



Deadline: 31 March 2016

Please use this template to comment on the [Exposure Draft of ISAP 5 on Insurer Enterprise Risk Models](#), and the proposed revisions to the [Glossary for ISAP 5](#).

The IAA invites comments on this Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

- (a) Comment on the questions as stated;
- (b) Indicate the specific paragraph or group of paragraphs to which they relate;
- (c) Contain a clear rationale; and
- (d) Include any alternative that the IAA should consider, if applicable within the scope of the [Statement of Intent for ISAP 5](#).

Identification and instructions		
Name of Individual:	Please indicate if your comments are personal, or represent your organization:	Robert Berendsen, Chairperson of the CIA's Committee on International Insurance Regulation. robert.berendsen@oliverwyman.com Comments represent those of the organization.
Name of organization		Canadian Institute of Actuaries
Disclosure of comments:	Please indicate if your comments should be treated as confidential, and if so why:	
Instructions for filling in and sending the template	Please follow the following instructions for filling in the template: <ul style="list-style-type: none"> ⇒ Do not write in the yellow shaded cells ⇒ Write in the white cells ⇒ When commenting on a specific paragraph: <ul style="list-style-type: none"> ○ Please use a separate row for each paragraph, sub paragraph, or bullet. ○ Please include the full reference in the first column such as "Introduction 3rd paragraph 2nd bullet" or "2.6.1.b.ii" ○ Please insert/append extra rows as needed. Please send the completed template, renamed with the organization's or	



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	individual's name, attached in <u>Word Format</u> , to ISAP5.comments@actuaries.org	
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	Specific Questions asked by the ASC	Response
Q1.	Is the guidance clear and unambiguous? If not, how should it be changed?	Generally clear, except as noted below.
Q2.	Is the guidance sufficient and appropriate? If not, how should it be changed?	Generally appropriate, except as noted below.
Q3.	Is it clear how the guidance in the proposed ISAP relates to the guidance in ISAP 1 and ISAP 1A? If not, how should it be changed?	Yes.
Q4.	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?	Generally at the right level of detail, except as noted below.
Q5.	Are there other matters that should be included in this standard? Are there some included here that should not be?	

	General Comments on the ISAP 5 Exposure Draft	



Comments on specific paragraphs of the ISAP 5 Exposure Draft		
Full paragraph reference	Change proposed to the paragraph (markup preferred)	Reason the change is needed (can be kept very brief or left blank if obvious from the change)
2.1.3	<p>Relationship between the organization’s financial strength, risk profile, and risk environment as identified in 2.1.1. above, and the organization’s risk management framework and approach system as identified in 2.1.2. above.</p> <p>“If in the <u>actuary</u>’s <u>professional judgment</u>, a significant inconsistency exists, then that inconsistency should be reflected in the risk assessment and disclosed in the <u>report</u> as outlined in 3.1;</p>	<p>The word “system” may not be sufficiently clear, and we suggest replacing it with “framework and approach” to more clearly define the intent. The word “system” could be misconstrued as meaning an information technology (IT) environment, whereas the intent of this paragraph is much broader.</p> <p>We also suggest forward referencing the reporting requirements.</p>
2.2	<p>Proportionality—In applying <u>ISAP 1</u> paragraph 1.5.2. Principle of Proportionality, the <u>actuary</u> should also consider proportionality in respect of the nature, scale and complexity of the underlying risks.</p>	<p>Already covered in ISAP 1. The detail provided in this paragraph would be more appropriately included in accompanying educational material</p>
2.3.1, last sentence, after c.	<p>The <u>actuary</u>’s assumptions should normally reflect, as a starting point, the actual situation as of the <u>valuation date</u>, modified for any known future changes.</p>	<p>Original text doesn’t seem to allow an enterprise risk model to use assumptions that stress the actual situation, which would clearly be contrary to a principal objective of an enterprise risk model.</p>
2.4.1, opening paragraph	<p>When constructing a <u>stress test</u> or <u>scenario test</u> for insurer enterprise risk models, the <u>actuary</u> should be satisfied that the assumptions are reasonable by obtaining information from appropriate sources, such as. Potential sources may include:</p>	<p>The original wording of “such as” could be misconstrued as a “checklist” of requirements to be audited. The new proposed wording conveys that the list is not intended to be all-inclusive but rather to convey the idea that it “could include, but is not limited to”.</p>



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2.4.1, last sentence	The assumptions used for a stress test can be considered reasonable only if the impact of the stress(es) applied is significantly adverse to the insurer and the occurrence of the stress(es) is plausible.	The original text may suggest the requirement also applies to scenario tests, which it should not.
2.5, last sentence	The actuary should assess the reasons for and the impact of using multiple models and multiple stress tests or scenario tests and provide a reconciliation of explain any material differences.	
3.1.1	Any significant inconsistency that exists between the organization’s financial strength, risk profile, and risk environment as identified in 2.1.1. and the organization’s own risk management framework and approach system as identified in 2.1.2. (2.1.3.);	As in 2.1.3, the work “system” may not be sufficiently clear, and we suggest replacing it with “framework and approach”.
3.1.2 through 3.1.4	<i>We propose to combine these three paragraphs under the current 3.1.4. A suggestion is the the following:</i> The significant assumptions used in the stress test or scenario test , including justification for those assumptions in relation to experience data and the actions assumed to be taken by management (2.3.2, 2.4.2.a.);	
3.1.6	An appropriate reconciliation explanation of any material differences if multiple models and multiple stress tests and scenario tests are used by the entity (2.5.), or if the specification of a given stress test or scenario test is changed from one valuation date to the next.	



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Comments on specific definitions in the Exposure Draft of the updated Glossary

Note that only the proposed revisions are open for comment

Defined Term	Change proposed to the definition (markup preferred)	Reason the change is needed (can be kept very brief or left blank if obvious from the change)