must”, “should”, and “may”, even if such verbs are not the literal translation of “must”, “should”, and “may”.

Introduction 2

Background

This International Standard of Actuarial Practice (ISAP) is a general standard. It applies to all professional actuarial work performed by an actuary unless an element of guidance is explicitly superseded by another standard such as a practice-specific standard.

~~Usually, the intent of the practice specific standards is to narrow the range of practice considered acceptable under the general standards.~~

~~In exceptional cases, however, the intent of practice specific standards is to define as acceptable a practice which would not be acceptable under the general standards, in which case that intent is specifically noted by words in a practice specific recommendation like: “Notwithstanding the general standards, the actuary should...”, followed by a description of the exception.~~

Language

Some of the language used in this ISAP is intended to be interpreted in a very specific way in the context of a decision of the actuary. In particular, the following verbs are to be understood to convey the actions or reactions indicated:

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Comment [r1]: I don't see the delete wording as providing guidance on this standard, and as such I don't see it as appropriate here. I also don't agree with In my experience, the intent of a practice specific standard is to cover issues specific to that practice. I don't see this as the same as the first paragraph that I recommend deleting.

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- The verb “must” means that the indicated course of action is mandatory and failure to follow the indicated action will constitute a departure from this ISAP.
- The verb “should” means that, under normal circumstances, the actuary is expected to follow the indicated course of action, unless to do so would (in the actuary’s professional opinion) produce a result that would be inappropriate or would potentially mislead the users of the resulting information. If the indicated action is not followed, the actuary should disclose that fact and provide justification for it. If a conflict exists between this standard and applicable law or regulation, compliance with applicable law or regulation is not considered to be a deviation from this ISAP.
- The verb “may” means that the indicated course of action is not required, nor even necessarily expected, but in some circumstances is an appropriate activity, possibly among other alternatives.

This document uses various expressions whose precise meaning is defined in section 2. These expressions are highlighted in the text in blue with a dashed underscore, which is also a hyperlink to the definition (e.g. [actuary](#))

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

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Section 1. Purpose, Scope, and Cross References

1.1 Purpose - This ISAP provides guidance to [actuaries](#) when performing [professional services](#).

1.2 Scope - This ISAP applies to [actuaries](#) when performing [professional services](#). An [actuary](#) who provides these [professional services](#) may be acting in one of several capacities such as an employee, officer, director, external adviser, auditor, or supervisory authority of the [principal](#).

Laws or regulations may also impose obligations upon an [actuary](#). Compliance with binding requirements of law or regulation that conflict with this standard shall not be considered to be a deviation from the standard.

1.3 Cross References - When this standard refers to the provisions of other documents, the reference includes the referenced documents as they exist on the [adoption date](#) as shown on the cover page. The referenced documents may be amended, restated or replaced after the [adoption date](#). If any amended, restated or replacement document differs materially from the originally referenced document, the [actuary](#) should consider the extent it is applicable and appropriate to the guidance in this standard.

1.4 Effective Date - This standard is effective for {professional services performed/professional services commenced/professional 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.]*.

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Section 2. Definitions

The terms below are defined for use in this ISAP.

- 2.1. **Actuary** - An individual member of one of the member associations of the [IAA](#).
- 2.2. **Adoption date** - The date on which this ISAP was adopted as a final document by the [IAA](#).
- 2.3. **Communication** - An oral or [written statement](#) issued by an [actuary](#) with respect to [professional services](#).
- 2.4. **Effective date** - The date from which a standard setter who has adopted or endorsed this ISAP determines it applies to those actuaries within its jurisdiction.
- 2.5. **Employed actuary** - An [actuary](#) employed by the [principal](#) or an enterprise affiliated with the [principal](#).
- 2.6. **Entity** - The enterprise that is, in whole or part, the subject of the [professional service](#).
- 2.7. **IAA** - The International Actuarial Association.
- 2.8. **Intended user** - Any legal or natural person (usually including the [principal](#)) that the [actuary](#) intends to use the [work product](#) at the time the [actuary](#) provides [professional services](#) to the [principal](#).
- 2.9. **Opinion** - An opinion expressed by an [actuary](#) and intended by that [actuary](#) to be relied upon by the [intended users](#).
- 2.10. **Principal** - The party who has the right to provide direction to the provider of [professional services](#). The [principal](#) will usually be the client or the employer of the [responsible actuary](#).
- 2.11. **Professional judgment** – The judgment of the [actuary](#) based on specialized training and experience.
- 2.12. **Professional services** - Services provided to a [principal](#) that may include the rendering of advice, recommendations, findings, or [opinions](#) based upon actuarial considerations.
- 2.13. **Recognized actuarial practice** - A practice or practices that are generally recognized within the actuarial profession as appropriate to complete [professional services](#) under an ISAP or the applicable professional standards of practice adopted by [the actuarial standard setting organization](#) [the IAA member association](#) in the applicable reporting jurisdiction.
- 2.14. **Report** - An [actuary](#)'s [communication](#) presenting the results of [professional services](#).
- 2.15. **Responsible actuary** - The [actuary](#) who is responsible for the [work product](#).

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Comment [r2]: What if there are more than one? Allow for plural?

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- 2.16. **Sponsor** - The party who has commissioned the [professional services](#). The [sponsor](#) will often, but not always, be the [principal](#).
- 2.17. **Work product** - The totality of the [professional services](#) provided by an [actuary](#) to [intended users](#) including any [opinion](#) or [report](#), as well as any supporting calculations and documentation.
- 2.18. **Written statement** - A document in any recorded form including but not limited to paper, word processing or spreadsheet files, e-mail, web site, slide presentations, audio or video recordings.

Section 3. Appropriate Practices

3.1. Acceptance of Assignment

- 3.1.1. In accepting an engagement for professional services (whether a single freestanding assignment or an ongoing contract), the responsible actuary should:
- a. agree on its terms with the principal;
 - b. be qualified to perform the agreed-upon services, or able to become qualified before the services are delivered;
 - c. be satisfied that the assignment can be performed under the responsible actuary's code of professional conduct; and
 - d. have reasonable assurance of time, resources, information, access to relevant employees, access to documentation, and the right of the responsible actuary to communicate information, as may be necessary for the work product.
- 3.1.2. When providing professional services, the responsible actuary should confirm with the principal the nature and scope of professional services to be provided, including:
- a. any limitations or additional requirements that the actuary is required to satisfy;
 - b. identification of the schedule and expected cost or resources needed (especially if they are substantial); and
 - c. the information needed to be communicated to and by the actuary, especially if it is sensitive or confidential.

Responsible actuaries who are not employed actuaries typically document the confirmation in a letter of engagement, a memorandum of understanding, the report, or other appropriate communication to the principal.

- 3.2. **Knowledge of Relevant Circumstances** - The actuary should have or obtain sufficient knowledge of the relevant history, processes, procedures, nature of the business operations, and business environment of the entity, to be comfortable performing the professional services required by the engagement.
- 3.3. **Employed Actuaries** – Employed actuaries should interpret paragraphs 3.4 - 4.2 in the context of normal corporate or partnership practices, but following the same general principles. An employed actuary should consider the expectations of the principal. These expectations might suggest that it may be appropriate to omit some of the otherwise required content in the report. However, limiting the content of a report may not be appropriate if that report or the findings in that report may receive broad distribution.

Comment [r3]: Note that sometimes the actuary's qualifications can lead to modification of the required services under the agreement. Should this ability to negotiate terms that match qualifications be mentioned?

Comment [r4]: It is difficult to parse this guidance, as it qualifies unspecified parts of subsequent paragraphs. Is there a better way to do so? (As an aside, it reads as if the document was written for a consulting actuary, and then a fix attempted at the last minute.)

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If the responsible actuary believes circumstances are such that including certain content is not necessary or appropriate, the responsible actuary should be prepared to identify such circumstances and provide the rationale for limiting the content of the report.

Comment [r5]: Why is this here? It should be later, when the report requirements are discussed.

- 3.4. **Reliance on Others** - The actuary may use information prepared by another party such as data, relevant contracts, insurance policy or pension plan provisions, projections, and supporting analyses. The actuary may take responsibility for such information, or the actuary may state reliance on such information and disclaim responsibility for that information.

Comment [r6]: Current wording isn't clear on what is being disclaimed. The c or the entire report?

3.4.1. If the actuary states reliance on the information prepared by another party and disclaims responsibility for that information, the actuary should:

- a. disclose that fact in any report or other appropriate communication to the principal;
- b. disclose the extent of such reliance;
- c. examine the information for possible/evident shortcomings;
- d. when practicable, review the information for reasonableness and consistency; and
- e. report details of the steps, if any, that the actuary took to determine whether it was appropriate to rely on the information.

Comment [r7]: Not sure if "possible/evident" is right, but was not comfortable with "evident" either. I interpret "evident" as being roughly the same as "obvious", and consider that to be too light a standard.

Comment [r8]: Why isn't this always required, unless restricted by the assignment or resources? Using data that is not checked for reasonableness is very risky.

3.4.2. If the actuary uses information prepared by another party under any other circumstances:

- a. the actuary should determine that the use of that information conforms to relevant actuarial standards of practice and appropriate requirements in the jurisdiction(s) of the actuary's services; and
- b. the actuary should establish appropriate procedures for the supervision or review of the information prepared by others which the actuary intends to use.

Comment [r9]: This word is sometimes interpreted as requiring a voluminous and exacting description. Can some other word be used? For example "Provide a description of the steps"?

Comment [r10]: Not sure what this does. Is it necessary? Shouldn't this be done with any information used?

3.4.3. When deciding whether to use information prepared by another party, the actuary should consider the following:

- a. the other party's qualifications;
- b. the other party's competence, integrity, and objectivity;
- c. the other party's awareness of how the information is expected to be used;
- d. communications between the actuary and the other party regarding any known facts that are likely to have a material effect upon the information used;

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- e. the actuary's review of the other party's report or available working papers; and
 - f. satisfaction that the information used has been completed in accordance with relevant requirements.
- 3.4.4. If the information prepared by another party involves multiple reporting jurisdictions, the actuary should consider any differences in the law or recognized actuarial practice in the reporting jurisdictions compared to the requirements of the jurisdiction in which the party who prepared the information used is conducting its work.
- 3.5. **Materiality**- If materiality is determined by the responsible actuary (rather than someone else such as an auditor), "material" should be assessed from the point of view of an intended user, having regard to the purpose of the work product. Thus, an omission, understatement, or overstatement is material if the responsible actuary expects it to affect significantly either the intended user's decision-making or the intended user's reasonable expectations. The responsible actuary should select the threshold of materiality considering the work product and the entity which is the subject of that work product.
- 3.6. **Data Quality**
- 3.6.1. Sources of data - To the extent possible and appropriate, the actuary should consider using data specific to the entity for which the assumptions are being made. Where such data are not available, relevant, and credible, the actuary should consider industry data or data from other similarly situated organizations, modified as appropriate.
- 3.6.2. Sufficient and reliable data - The actuary should consider whether sufficient relevant and reliable data are available to complete the assignment. Data are sufficient if they include the needed information for the work product. Data are reliable if that information is materially accurate.
- 3.6.3. Testing and validation - The actuary should take reasonable steps to verify the consistency, completeness, and accuracy of the data used. This might include:
- a. undertaking reconciliations against financial statements, trial balances and/or other relevant records, if these are available;
 - b. testing the data for reasonableness against external data;
 - c. testing the data for internal consistency; and
 - d. comparing the data to that for a prior period or periods.
- 3.6.4. Data Deficiencies - The actuary should consider the possible effect of any data deficiencies (such as inadequacy, inconsistency, incompleteness, inaccuracy, unreasonableness, etc.) on the results of the work product. If the deficiencies in the data are not likely (in the actuary's professional judgment) to materially affect the results, then such deficiencies need not be considered. If the actuary cannot find a satisfactory way to resolve material deficiencies in the data, then the actuary should consider whether to:
- a. decline to undertake the assignment;
 - b. work with the principal to modify the assignment; or

Comment [r11]: Add "if available"?

Comment [r12]: This was hard to parse. It also assumes that there is only one jurisdiction where the work of the other party was to be used. This is not always the case. For example, the estimate of a ceded amount that will be assumed by an affiliate, with the same estimate used by the ceding affiliate and assuming affiliate and with different jurisdictions for the ceding vs. assuming affiliate.

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- c. perform the assignment as well as possible and disclose the data deficiencies in the [report](#).

3.7. Assumptions and Methodology

- 3.7.1. Selection of assumptions and methodology - The [actuary](#) should select the assumptions and a methodology (including models) that are, in the [actuary's professional judgment](#), appropriate for the [work product](#). The [actuary](#) should consider the needs of the [intended users](#) and the purpose of the [professional services](#). In selecting assumptions and methodology, the [actuary](#) should consider the circumstances of the [entity](#) and the assignment, as well as relevant industry practices. The [actuary](#) should consider to what extent it is appropriate to use assumptions that adjust for known deficiencies in the available data.
- 3.7.2. Reasonableness of Assumptions - The [actuary](#) should consider the reasonableness of the assumptions underlying each component of the methodology used. Assumptions generally involve significant [professional judgment](#) as to the appropriateness of the methodology used and the parameters underlying the application of such methodology. Assumptions may (if permitted in the circumstances) be implicit or explicit and may involve interpreting past data or projecting future trends. The [actuary](#) should consider to what extent it is appropriate to use assumptions that (in the [actuary's professional judgment](#)) have a known significant bias to underestimation or overestimation of the result.
- 3.7.3. Internal Changes - The [actuary](#) should consider to what extent available experience used to set assumptions about how the [entity's](#) experience will emerge in the future should be adjusted as a result of internal changes in the [entity](#) (for example in claims processing).
- 3.7.4. External circumstances - The [actuary](#) should consider the external circumstances (including the legal, economic, legislative, regulatory, supervisory, demographic, technological, and social environments) on which the methodology and assumptions depend.

3.8. Assumption Setting

- 3.8.1. Individual assumptions and aggregate assumptions - The [actuary](#) should assess whether an assumption set, including assumptions supplied by the [entity](#) or mandated requirements, is reasonable in the aggregate. While assumptions might be justifiable individually, it is possible that prudence or optimism in multiple assumptions will result in an aggregate assumption set that is no longer valid. If not, the [actuary](#) should make appropriate adjustments to achieve a reasonable assumption set.
- 3.8.2. Internal consistency of assumptions - The [actuary](#) should determine that the assumptions used for different components of the [work product](#) are materially consistent, and that any significant interdependencies are modeled appropriately. If not, the [actuary](#) should disclose any material inconsistency in [actuary's report](#).
- 3.8.3. Alternative assumptions and sensitivity testing - The [actuary](#) should consider and appropriately address the sensitivity of the methodology to the effect of

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variations in key assumptions, unless constrained by the assignment. In determining whether sensitivity has been appropriately addressed, the actuary should consider the intended purpose and use of the analysis and whether the results reflect a reasonable range of variation in the key assumptions, consistent with that intended purpose and use.

- 3.8.4. Assumptions requested by the principal - When the principal requests results under a particular set of assumptions different from the actuary's assumptions, the actuary may provide the principal with the results based on such assumptions, subject to appropriate disclosure in the report of those results.

Comment [r13]: Sometimes certain assumptions are dictated by law or regulation. Can this be broadened to all for those situations, in addition to assumptions set just by the principal?

3.9. Process Management

- 3.9.1. Process Controls - The actuary should consider to what extent, if any, the procedures needed to carry out the work product should be controlled, and if so how.

Comment [r14]: What does this refer to? An example might help.

- 3.9.2. Reasonableness Checks - The actuary should review the results produced by the selected assumptions and methodology for overall reasonableness.

- 3.9.3. Sensitivity of results - When the responsible actuary determines that the use of reasonable alternative assumptions or of a different reasonable methodology would have a material effect on the results, the responsible actuary should notify the principal and attempt to discuss the anticipated effect of this sensitivity on the analysis with the principal.

3.10. Responsibility for Assumptions and Methodology

- 3.10.1. The actuary's report should identify the party responsible for each assumption. Where the report is silent about any assumption, the actuary who authored the report will be assumed to have endorsed that assumption.

- 3.10.2. If a material assumption or methodology is selected by another party, the actuary has three choices:
- if the assumption or methodology does not conflict significantly with what would be reasonable (in the actuary's professional judgment), the actuary has no disclosure obligation;
 - if the assumption or methodology significantly conflicts with what (in the actuary's professional judgment) would be reasonable for the purpose of the assignment, the actuary should disclose in the report that fact, the party who set the assumption or methodology, and the reason why this party, rather than the actuary, has set the assumption or methodology;
 - if the actuary has been unable to judge the reasonableness of the assumption or methodology without performing a substantial amount of additional work beyond the scope of the assignment, or if the actuary was not qualified to judge the reasonableness of the assumption, the actuary should disclose in the report that fact, the party who set the assumption or

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methodology, and the reason that this party, rather than the actuary, has set the assumption or methodology.

3.11. **Peer Review** – The responsible actuary should consider to what extent it is appropriate for the work product to be reviewed by a knowledgeable, experienced actuary who has not performed any component of the work product before the final work product is delivered to the principal or distributed to the intended users. In the case of an employed actuary this requirement may not apply where the delivery is made to other actuaries within the organisation, or where the organisation’s normal operations will lead to appropriate review in the normal course of events.

3.12. **Documentation** – The actuary should retain sufficient documentation for a reasonable period of time so that another suitably qualified actuary could assume a resulting assignment. The actuary should determine the meanings of “sufficient”, “reasonable”, “suitably qualified”, and “resulting assignment” based on the actuary’s professional judgment and the specific circumstances of the engagement. (The assignment may also specify certain documentation and document retention requirements, such as those set by insurance statutes or regulation or by tax laws.)

Comment [r15]: I don't see why this here? Actuaries who do work for their employer should still have some level of peer review. The only exceptions to peer review are materiality, confidentiality and resources, and these apply to both consulting actuaries and employed actuaries.

Section 4. Communications and Disclosures

4.1. Communication

- 4.1.1. **Form and Content**—The responsible actuary should select the form and content of each communication to be appropriate to the particular circumstances, taking into account the intended users.
- 4.1.2. **Clarity**—The responsible actuary should word each communication to be clear and use language appropriate to the particular circumstances, taking into account the intended users.
- 4.1.3. **Timing of Communication**—The responsible actuary should issue each communication within a reasonable time period, unless other arrangements as to timing have been made. In setting the timing of the communication, the needs of the intended users should be considered.
- 4.1.4. **Identification of Responsible Actuary** - Any communication should clearly identify the responsible actuary. When two or more individuals jointly issue a communication, at least some of which is actuarial in nature, the communication should identify all responsible actuaries, unless the actuaries judge it inappropriate to do so. The name of an organization with which each actuary is affiliated also may be included in the communication, but the actuary's responsibilities are not affected by such identification. Unless the actuary judges it inappropriate (which may particularly apply to an employed actuary), any communication should also indicate the extent to which the actuary is available to provide supplementary information and explanation.

- 4.2. **Report** - The actuary should complete a report if the actuary intends the results of professional services to be relied upon by any intended user. The actuary should consider the needs of the intended user in communicating the results in the report.

- 4.2.1. **Content** - A report may comprise one or several documents. The report may be in several different formats. Where a report for a specific intended user comprises multiple documents, the actuary should communicate which documents comprise the report. The actuary should ensure that report components in electronic media are such that they can be reliably reproduced at future dates. In the report, the actuary should:
 - a. state the intended use of the report.
 - b. state the results of professional services, and identify the methods, procedures, assumptions, and data used. The actuary should present this information with sufficient clarity that another actuary qualified in the same practice area could make an objective appraisal of the reasonableness of the actuary's work product.
 - c. include in the report sufficient information and discussion such that the principal, or any intended user, will be able to form a view on the implications of the actuary's recommendations.

Comment [r16]: I don't understand why the actuary would do the work if they didn't intend it to be used. This doesn't make sense to me.

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- 4.2.2. Legal, legislative, regulatory, or supervisory constraints – The content of a report may be constrained by circumstances such as legal, legislative, regulatory, or supervisory proceedings. The actuary should follow the guidance of this standard to the extent reasonably possible within such constraints.
- 4.2.3. Specific disclosures – The actuary should include the following information in a report:
- a. executive summary
 - b. introduction or background
 - c. sections on data, methodology and assumptions
 - d. results and findings
 - e. analysis of results
 - f. subsequent events
 - g. actuary's name, signature, position held and date (employed actuaries should follow the normal internal protocol).
- 4.2.4. Actuaries other than employed actuaries - Actuaries, other than employed actuaries submitting internal reports, should also disclose:
- a. statement of qualifications
 - b. code of conduct and actuarial standards of practice under which this assignment was performed, if there is any possible ambiguity
 - c. any restriction on distribution to third parties
 - d. attestations and reliances.
- 4.2.5. Shorter reports - The guidance in this ISAP applies to any full report produced, but there are occasions when the actuary is asked to produce shorter reports or statements covering the work. Such reports do not have to, and cannot, contain all the details of the full report, but the full report should be available to any intended user identified by the principal or the sponsor, or anyone who has to take over the task of any further work or subsequent reports.
- 4.3. **Deviation from Guidance in this Standard** - The actuary should be prepared to provide the rationale for the use of any procedures that depart materially from those set forth in this ISAP and should include, in any report, an appropriate statement with respect to the nature, rationale, and effect of such departures. If a conflict exists between this standard and applicable law or regulation, compliance with applicable law or regulation is not considered to be a deviation from this ISAP.