



International Actuarial Association
Association Actuarielle Internationale



IAA Webinar on ISAP 7

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

Presented by the
IAA Actuarial Standards Committee

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Introduction



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A few housekeeping items before we begin:

1. Questions & Comments – Verbal capabilities have been turned off for attendees. Please submit your questions or comments by clicking on the Q&A icon at the bottom of your screen. We will answer questions during the Q&A session at the end of the panel discussion.
2. Recording – A YouTube recording of this webinar will be made available on the IAA website within the next day or so.



Disclaimer

- We are members of the ASC or of its ISAP 7 Task Force.
- Our remarks today are our personal opinions.
- They are not, and should not be construed as, official positions of the IAA or the ASC.



Agenda

- ISAP 7 Task Force
- The Insurance Capital Standard
- ISAP 7 Purpose and Scope
- Relevant Knowledge Requirements
- ICS Methodology
- Assumption Setting
- Non-Life Specific issues
- Disclosures
- Q&A



ISAP 7 Task Force

The members of the Task Force were:

Adrian Allott (*New Zealand*)

Ralph Blanchard (*USA*)

Nick Dexter (*UK*)

Toshihiro Kawano (*Japan*)

Greg Martin (*Australia*)

Margaret Tiller Sherwood (*USA*)



Insurance Capital Standard (ICS)

- The Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) consists of both quantitative and qualitative supervisory requirements tailored to the complexity and international scope of Internationally Active Insurance Groups (IAIGs). The ICS is one of the components of ComFrame.
- The purpose of the ICS is to create a common language for supervisory discussions of group solvency to enhance global convergence among group capital standards.
- In June 2017, the IAIS agreed to adopt ICS Version 2.0 as a stand-alone document, to be integrated into ComFrame at a future date.
- ICS Version 2.0 for the monitoring period was agreed by the IAIS Executive Committee on 14 November 2019. The monitoring period ends in 2024 when a final version of ICS is expected to be published.



Insurance Capital Standard (2)

It was agreed that implementation of ICS Version 2.0 will be conducted in two phases:

- A five-year “monitoring period”, and
- The “implementation of the ICS as a group-wide Prescribed Capital Requirement (PCR)” for IAIGs.

Following the end of the monitoring period, the ICS will be implemented as a group-wide prescribed capital requirement for Internationally Active Insurance Groups (IAIGs) at year-end 2024.

A group which reports under the ICS is responsible for the information reported.



ISAP 7

Section 1. General

- 1.1. Purpose

This ISAP provides guidance to actuaries when performing actuarial services in connection with the ICS. It was decided to develop ISAP 7 in advance of ICS being finalised based on the ICS Version 2.0.

It is aiming to increase intended user's confidence that:

- Actuarial services are carried out professionally and with due care, consistently with the ICS;
- Results are relevant to the needs, are presented clearly and understandably, and are complete; and
- Assumptions and methodology used are disclosed appropriately.



ISAP 7

Section 1. General

- 1.2. Scope
 - Actuarial services related to the ICS submission:
 - Adaptation of the value of insurance liabilities to an ICS submission basis; and
 - Elements of the ICS that require professional judgement.



ISAP 7

Section 1. General

- 1.3. Relationship to ISAP 1
 - Compliance with ISAP 1 is a prerequisite to compliance with this ISAP.
- 1.4. Relationship to ICS
 - The guidance in the ICS is not repeated in this ISAP. *This is a major factor in understanding ISAP 7, as the ICS guidance can be extensive. It is currently over 200 pages long.*
- 1.5. Defined terms
 - Glossary – dashed underscore and in blue
 - ICS key terms – double underscore and in orange



ISAP 7

Section 1. General

- 1.6. Financial statements
 - Starting point for determining the ICS balance sheet;
 - Make adjustment to audited consolidated balance sheets (group's financial statements) for the purpose of determining ICS result.
- 1.7. Cross-References
 - This ISAP refers to the context of the ICS.



ISAP 7

Section 2. Appropriate Practices

- 2.1. Relevant Knowledge Requirements

Sufficient knowledge and understanding of information:

- ICS, in particular the requirements in relation to current estimates;
- How current estimates will be used to determine the capital requirements;
- Local regulatory requirements relating to the ICS;
- Business environment;
- Group's products and operations;
- Methodologies and assumptions used by the group and the rationale to help identify modifications needed to comply with the ICS;
- Law.



ISAP 7

Section 2. Appropriate Practices

- 2.2. Materiality
 - Understand the distinction between materiality.
- 2.3. Proportionality
 - Degree of refinement in specific assumptions or methods should be proportionate to their possible impact on the results.



ISAP 7

Section 2. Appropriate Practices

- 2.4. Contract Recognition, Contract Boundaries and Time Horizon
 - Whether treatments under the ICS are different from those adopted under the financial statements;
 - The current estimates reported in the ICS, and/or the underlying assumptions, may need to be adjusted from the insurance liabilities reported under the group's financial statements.



ISAP 7

Section 2. Appropriate Practices

- 2.5. Methodology
- 2.5.1. Current Estimates
- 2.5.1.1. Management Actions
 - a. Management actions for participating or adjustable product:
 - i. Objective – The circumstances should be clearly defined and documented, and agreed by the relevant managing bodies;



ISAP 7

Section 2. Appropriate Practices

- 2.5.1.1. Management Actions (cont.)
 - b. Realistic and verifiable
 - i. Consistent with other assumptions and estimates within the ICS;
 - ii. Consistent with relevant policies approved by managing bodies and policyholders' reasonable expectations;
 - iii. Not dependent on actions by third parties;
 - iv. Reviewed in the light of actual management actions employed over time.



ISAP 7

Section 2. Appropriate Practices

- 2.5.1.2. Options and Guarantees
 - a. The actuary should consider valuation methodologies, such as stochastic approach, which take into account the expected cash flows relating to option and guarantees.



ISAP 7

Section 2. Appropriate Practices

- 2.5.2. ICS Capital Requirement
- 2.5.2.1. Grouping for calculating the ICS values
 - a. Homogeneous Risk Groups for life insurance risks are set narrowly enough so that the policies in each risk group reflect similar risk characteristics;
 - b. To map non-life risks to the line of business and the ICS Non-life Segments, relationship between granular reporting of current estimates in the ICS with the segmentations reported in the group's financial statements should be considered. *The ICS line of business segmentation varies by country or region, generally in line with line segmentation common in that country/region.*



ISAP 7

Section 2. Appropriate Practices

- 2.5.2.2. Risk Mitigation

ICS allows for reflecting the impact of both existing risk mitigation techniques and the renewal of those techniques where the existing ones are subject to expiration (e.g., catastrophe reinsurance for the coming year).

Required considerations include:

- a. Whether the structure and the history of the mitigation impact is likely to remain relevant.
- b. Whether the risk mitigation will be effective over the ICS time horizon under “all reasonably foreseeable circumstances”.



ISAP 7

Section 2. Appropriate Practices

- 2.6. Reinsurance Recoverable, Cash Flow Patterns by Reinsurer Financial Strength Rating

The ICS requires estimating the cash flow patterns of these recoverables, grouped by reinsurer financial strength rating.

- The actuary should consider whether appropriate allocation processes are needed to meet this requirement.
- Any resulting material assumptions or professional judgments that result should be communicated to the principal.
- Any such allocation processes used should be reviewed for reasonableness. This involves both the allocation to credit rating and the allocation to payment year.



ISAP 7

Section 2. Appropriate Practices

- 2.6. Reinsurance Recoverable, Cash Flow Patterns by Reinsurer
Financial Strength Rating (cont.)

The actuary should be aware of the impact of:

- Cessions to reinsurance pools (where there may be a need to look through to the ratings of individual pool members)
- Multiple credit ratings existing for a given reinsurer
- Differences in contract boundary and recognition criteria for the ICS versus the financial statements



ISAP 7

Section 2. Appropriate Practices

- 2.7. Assumption Setting
- 2.7.1. General Considerations
 - a. Consider whether the assumptions under the ICS should be different from those adopted under the financial statements;
 - b. Where they are different, the relevant ICS assumptions should be treated as being subject to ISAP1 para 2.7 (Assumptions and Methodology Set by Actuary) or para 2.8 (Assumptions and Methodology Prescribed).



ISAP 7

Section 2. Appropriate Practices

- 2.7.2. Selecting Assumptions
- 2.7.2.1. Policyholder Behaviour/Lapsation
 - a. Likely behaviour of policyholders, taking into account factors such as anti-selection and the effects of non-financial considerations;
 - b. Characteristics of how the insurance contracts are sold and serviced;
 - c. Significant scheduled changes in premiums, charges, benefits, or terms and conditions; and
 - d. Any short-term spikes.



ISAP 7

Section 2. Appropriate Practices

- 2.7.2.2. Future Discretionary Benefits
 - a. discount rates used to calculate the present value of the cash flows that are consistent with the investment returns;
 - b. Returns on assets which are estimated using prospective expectations consistent with current expectations of future economic conditions; and
 - c. Associated impact on the estimates of future cash flows for cash flows which are subject to a floor or a cap.



ISAP 7

Section 2. Appropriate Practices

- 2.7.2.3. Expenses
 - a. Group's cost-accounting and expense allocation policies;
 - b. Group's past experience and current business plans, and treatment of non-recurring expenses; and
 - c. Terms of any outsourcing arrangements.



ISAP 7

Section 2. Appropriate Practices

- 2.7.2.4. Inflation
 - a. Relationship between the inflation and investment assumptions.
- 2.7.2.5. Currency Exchange
 - a. Current expectations of future currency exchange rates.



ISAP 7

Section 2. Appropriate Practices

- 2.7.2.6. Insurance Risk
 - a. Characteristics of the insurance contract ;
 - b. Characteristics of the policyholder and the way the contract was sold;
 - c. Changes in risks due to pandemics, climate change impacts;
 - d. Past experience of incurred claims and the relevance to expected future experience; and
 - e. Practices of the entities of the group, such as underwriting procedures and claims management.



ISAP 7

Section 2. Appropriate Practices

- 2.7.3. Taxation Effects
 - a. Review the deferred tax adjustments resulting from the ICS adjustments.



ISAP 7

Section 2. Appropriate Practices

- 2.8. Non-Life Specific Issues
 - 2.8.1 Premium Liabilities – *The ICS allows this to be calculated under a Market-Adjusted Valuation (MAV) approach, or via two proxies*
 - Where the MAV approach is used, the actuary’s professional judgments as to the treatment of general overhead expenses should be communicated to the principal. If instead one of the proxies is used, that should also be communicated.
 - 2.8.2 Catastrophe Estimates – When included in the actuarial services provided, the actuary should review those estimates for reasonableness and consistency, including consistence and comparability across perils and jurisdictions.



ISAP 7

Section 2. Appropriate Practices

- 2.9. Alternative Assumptions and Sensitivity Testing
 - Consider the sources and degree of uncertainty in relation to the adjustment to the estimates in the financial statements and in the calculation of the value reported in the ICS submission.



ISAP 7

Section 3. Communication

- 3.1. Disclosures
- 3.1.1. Descriptions of the material changes and adjustments in assumptions or models from those used in the financial statements;
- 3.1.2.
 - a. Adjustments made to contract recognition, contract boundaries, and time horizon;
 - b. Assumptions or professional judgements involved with estimation or allocations for reinsurance recoverable;
 - c. Professional judgements included in estimates of premium liability; and
 - d. Potential sources of uncertainty.



ISAP 7

Section 3. Communication

- 3.1.3 Professional judgements involved with grouping for calculating the ICS values and risk mitigation.
- 3.1.4. Any material uncertainties or limitations in the law and the approach taken.

Questions ?

- If you have any questions for our speakers, please use the Q&A box on the bottom right hand side of your screen to submit your questions.
- Please note that this webinar is recorded and will be available for access from the IAA website from tomorrow.

Need Assistance ?

If your local association or standard setter needs any assistance or have any questions regarding adopting or implementing standards, please contact the IAA Secretariat.

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Thank you!



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