

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](#).

<b>Identification and instructions</b>		
Name of Individual:	Please indicate if your comments are personal, or represent your organization:	<b>Ralph Blanchard and Kevin Madigan, on behalf of the Casualty Actuarial Society – IAA Response Committee</b>
Name of organization		<b>Casualty Actuarial Society</b>
Disclosure of comments:	Please indicate if your comments should be treated as confidential, and if so why:	<b>Okay to make public</b>
Instructions for filling in and sending the template	Please follow the following instructions for filling in the template: <ul style="list-style-type: none"> <li>⇒ Do <b>not</b> write in the yellow shaded cells</li> <li>⇒ Write in the white cells</li> <li>⇒ When commenting on a specific paragraph:               <ul style="list-style-type: none"> <li>○ Please use a separate row for each paragraph, sub paragraph, or bullet.</li> <li>○ Please include the full reference in the first column such as "Introduction 3<sup>rd</sup> paragraph 2<sup>nd</sup> bullet" or "2.6.1.b.ii"</li> <li>○ Please insert/append extra rows as needed.</li> </ul> </li> </ul> <p><b>Please send the completed template, renamed with the organization's or individual's name, attached in <u>Word Format</u>, to <a href="mailto:ISAP5.comments@actuaries.org">ISAP5.comments@actuaries.org</a></b></p>	

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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?	No. See our comments below.
Q2.	Is the guidance sufficient and appropriate? If not, how should it be changed?	Yes
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?	No. See our comments below.
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?	Almost. See our comments below.
Q5.	Are there other matters that should be included in this standard? Are there some included here that should not be?	No.

	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)
5th paragraph in the preface, starting with "This ISAP is binding upon an actuary ..."		Should be deleted to be consistent with recent decisions to avoid mention of ISAPs applying to individual actuaries.

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1.3	Delete the following sentence: “	Inconsistent with the recent discussions/decisions of the ASC with regard to mentioning individual actuaries asserting compliance.
2.1	2.1. Understanding of Risk and Uncertainty –The actuary should have, or obtain, sufficient understanding	The deleted phrase is not guidance. It is superfluous.
2.1.1	2.1.1. Information about the business model, financial strength, risk profile, and environment of the organization that is relevant to the assignment ...	Should include info/understanding about the relative strengths/weaknesses and business model of the organization. Environment normally means things external to the organization, but the actuary should also understand the organization itself, including business model, organization and structure. Unless an actuary understands the business model of an organization, they risk making suggestions that run counter to the purpose of the organization.
2.1.3	2.1.3. 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 system as identified in 2.1.2. above ...	If paragraph 2.1.1 is changed, as recommended in the comment on that paragraph, then this paragraph would need to see a similar change in the highlighted wording.
2.2	In applying ISAP 1 paragraph 1.5.2., the actuary should also consider proportionality in respect of the nature, scale and complexity of the underlying risks .	ISAP 1 does not label this paragraph “Principle of Proportionality”, hence the suggested deletion.  There is also some confusion in practice as to the meaning of the words “nature, scale and complexity”, as some have used these words in the Solvency II context as direction to do less for small and specialized companies, with the implication that such is the full extent of the required application of those words. As a result, the words in ISAP 1, paragraph 1.5.2 are preferred over the words in this paragraph. Suggest rewording to point the reader to the ISAP 1

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		paragraph with no further paraphrasing.
2.3.1		<p>This ISAP deals with ERM, which includes scenario and stress testing. Such testing is meant to reflect possible future situations that are different from what is current or “known future changes” – i.e., to test for what might be but also might not be in the future. The wording suggested for deletion seems to be inconsistent with such scenario/stress testing.</p> <p>The subsequent paragraph of the ISAP deals specifically with scenario and stress testing. If paragraph 2.3 is meant to just cover the base scenario then this should be clarified.</p>
2.3.2	2.3.2. When probability distributions are incorporated into a model, the actuary should be satisfied that the assumed distributions are appropriate but also consider the possibility of plausible extreme values. When appropriate, the reasonableness of the assumed distribution should be measured against historical data.	<p>The wording suggested for deletion seemed to be inappropriate when testing for situations that have not existed in the past. For example, it would seem to preclude scenarios that reflect possible climate change impacts. If not deleted then these words at least need clarification for the testing of possible new situations and changing conditions.</p> <p>We suggest additional wording to address measurement against historical data, when appropriate, although this may need further clarification (i.e., clarifying when this would be appropriate).</p>
2.4.1	The assumptions can be considered reasonable only if the occurrence of the stress(es) is plausible.	Sometimes the result of the stress testing is discovery that the subject entity is relatively immune or unaffected by the stress in question. The wording suggested for deletion seems to ignore that possibility. If not deleted, then at least some clarification of the

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		wording in question is needed.
2.4.2	2.4.2. <b>In relation to the stress test or the scenario test the actuary should disclose:</b>	Does this disclosure requirement apply for all stress tests performed, or only for those where the results are reported? We think the latter, but this implies the former. (Stress testing may involve informal testing on a simplified basis, with more formal and comprehensive testing only performed for those items or situations that result in larger impacts. Hence not all stress testing performed may be worthy of complete disclosure.)
2.5.2	Multiple models and multiple stress tests or scenario tests are often developed for the same entity (e.g. <b>accounting requirements, regulatory valuation, risk evaluation to determine capital needs</b> ).	It is not clear what the highlighted examples are referring to. More clarification is needed. (Suggested wording was not provided due to uncertainty as to the intent of the current wording.)
2.5.2	The actuary should assess <b>the reasons for and</b> the impact of using multiple models and multiple stress tests or scenario tests and provide a reconciliation of any material differences between the various models or test results.	Is the assessment as to the reasons for using multiple models a step prior to the choice to use multiple models? This would seem logical. If so, suggest breaking this paragraph into two pieces – the prior decision as to whether or not to run multiple models and the later reporting on the differences (if any) between the model results.  Additional wording is also suggested at the end of the paragraph to improve clarity.
3.1	3.1. Disclosures in the Report – In addition to complying with ISAP 1 Section 3. Communication, if the actuary completes a report the report should contain the following disclosures:	ISAP 1, Section 3 does not always require a report.



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3.1.1	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. <b>and the organization’s own risk management system</b> as identified in 2.1.2. (2.1.3.);	This wording is asking about inconsistencies between financial strength and a system? Was the intent to address inconsistencies between the entity and the assumptions about the entity in its risk management system (rather than in the system itself)? Please clarify. Among our group we had multiple interpretations of this language.
3.1.2	3.1.2. The <b>reconciliation between experience data and potential extreme adverse values</b> in the risk models and stress tests and scenario tests (2.3.2.);	Is this asking for explanations as to the underlying causes of the extreme values? The current wording is unclear. We also wonder how experience data can be reconciled to a potential extreme value when performing stress testing, especially when experiencing changes in the environment (such as due to climate change). Please reword. (Note also our concern with the wording in 2.3.2. To the extent that paragraph changes, this paragraph may need corresponding changes.)
3.1.3	3.1.3. The <b>reconciliation between the experience data and the incidence of multiple extreme events</b> in the enterprise risk model (2.3.2.);	Once again, the word “reconciliation” doesn’t seem appropriate here, as the experience data wouldn’t reconcile with extreme values from events not seen in the history. Please reword.

**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
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		brief or left blank if obvious from the change)