



Comment Template

Draft Statement of Intent to issue International Standards of Actuarial Practice in relation to insurer ERM models and programs (ISAPs [5] and [6])

1. Do you agree an ISAP is needed on actuarial services in relation to insurer ERM models?

<input checked="" type="checkbox"/>	Yes
<input type="checkbox"/>	No

2. Do you agree an ISAP is needed on actuarial services in relation to insurer ERM programs envisaged by the IAIS's ICPs (particularly 8 and 16)?

<input checked="" type="checkbox"/>	Yes
<input type="checkbox"/>	No



3. Are any of the proposed topics inappropriate for inclusion in these ISAPs? If so, please explain why the particular topic should not be included.

Potentially restricting practice relative to non-actuaries: In Canada, actuarial standards of practice exist primarily in areas of practice that require an actuary. In contrast, the ERM practice area is not reserved for actuaries, and many non-actuaries practice in this field. Although ERM standards ensure the high quality of work done by actuaries, they may also restrict the practice of actuaries, who are actively competing with non-actuaries. Item (d) in the ASC's July 2013 document entitled "Criteria to decide what issues are worthy of being included in an ISAP (as opposed to being educational)", provides that ISAPs should "not restrict practice inappropriately relative to what a non-actuary providing services within the scope of the ISAP could do". We would encourage the authors of the ISAPs to keep this goal in mind.

We do see some benefit of having ISAPs on ERM, and we therefore answered "yes" to both questions 1 and 2. However, it may be preferable to deliver at least some of the guidance on these topics, especially those contemplated under ISAP[5], in the form of IANs rather than as ISAPs.

Topics specific to ERM: The statement of intent for ISAP[5] proposes nine topics to be in scope. Of the proposed topics, several seem to be of general nature in actuarial work, not specific to ERM models, and may already be sufficiently covered by ISAP 1; for example: data quality, assumption setting, model validation, assumption, and model review. Item 5 of the above-referenced "Criteria" document provides that specific issues should be included in an ISAP only if other ISAPs do not already provide sufficient guidance. We therefore conclude that ISAP[5] would focus on certain aspects that are deemed to be unique to ERM models; for example, finding data and setting assumptions for extreme tail events, confidence levels for capital/solvency analyses, and issues around strategic and operational risk events that are not commonly analyzed in more traditional actuarial work.



4. What other topics should be included in these ISAPs?

Please cover why you wish guidance in this area and if appropriate provide an example to illustrate the issue. Also please indicate in which of these two ISAPs such guidance should be placed. Please note that ISAPs are not intended to address unique, country-specific issues. Member associations and local actuarial standard setting organizations could address such issues by providing additional guidance to their members as the ISAP is adopted, or adding such additional guidance within the local adaptation of the ISAP.

ERM Terminology: The language of risk management is often misused and misunderstood. Common vernacular should be established, with meaningful definitions, leading to greater clarity when key terms are used. For example, the terms “risk appetite”, “risk limit”, and “risk tolerance”, in the absence of definitions, can lead to confusion regarding the amount of risk deemed appropriate for an entity or an individual risk. We propose the development of a glossary of ERM terms, either as part of ISAP[6] or as part of a more general glossary of actuarial terms.

Risk Identification: The draft statement of intent for ISAP[6] makes mention of “Risk identification”; however, it remains rather unclear as to what is meant by this. Consideration might be given to different forms of identification, specifically the types of processes that could be used to generate a risk register, to narrow that broader set of risks down to those that are material, and to ensure that the identified risks are “refreshed” periodically to allow for the contemplation of emerging risks. We propose that ISAP[6] contain high-level descriptions, with the details outlined in an IAN.

Risk Measurement: The draft statement of intent for ISAP[6] has listed within its scope an item for “Techniques for quantification of various types of risk”. Understanding what techniques are available is useful, and certainly should be part of such a document; however, there may be an opportunity to address when certain techniques should be employed. For example, scenario analysis, sensitivity testing, and reverse stress testing are basic risk quantification



Comments on draft Statement of Intent to Issue ISAPs [5] and [6]

techniques, but guidance on when to use one over another would likely be helpful. Admittedly, some of this may be better suited to an IAN.

Risk Mitigation: ISAP[5] could address if and how risk mitigation programs would be reflected in ERM models. An IAN could expand on the advantages and limitations of various methods to do so.

Risk Reporting: To the extent not covered by ISAP 1, this topic would be relevant to both ISAPs and could address things such as ERM-specific considerations about communication to stakeholders regarding model design, model usage, model validation, risk appetite, risk policies, risk controls, and various other instances of communication intended to foster buy-in and improving an entity's risk maturity.

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Type of response	<input type="checkbox"/> Personal <input checked="" type="checkbox"/> Organization

IMPORTANT:

Please check if the relevant check boxes are ticked appropriately and save the file renamed with the organization's or individual's name (e.g., SOI_CommentTemplate_[NAME].Doc). E-mail the file as an attachment to SOI.ISAPs5-6.comments@actuaries.org, with "ERM" in the e-mail header.