



International Actuarial Association
Association Actuarielle Internationale

21 November 2019

ISAP 4
International Standard of
Actuarial Practice 4
IFRS 17 Insurance Contracts

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Adopted by the IAA Council

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Preface

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 maintain a standard or set of standards that is substantially consistent with this ISAP to the extent that the content of this ISAP is appropriate for [actuaries](#) in their jurisdiction. This can be achieved in many ways, including:

- Adopting this ISAP as a standard with only the modifications in the Drafting Notes;
- Customizing this ISAP by revising the text of the ISAP to the extent deemed appropriate by the standard-setting body while ensuring that the resulting standard or set of standards is substantially consistent with this ISAP;
- Endorsing this ISAP by declaring that this ISAP is appropriate for use in certain clearly defined circumstances;
- Modifying existing standards to obtain substantial consistency with this ISAP; or
- Confirming that existing standards are already substantially consistent with this ISAP.

A standard or set of standards that is promulgated by a standard-setting body may be considered to be substantially consistent with this ISAP if:

- There are no material gaps in the standard(s) in respect of the principles set out in this ISAP; and
- The standard or set of standards does not contradict this ISAP.

Local jurisdictions may adopt variants of [IFRS 17](#), and in that case a local actuarial standard-setter may need to adjust ISAP 4 accordingly.

If an actuarial standard-setting body wishes to adopt or endorse this ISAP, it is essential to ensure that existing standards are substantially consistent with [ISAP 1](#) as this ISAP relies upon [ISAP 1](#) in many respects. Likewise, any customization of this ISAP, or modification of existing standards to obtain substantial consistency with this ISAP, should recognize the important fact that this ISAP relies upon [ISAP 1](#) in many respects.

If this ISAP is translated for the purposes of adoption, 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 a model standard of actuarial practice and, as such, is not binding on any [actuary](#).

This ISAP was adopted by the [IAA](#) Council in November 2019.

[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., 2.1., 2.2.2., 2.3., 2.4., 2.5., 2.6.1., 2.6.14., 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.]*

Introduction

This International Standard of Actuarial Practice (ISAP) provides guidance to [actuaries](#) when performing [actuarial services](#) in connection with [International Financial Reporting Standard 17 Insurance Contracts \(IFRS 17\)](#) issued in May 2017.

IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of [insurance contracts](#) and [reinsurance contracts](#). The objective is to ensure that [entities](#) provide relevant information in a way that faithfully represents those contracts.

An [entity](#) which reports financial statements under [IFRS](#) is responsible for the information reported. This means it is responsible for, amongst other things, identification, combination, aggregation, separation, recognition and derecognition of contracts, the choice of measurement approach and assumptions, the measurement calculations and the disclosures in the [IFRS](#) financial statements.

Nevertheless, [actuaries](#) providing [actuarial services](#) in connection with [IFRS 17](#) may be advising the [entity](#) on decisions, carrying out the calculations required or some combination of these.

The [IAA](#) intends this ISAP to:

- Facilitate convergence in standards of actuarial practice in connection with [IFRS 17](#);
- Increase public confidence in [actuarial services](#) provided in connection with [IFRS 17](#); and
- Demonstrate the [IAA](#)'s commitment to support the work of the International Accounting Standards Board (IASB) in achieving high quality, transparent and comparable financial reporting internationally, as envisaged by the Memorandum of Understanding between the [IAA](#) and the IASB.

Section 1. General

- 1.1. Purpose** – This ISAP provides guidance to [actuaries](#) when performing [actuarial services](#) in connection with [IFRS 17](#). Its purpose is to increase [intended users](#)' confidence that:
- [Actuarial services](#) are carried out professionally and with due care;
 - The results are relevant to their needs, are presented clearly and understandably, and are complete; and
 - The assumptions and methodology (including [models](#) and modelling techniques) used are disclosed appropriately.
- 1.2. Scope** – This ISAP applies to [actuaries](#) when performing [actuarial services](#) related to [IFRS 17](#) for the preparation of an [entity](#)'s actual or pro-forma [IFRS](#) financial statements. [Actuaries](#) performing other [actuarial services](#) in connection with [IFRS 17](#) (for example: an [actuary](#) advising a third party such as an auditor or a regulator, or advising a potential buyer regarding an acquisition) should apply the guidance in this ISAP to the extent relevant to the assignment.
- 1.3. Relationship to ISAP 1** – Compliance with [ISAP 1](#) is a prerequisite to compliance with this ISAP.
- 1.4. Relationship to IFRSs** – This ISAP relates to the content of [IFRS 17](#) and other relevant [IFRSs](#), including any interpretations from the International Financial Reporting Interpretations Committee (IFRIC) or its predecessor, the Standing Interpretations Committee, as issued through 16 August 2019. The guidance in this ISAP complements the guidance in [IFRS 17](#), which is not repeated in this ISAP.
- 1.5. Defined Terms** – This ISAP uses various terms whose specific 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](#)).
- This ISAP also uses key terms from [IFRS 17](#), in which case they have the meaning as used in [IFRS 17](#). These terms are highlighted in the text with a double underscore and in green (e.g., [insurance contract](#)).
- 1.6. Cross References** – If [IFRS 17](#), or any other [IFRS](#) referenced in this ISAP, is subsequently amended, restated, revoked or replaced by the IASB, or interpreted by IFRIC after 16 August 2019, the [actuary](#) should consider the extent to which guidance in this ISAP is still applicable and appropriate.
- 1.7. Effective Date** – This ISAP is effective for {[actuarial services](#) performed/[actuarial services](#) commenced/[actuarial services](#) performed with respect to [IFRS](#) financial statements for a reporting period ending }¹ on or after [Date].

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

Section 2. Appropriate Practices

- 2.1. Relevant Knowledge Requirements** – In applying [ISAP 1](#) paragraph 2.2.², the [actuary](#) should have or obtain sufficient knowledge and understanding of information necessary to perform the assignment, such as:
- [IFRS 17](#), applicable sections of other relevant [IFRSs](#) (e.g., IFRS 13 when measuring Fair Value), the [entity](#)'s [accounting policies](#) and the relevant processes that are applied in the preparation of [IFRS](#) financial statements;
 - The business environment in which the entity operates, including the financial market(s) from which it obtains [data](#);
 - The [entity](#)'s appetite for risks that have an impact on the measurement under [IFRS 17](#);
 - The [entity](#)'s products and operations;
 - The methodologies and assumptions used by the [entity](#) in other relevant contexts and the rationale for any differences;
 - How [law](#) affects the application of [IFRS 17](#); and
 - The relevant auditing standards.
- 2.2. Materiality** – The [actuary](#) should understand the distinction between materiality with respect to the [actuarial services](#), the preparation of [IFRS](#) financial statements and the auditing of those financial statements.
- 2.2.1. When appropriate for the [work](#), the [actuary](#) should seek guidance from the [principal](#) or the [entity](#) regarding materiality.
 - 2.2.2. In applying [ISAP 1](#) paragraph 2.4.³, with respect to the preparation of [IFRS](#) financial statements the [actuary](#)'s threshold of materiality with respect to the [actuarial services](#) should not be greater than the [entity](#)'s threshold of materiality.
 - 2.2.3. In all following paragraphs of this ISAP, any use of “material” or “materiality” is with respect to the [actuarial services](#) carried out in accordance with this ISAP.
- 2.3. Proportionality** – In applying [ISAP 1](#) paragraph 1.5.⁴, and in particular paragraph 1.5.2., the [actuary](#) should take into account materiality. In addition, the degree of refinement in specific assumptions or methods recommended by the [actuary](#) should be proportionate to their possible impact on the results of the [actuarial services](#).
- 2.4. Identification, Combination, Aggregation, Separation, Recognition, Derecognition and Modification** – The [actuary](#) should treat the processes of:
- Identification of [insurance contracts](#);
 - Combination of [insurance contracts](#);
 - Determination of the level of aggregation (refer to 2.6.14.);

² Knowledge of Relevant Circumstances

³ Materiality

⁴ Reasonable Judgment

- d. Separation of components from an [insurance contract](#) for treatment under a different standard;
- e. Separation of components of an [insurance contract](#) for different treatment under [IFRS 17](#) (if and to the extent permitted);
- f. Recognition of groups of contracts and derecognition of [insurance contracts](#); and
- g. Treatment of [insurance contract](#) modifications as being subject to [ISAP 1](#) paragraph 2.7.⁵ or 2.8.⁶.

The [actuary](#) should disclose in the [report](#) changes in the above processes, including the rationale for and impact of the changes.

- 2.5. Measurement Approach** – The [actuary](#) should treat the processes of selecting the appropriate measurement approach to be applied to each [group of insurance contracts](#), whether it is the [general measurement approach](#), the [premium allocation approach \(PAA\)](#) or the [variable fee approach](#), as being subject to [ISAP 1](#) paragraph 2.7.⁵ or 2.8.⁶.

The [actuary](#) should disclose in the [report](#) changes in the above processes, including the rationale for and impact of the changes.

2.6. The General Measurement Approach

- 2.6.1. General Approach for Selection of Assumptions – In applying [ISAP 1](#) paragraph 2.7.⁵, when advising the [principal](#) or the [entity](#) on actuarial assumptions, the [actuary](#) should consider matters such as:

- a. Combining similar risks based on the nature of the insurance obligation, without being constrained by the actual grouping of [insurance contracts](#) that is used for measurement purposes;
- b. Whether assumptions developed in other contexts, for example pricing assumptions, may be inappropriate for [IFRS 17](#) purposes;
- c. Links as necessary to ensure consistency between assumptions (e.g., assumptions related to option exercise patterns should be linked to the economic scenarios);
- d. The potential asymmetrical distribution of the current estimates (e.g., assumptions to deal with extreme events like tail events or options and guarantees that are triggered by market conditions);
- e. The credibility of [data](#) when combining information from various sources or time periods; and
- f. Long-term trends and seasonal variations, and other changes in the environment (e.g., applicable [law](#), economic, demographic, technological and social).

- 2.6.2. Process for Updating Assumptions – If the [actuary](#) considers it appropriate to change the process, including the methodology, used to update a recommended assumption,

⁵ Assumptions and Methodology Set by Actuary

⁶ Assumptions and Methodology Prescribed (other than by Law)

the [actuary](#) should discuss the change with the [principal](#), including whether it would constitute a change in [accounting policy](#) or just a change in an accounting estimate as defined in International Accounting Standard 8 (IAS 8) *Accounting Policies, Changes in Accounting Estimates and Errors*.

The [actuary](#) should disclose in the [report](#) changes in such processes, including the rationale for and impact of the changes.

- 2.6.3. **Insurance Risk** – When advising the [principal](#) or the [entity](#) on assumptions to measure [insurance risk](#), the [actuary](#) should consider factors including the following:
- Characteristics of the [insurance contract](#) including the risks being insured;
 - Characteristics of the policyholder and the way the contract was sold;
 - Past experience of incurred claims including patterns of delays in reporting and payment and the relevance to expected future experience; and
 - Practices of the [entity](#), such as underwriting procedures and claims management.
- 2.6.4. **Policyholder Options** – When advising the [principal](#) or the [entity](#) on assumptions for the exercise of options by policyholders, the [actuary](#) should consider factors such as the following:
- Past experience of how policyholders have exercised options;
 - Likely behaviour of policyholders, taking into account factors such as [anti-selection](#), the effects of non-financial considerations, and the relative advantages to the policyholder of exercising any options;
 - Characteristics of how the [insurance contracts](#) are sold and serviced;
 - Significant scheduled changes in premiums, charges, benefits or terms and conditions; and
 - Any short-term spikes in cancellation rates created by the exercise of certain options.
- 2.6.5. **Entity Discretion** – When advising the [principal](#) or the [entity](#) on assumptions which consider the exercise of discretion by the [entity](#), the [actuary](#) should take into account expectations or limitations that may arise from sources such as:
- The [entity](#)'s marketing and promotional materials;
 - The [entity](#)'s past practices;
 - The [entity](#)'s current policy;
 - Market practices; and
 - [Laws](#) and rulings of relevant authorities.
- 2.6.6. **Reinsurance Contracts Held** – When advising the [principal](#) or the [entity](#), on the measurement of [reinsurance contracts](#) held, the [actuary](#) should:
- When estimating amounts recoverable under multiple reinsurance arrangements, consider the order in which the [reinsurance contracts](#) apply;
 - When estimating non-recoverable amounts:

- i. Consider the financial condition of the reinsurer, the existence of collateral and the extent to which default by one reinsurer may affect the amounts recoverable from other reinsurers; and
 - ii. In the estimates of future cash flows to be received from [reinsurance contracts](#), allow for the uncertainty caused by the potential of non-performance by reinsurers;
 - c. When estimating [fulfilment cash flows](#), consider the extent to which each reinsurance counterparty exercises its control over recapture, cancellation or commutation to its advantage; and
 - d. Consider the impact of reinstatement of [reinsurance contracts](#) following claims.
- 2.6.7. Reinsurance Contracts Issued – When advising the [principal](#) or the [entity](#), on the measurement of [reinsurance contracts](#) issued, the [actuary](#) should consider circumstances such as:
- a. The expected behaviour with respect to the available options of the policyholders, the issuer of the underlying [insurance contracts](#) and all intermediate reinsurers;
 - b. The underwriting and management practices, including the underwriting for facultative placements, and the claim management processes impacting the [reinsurance contracts](#) issued;
 - c. Reinstatement of [reinsurance contracts](#) following claims; and
 - d. Default by the issuer of the underlying [insurance contracts](#) and all intermediate reinsurers.
- 2.6.8. Currency Exchange – When advising the [principal](#) or the [entity](#) on the estimation of the [fulfilment cash flows](#) in multiple currencies, the [actuary](#) should reflect current market expectations of future currency exchange rates.
- 2.6.9. Discount Rates – When advising the [principal](#) or the [entity](#) on the derivation of:
- a. Discount rates for periods beyond those for which observable [data](#) from an active market are available, the [actuary](#) should consider how current rates are expected to evolve over time using the best information available in the circumstances, including such market prices as are observable;
 - b. Discount rates for cash flows of [insurance contracts](#), that vary with the returns of the [entity](#)'s invested assets, the [actuary](#) should consider the [entity](#)'s investment policy, as applied in practice, taking into account the [entity](#)'s communications to various stakeholders and, where applicable, anticipated policyholder behaviour;
 - c. Illiquidity and credit or default adjustments for determining the discount rates, the [actuary](#) should consider:
 - i. Approaches that are robust and that should be able to be applied reliably over time and under a variety of market conditions, to reflect the illiquidity of the cashflows underlying the relevant liabilities; and
 - ii. The possible methods for calculating such adjustments to observed market rates. Methods include market-based techniques, structural model techniques and expected / unexpected credit loss techniques.

- 2.6.10. Contracts with Cash Flows that Vary with Returns on Underlying Items - When advising the principal or the entity on contracts whose cash flows vary with returns on underlying items, the actuary should:
- a. Select discount rates used to calculate the present value of the cash flows to measure the fulfilment cash flows that are consistent with the investment returns anticipated in the estimates of the future cash flows. Returns on assets should be estimated using prospective expectations consistent with current market expectations of future economic conditions; and
 - b. For cash flows which are subject to a floor or a cap, consider the associated impact, if any, on the estimates of future cash flows, the risk adjustment for non-financial risk and the discount rates in the projection.
- 2.6.11. Maintenance Expenses – When advising the principal or the entity on the estimation of cash flows for maintenance expenses such as policy administration and claim handling costs, and attributable overheads, the actuary should consider factors such as:
- a. The entity's cost-accounting and expense allocation policies;
 - b. Expenses expected to arise from fulfilling insurance obligations existing on the measurement date. This estimate should consider factors such as the entity's past experience and current business plans, and the impact of future inflation; and
 - c. Terms of any outsourcing arrangements.
- 2.6.12. Insurance Acquisition Cash Flows – The actuary should be satisfied that the allocation of insurance acquisition cash flows to each portfolio of insurance contracts is made on a consistent basis.
- 2.6.13. Risk Adjustment for Non-Financial Risk – When advising the principal or the entity on the risk adjustment for non-financial risk, the actuary should:
- a. Understand the non-financial risk inherent in the insurance contracts;
 - b. In assessing what the entity requires as compensation for bearing the non-financial risk:
 - i. Reflect the diversification benefit that the entity recognizes at the relevant level of consolidation; and
 - ii. Consider sources of relevant information, such as the entity's capital management, risk management and pricing policies.
 - c. Select a methodology that, at the chosen level of aggregation:
 - i. Uses assumptions that are consistent with those used in the determination of the corresponding estimates of future cash flows;
 - ii. Reflects the risk differences between the portfolios of insurance contracts; and
 - iii. Allows for the diversification that the entity recognizes.
 - d. Make appropriate allowance for mechanisms that result in risk being passed to the policyholder (e.g., contracts with participation or adjustment features);

- e. Consider whether the difference between the total of the calculated gross risk adjustment for non-financial risk and the total of the ceded risk adjustment for non-financial risk fairly reflects the compensation that the entity requires for bearing the uncertainty of its net exposure; and
- f. When advising on the confidence level disclosure required by IFRS 17, where risk adjustment for non-financial risk has not been determined using a confidence level approach, consider:
 - i. The ability to diversify non-financial risk over the entity's consolidated business; and
 - ii. The inherent uncertainty in the translation to a confidence level and the need to describe such uncertainty in the report.

2.6.14. Aggregation and Contractual Service Margin (CSM) – The actuary should treat the processes of:

- a. Identification of portfolios of insurance contracts;
- b. Allocation of individual insurance contracts into portfolios of insurance contracts, and division of each portfolio of insurance contracts into groups of insurance contracts;
- c. Treatment of the loss component on onerous contracts;
- d. Determination of the coverage units; and
- e. Roll forward of the CSM

as being subject to ISAP 1 paragraph 2.7.⁵ or 2.8.⁶.

The actuary should disclose in the report changes in the above processes, including the rationale for and impact of the changes.

2.7. The Premium Allocation Approach (PAA) – When advising the principal or the entity in relation to the use of the PAA for a group of insurance contracts, the actuary should:

2.7.1. At initial recognition if the coverage period is longer than one year, consider:

- a. Differences between the expected patterns of insurance revenue under the general measurement approach and under the PAA;
- b. Differences between the expected timing of cash flows under the general measurement approach and the insurance revenue under the PAA, resulting in different adjustments for the time value of money; and
- c. Whether future assumption changes under the general measurement approach would render the simplification invalid

when assessing whether material differences between the respective carrying amounts of the liabilities for remaining coverage under the PAA and the general measurement approach are reasonably expected to arise;

2.7.2. Assess whether insurance contracts in the group have a significant financing component, advise the principal or the entity, and measure the liability accordingly;

2.7.3. Be aware of whether the entity has chosen in accordance with IFRS 17 to recognize insurance acquisition cash flows as expenses when it incurs those costs and determine the liability in accordance with the entity's choice;

- 2.7.4. Be aware of whether the [entity](#) has chosen to reflect the time value of money and the effect of financial risk, when not required to do so, and determine the liability in accordance with the [entity](#)'s choice; and
- 2.7.5. Consider whether facts and circumstances indicate that the [group of insurance contracts](#) is or has become [onerous](#) and advise the [principal](#) or the [entity](#) accordingly.

2.8. The Variable Fee Approach – In using the [variable fee approach](#), the [actuary](#) should apply the guidance in paragraph 2.6., except for 2.6.6. ([Reinsurance Contracts Held](#)) and 2.6.7. ([Reinsurance Contracts Issued](#)), as the [variable fee approach](#) does not apply to reinsurance.

2.9. Financial Statement Presentation and Disclosure

- 2.9.1. Where the information provided by the [actuary](#) will be used in financial statement presentation and disclosure:
- The [actuary](#) should provide the related information needed to comply with the relevant presentation and disclosure requirements of [IFRS 17](#) and the [entity](#)'s [accounting policies](#); and
 - If the [actuary](#) becomes aware that such information is used in the presentations and/or disclosures incorrectly or inappropriately, the [actuary](#) should discuss and report these issues to the [principal](#).
- 2.9.2. In providing advice on the disclosures of reconciliations where the order of calculations alters the information disclosed, the [actuary](#) should apply a consistent order of calculation across all reconciliations and from period to period, or disclose any change, including the rationale for and impact of the change, in the [report](#).

2.10. Transition – When advising the [principal](#) or the [entity](#) on whether a full retrospective application of [IFRS 17](#) at transition is impracticable, the [actuary](#) should take into consideration factors such as:

- The availability and integrity of the past [data](#) that are required to determine the [fulfilment cash flows](#);
- The availability and integrity of information on past products;
- The availability, without the benefit of hindsight, of sufficient [data](#) to determine the initial assumptions and subsequent changes that the [entity](#) would have adopted over the lifetime of the [insurance contracts](#);
- The method that would have been used to adjust past known interest rates to achieve the rates that reflect the characteristics of the [insurance contracts](#); and
- The difficulty, without the benefit of hindsight, in evaluating the past [risk adjustment for non-financial risk](#) and the [entity](#)'s use of discretion.

Section 3. Communication

- 3.1. Disclosures** – In addition to complying with [ISAP 1](#) Section 3. Communication, the [actuary](#) should disclose in the [report](#):
- 3.1.1. Information regarding a change in assumptions or method, whether arising from a consistent or changed process;
 - 3.1.2. Changes in processes, together with the rationale for and impact of the changes, related to:
 - a. The identification, combination, aggregation, separation, recognition, derecognition and modification (2.4.);
 - b. The selection of the measurement approach (2.5.);
 - c. The process for updating assumptions (2.6.2.);
 - d. Aggregation and [CSM](#) (2.6.14.); and
 - e. The order of calculation on reconciliations provided for financial statement presentation and disclosure (2.9.2.); and
 - 3.1.3. When the [risk adjustment for non-financial risk](#) has not been determined using a confidence level approach, the uncertainty inherent in the translation to a confidence level (2.6.13.f.).