

**ISAP 7 – “Current Estimates” and Other Matters in Relation to the IAIS Insurance Capital Standard
Report on Treatment of Comments on Exposure Draft**

Submission

The ISAP 7 Task Force of the ASC is pleased to submit this report. It documents the comments we received on the exposure draft of ISAP 7 (“ED”) and how we addressed those comments.

We would like to record our thanks to those commenters, both organizational and individual.

Preamble

The ED along with the amendments to the Glossary for the ED was published on 10 February 2022 with a comment deadline of 15 June 2022. A transmittal memo was published concurrently which requested answers to five specific questions. A MSWord template was provided to submit comments.

This report outlines the answers to our questions and other comments we received on the ED and what we did as a result. It is organized into four sections:

- I. List of submissions, with the date of receipt for each.
- II. Summary of the answers we received to our five questions and our responses.
- III. Summary of general comments received and our responses
- IV. Detailed paragraph by paragraph summary of the comments received and our responses.

This report was drafted by the ISAP 7 Task Force of the ASC and reviewed and edited by the ASC. Throughout the document “we” means the ASC.

The ASC and the ISAP 7 Task Force believe that the changes made to the exposure draft are not substantial, and as such, the ISAP does not require a second exposure.

I. List of comments we received on the ED

We received the following comments which can be viewed in their entirety on the IAA website at <https://www.actuaries.org/iaa/IAA/Publications/ISAPs/IAA/Publications/05ISAPs.aspx?hkey=334b21a7-a3ac-4e0e-8294-3cbc755ab14a>

Comments Received on the Exposure Draft of ISAP 7 (Period : 10 February 2022 – 15 June 2022)		
Letter Number	Submitted By	Date Received
1	Institute of Actuaries of Australia	06-Jun-22
2	Deutsche Aktuarvereinigung e.V. (DAV) Germany -	06-Jun-22
3	Financial Reporting Council (UK)	07-Jun-22
4	Institute of Actuaries of Japan	13-Jun-22
5	Institute of Actuaries of Korea	14-Jun-22
6	Actuarial Society of Finland	15-Jun-22
7	Canadian Institute of Actuaries	15-Jun-22
8	Office of the Superintendent of Financial Institutions Canada (OSFI)	15-Jun-22
9	China Association of Actuaries	01-Jul-22

II. Summary of the answers we received to our 5 questions

We asked the following questions in the transmittal letter for the ED. Each question is shown in bold font and followed by a summary of the responses we received. These responses were thoroughly considered in our redrafting.

Note: Comments and suggested changes on specific paragraphs are addressed in Section IV of this report. General comments received in the responses to the 5 questions are addressed here.

Q 1: Is the guidance clear and unambiguous? If not, how should it be changed?

Of the 9 commenters, 4 said the guidance was clear and unambiguous, 4 provided comments and recommendations for improvements and 1 did not respond to the question.

Comment	There is potential ambiguity between “insurance liabilities” and “current estimates”. It would be clearer if financial statements only have “insurance liabilities” while ICS only has “current estimates”.
Response	We made edits to address this comment.
Comment	From our point of view the section on reinsurance recoverables does categorically hardly fit the general content structure as a section next to materiality, methodology or assumption setting. We would suggest to either integrate the content into the other sections, or to position the section on reinsurance recoverables at the end of ISAP7, similar to the section on GI-specific issues.
Response	We considered the comment but made no change. We note a change in order of the ISAP 7 sections would not change the overall guidance.
Comment	Our main reaction to the draft ISAP 7 is that it provides rather generic advice concerning actuarial practice and limited actual value-added guidance for actuaries performing ICS work. The draft appears to have a dichotomy of purpose: (i) it endeavors to give guidance on ICS 2.0 but (ii) fails to significantly add to the guidance of ISAP 1 with respect to actuarial work related to ICS 2.0.
Response	By design, all ISAPs other than ISAP 1 are additive to ISAP1. We have taken into account the guidance in ISAP 1, and this ISAP is complementary to ISAP1 for the specific additional aspect of the current ICS 2.0. The proposed ISAP 7 does not repeat guidance that is already in ICS 2.0.

Q2: Is the guidance sufficient and appropriate? If not, how should it be changed?

Of the 9 commenters, 3 said the guidance was clear and unambiguous, 5 provided comments and 1 did not respond to the question.

Comments	1. At the moment, the scope is appropriate. However, we’d question whether, in the long term, the guidance should just apply in the context of the ICS, or whether it should apply to Actuarial Services provided in the context of capital requirements more generally. It would seem strange if a jurisdiction
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	<p>had the equivalent of ISAP 7 to support capital standards for IAIGs, but not more generally.</p> <ol style="list-style-type: none"> 2. We note that the exposure draft does not include reference to the determination of discount rates and the adjustments for top, middle and general buckets. Did the ASC / Task Force consider whether additional guidance might be appropriate in this regard? Also, did the ASC / Task Force consider whether further guidance was needed in relation to participating contracts – for example in determining the assumptions around asset portfolio rebalancing or management actions which may apply in the stressed scenario? 3. The memorandum section of the draft notes that it is “the IAA’s intent that by publishing model international standards it will encourage the creation and convergence of national actuarial standards.” However, the scope of the draft (see section 1.2) is limited to ICS 2.0. The utility of an international standard would be enhanced if its scope was applicable to other capital-related actuarial services. The IAA can use this opportunity with ICS 2.0 to show the efficacy of actuarial services in other related work. It is recognized that each jurisdiction has authority to set its own rules, and that the draft ISAP offers a model that each jurisdiction can modify. However, the current draft is so general that it seems to reflect any limitation that prospectively could be raised. This seems to be in conflict with the intent of ISAPs to facilitate convergence in standards of actuarial practice, such as in connection with ICS. 4. The introduction explains what is meant by the “ICS”. There is work underway to assess whether the Aggregation Method will provide comparable outcomes to the ICS. Given this context, should ISAP 7 clarify how/if this guidance is changed if the Aggregation Method (AM) is considered comparable to the ICS version 2 e.g. Is the AM excluded from the scope of ISAP7? 5. Given that there are some areas where assumptions and methodology are prescribed in the ICS, can the actuary be considered not in compliance with ISAP 7 for not being able to satisfactorily justify these assumptions based on their own analysis? In this case, does the actuary just refer to ISAP 1 section 2.7? Can this be made more explicit in ISAP 7?
<p>Response</p>	<ol style="list-style-type: none"> 1 and 3. The SOI approved by Council was to support the actuarial practice under ICS. An ISAP covering broader jurisdictional specific capital requirements would likely violate the subsidiarity principle. 2. We did consider this but decided that further guidance was not required. We will revisit this if changes are made to the ICS guidance. We concluded that no further guidance was required regarding participating contracts. 4. It is premature to provide guidance on the aggregation method and internal models at this time as they are not part of the current ICS. 5. ISAP 7 requires that the actuary should refer to ISAP 1.

Q3: Is the guidance at the right level of detail? If not, what text should be omitted because it is too detailed? In what areas do actuaries need more detailed guidance?

Of the 9 commenters – 5 said the guidance was at the right level of detail, 2 provided comments with suggestions and 2 did not respond to the question.

Comments	<ol style="list-style-type: none"> 1. As noted in commentary on specific sections, there are a few areas where the guidance is arguably too detailed and there are one or two minor gaps 2. ISAP 1 is cited as a prerequisite to the guidance given in this draft ISAP. It would be beneficial to have references to sections of ISAP 1 articulate the aim of those sections (without restating them) and the interrelationship with ISAP 7, rather than simply noting which sections may be applicable (e.g., see section 1.3). A key example that warrants more guidance concerns the subject of current estimates. This topic forms part of the title of this draft ISAP but has little substance in its contents. Its prime reference is in a paragraph in section 2.5.1. This paragraph notes that the actuary should “consider” whether the current estimates in ICS 2.0 should be different than the current estimates in the public financial statements. This guidance is generic and does not add significant value. The potential to have different actuarial values for purportedly the same term necessitates more guidance. Otherwise, a key purpose of this ISAP (“to increase intended users’ confidence,” per sec. 1.1) is not accomplished.
Response	<p>We believe that the guidance given in ISAP 7 is appropriate as to the areas of professional consideration and judgement needed, considering the guidance in the ICS and the ICS technical specifications. Broader educational aspects are outside the scope of ISAPs.</p>

Q4: Are there other matters that should be included in this standard? Are there some included here that should not be?

Of the 9 commenters – 4 responded “no” to the question, 4 provided comments with specific suggestions and 1 did not respond to the question.

Comments	<ol style="list-style-type: none"> 1. Guidance may be needed on the exercise of actuarial judgement when actuaries are involved in assessing / developing catastrophe models or internal models under the ICS (to which the ICS refers). 2. To be considered for inclusion <ul style="list-style-type: none"> • The draft standard refers to GAAP principles and the derivation or comparison of Current Estimates with valuation acc. to financial statements. However, in many regions and countries a comparison with regional or local regulation referring to similar (economic) standards like ICS is worthwhile, so a reference to these standards (like Solvency II) should be made. • Analogously a reference to IFRS 17 Best Estimates should be made, since in many IAIGs this is the governing standard for making up financial statements.
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<p>Response</p>	<ul style="list-style-type: none"> • We see a need for including a subsection on the central topic of interest rates and interest rate assumptions. <p>3. See response to Q2 and comments on specific paragraphs below.</p> <p>4. The title of this draft ISAP mentions “Other Matters.” An example of such would be a fulsome description of the expectation of an actuary’s appropriate contribution in producing the results for ICS 2.0 in conjunction with other resources in a company</p> <p>We considered the comments and concluded that there was no further guidance necessary at this time. Guidance for actuaries involved in assessing / developing catastrophe models or internal models may be considered when reviewing ISAPs 5 and 6.</p>
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Q5: Should the title of the ISAP be made shorter or simpler? Suggestions are welcome.

Of the 9 commenters – 5 said the title was appropriate, 1 provided a suggestion and 3 did not respond to the question.

<p>Comment</p>	<p>We suggest to align the title of ISAP 7 closer to the scope definition (acc. to 1.2), e.g. “ICS – Handling Current Estimates and the use of professional judgement in submissions”</p>
<p>Response</p>	<p>The majority of commenters did not suggest a need to change to the title of the ISAP or that it was inappropriate. Consequently, we made no change.</p>

III. Summary of general comments received and our responses -

<p>Comment</p>	<p>General comments were provided by 4 of the respondents, some of which were covered in the comments to the 5 questions and specific paragraph numbers.</p>
<p>Response</p>	<p>We considered all the comments. We reviewed the ED carefully in light of each comment received and edited it where we felt it was appropriate, taking a consistent approach while keeping within the scope of the SOI.</p>

IV. Paragraph by paragraph summary of the main comments received and our responses.

Several commenters suggested editorial changes to the ED. We have considered all such suggestions and adopted those that we felt improved clarity. Such suggestions are not detailed below.

Paragraph 1.2

<p>Comment</p>	<p>First bullet- One comment was made that the rationale for the use of MVA in 2.8.1. and the difference between current estimate be made more explicit.</p>
<p>Response</p>	<p>We do not agree there is an inconsistency. No change made.</p>

Paragraph 1.5

Comment	One comment was made that the term 'financial statements' does not appear to be a defined term.
Response	We amended the wording.

Paragraph 2.2

Comment	We were challenged by a respondent to identify circumstances when it would not be appropriate to seek guidance on materiality from the principal.
Response	Having identified such circumstances, we made no change to the text.

Paragraph 2.3

Comment	One respondent noted that the word 'materiality' in the first sentence should probably be replaced with 'proportionality', and that proportionality should follow the implicit definition in ISAP to avoid confusion with other definitions, for example in Solvency 2.
Response	The wording in paragraph 2.3 is consistent with the wording in ISAP 4. We did not make the change.

Paragraph 2.4

Comment	<p>Comment 1:</p> <p>2.4. - Adjustments are required in respect of contract boundary (2.4.1). Similar adjustments should be required in respect of contract recognition and time horizon which are explicitly mentioned.</p> <p>2.4.1. - ISAP 7 should be explicit that results reported 'externally' are those in the financial statements, to better distinguish them from those under the ICS.</p> <p>2.4.1. - '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'</p> <p>should be replaced with</p> <p>'The current estimates reported in the ICS may need to be adjusted from the insurance liabilities reported in the financial statements due to ...'</p> <p>Comment 2:</p> <p>Contract Recognition, Contract Boundaries and Time Horizon – The actuary 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 [add] the group's reported generally accepted accounting principles (GAAP) or statutory accounting principles (SAP) accounts...</p>
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Response	We reworded 2.4 and included the wording previously in 2.4.1
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Paragraph 2.5

Comment	Comments were received on replacing the use of current estimates in respect of financial statements with “insurance liabilities”
Response	These changes were accepted.
Comment	2.5.1 One suggestion was to add in reference to Solvency II and IFRS 17
Response	We considered the comment and did not make a change.
Comment	2.5.2.a .It was commented that the circumstances under which particular management actions would be taken will likely not be exhaustive as the actuary is unlikely to be able to anticipate all such circumstances, so would it not be better to ask for the principles governing such actions?
Response	The ICS guidance specifies that management actions are restricted to “objective, realistic and verifiable management action” so those are the constraints on which we are aiming to give guidance. Therefore, we made no change.
Comment	2.5.2.b.ii It was suggested that further guidance could be given to cover a situation where policyholders’ reasonable expectations (PRE) were inconsistent with an insurer’s policies if the insurers past practices were not aligned with its policies (for example payment of dividends even when policy required otherwise), in which case consistency with both policies and PRE might not be achievable.
Response	We did not make a change as it is reasonable to expect an insurer to have reviewed its policies so that they are aligned with PRE.
Comment	2.5.2.b.iii - One suggestion was to give further guidance or criteria on how to determine “unduly dependent”
Response	We amended the wording to reflect the suggestion.
Comment	2.5.4 – One comment was that this section could be renumbered as section 2.6 to be more prominent
Response	We made no change as the notes on grouping and risk mitigation are about methodologies that are the subject of this section.
Comment	2.5.4.1 It was noticed that the naming of GI business is inconsistent in the draft. Currently one section talks about non-life risks, the other refers to General Insurance
Response	We used “non-life” in this section as that is the term in the ICS. We changed Section 2.8 to refer to “non-life” also.
Comment	2.5.4.1.a It was questioned whether this paragraph was necessary as the ICS guidance was sufficiently clear.

Response	We think the guidance in the ISAP is helpful and made no changes in response to this comment.
Comment	2.5.4.1.a One comment was that credibility considerations could be reflected in the guidance around setting the narrowness of the HRGs
Response	This is a helpful note, so we made a change to reflect the comment.

Paragraph 2.6

Comment	<p>“The actuary should consider whether professional judgment and the use of approximate allocation processes are required to provide the requested reinsurance recoverable input into the ICS.”</p> <p>It is not entirely clear from this paragraph whether the ‘approximate allocation processes’ referred to are the processes for allocation of ceded liability between different reinsurers to allow mapping to ICS RCs or something else.</p>
Response	The context is apparent from the ICS 2.0 submission template. We made no change.

Paragraph 2.7

Comment	<p>Two submissions with comments on section 2.7 were received. Comments included:</p> <ul style="list-style-type: none"> • A proposed edit to 2.7.2 clarifying that financial statements include “insurance liabilities” rather than “current estimates”. • 2.7.2.2a is not entirely clear and could be linked back to ICS (L2 30 and 31). • That 2.7.2.3 seemed to have an “unbalanced” level of detail and a request to include clarifications of what is meant in ICS by “direct and indirect” expenses (L2 20.b; TD 84b) and include a reference to “non-recurring” expenses • A proposed addition to 2.7.2.6c to include a reference to “legislative or regulatory changes”.
Response	<p>The proposed edit to 2.7.2 is appropriate, and we edited 2.7.2 accordingly.</p> <p>What is unclear with 2.7.2.2a was not determined, and we believe the paragraph is appropriate and explicitly relates to Future Discretionary Benefits. No changes were required.</p> <p>The ISAP is not able to provide interpretation of the ICS. No clarification of the ICS reference to “direct and indirect” expenses has been made. A point to consider non-recurring expenses has been added to 2.7.2.3.</p> <p>We made no change to 2.7.2.6c as items such as future regulatory and tax changes are not normally included in regulatory capital measures and are not referenced in the ICS.</p>

Paragraph 2.8

Comment	2.8./2.5.4.1- We suggest checking consistency of naming GI business. Currently one section talks about Non-Life risks, the other refers to General Insurance
Response	We changed GI to non-life to be consistent with the terminology in the ICS.

Paragraph 2.9

Comment	One commentator suggested deleting this section as the ISAP 1 requirement is sufficiently clear on this subject.
Response	ISAP 1 Language: <i>Alternative Assumptions and Sensitivity Testing – The actuary should consider and address the sensitivity of each methodology to the effect of variations in key assumptions, when appropriate. In determining whether sensitivity has been appropriately addressed, the actuary should take into account the purpose of the actuarial services and whether the results of the sensitivity tests reflect a reasonable range of variation in the key assumptions, consistent with that purpose.</i> We believe that section 2.9 clarifies the ISAP 1 requirement in relation to the section 2.7.7 work. Therefore, we made no change.

Paragraph 3.1.

Comment	3.1. One commentator suggested that materiality should be considered in all disclosures to the principal, rather than just in the context of assumptions or judgements related to reinsurance recoverables, as per item 3.1.2.b.
Response	We agree and made appropriate wording changes.
Comment	3.1.1 One commentator suggested adding sections 2.5.2 and 2.5.3 to the disclosures, while another suggested adding all of 2.5 to the disclosures.
Response	We changed Section 2.5.2 and 2.5.3 to be subsections of 2.5.1 and made no change to section 3.1.1

Glossary

Comment	Two commenters suggested adding Insurance Liabilities to the glossary. One commenter suggested to clarify the statement that 'current' refers to 'report date' or 'at the end of the reporting period'.
Response	These are terms used in the ICS instructions provided by the IAIS, with no definition provided in those instructions. We believe that the definition of those terms has to come directly from the IAIS and not the IAA. Absent such definitions, any interpretation of those terms has to come from the context in which those terms are used in the ICS instructions. As such, we made no change in the draft ISAP 7 in response these comments.