



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:	Our comments represent the organization
Name of organization		Financial Reporting Council
Disclosure of comments:	Please indicate if your comments should be treated as confidential, and if so why:	Our comments should be treated as public
Instructions for filling in and sending the template	<p>Please follow the following instructions for filling in the template:</p> <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. <p>Please send the completed template, renamed with the organization's or individual's name, attached in <u>Word Format</u>, to ISAP5.comments@actuaries.org</p>	

	Specific Questions asked by the ASC	Response
Q1.	Is the guidance clear and unambiguous? If not, how should it be changed?	The guidance is generally clear. We have highlighted a few places where we consider clarification of the wording would be helpful (eg section 2.3.2).
Q2.	Is the guidance sufficient and appropriate? If not, how should it be changed?	Generally yes. We have made some detailed points relating to specific paragraphs and below given alternatives for the IAA to consider.
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. We have highlighted one area (section 3.1) where ISAP 1 is referred to and ISAP 1A is not. We have also identified where we consider the proposed requirements are more generic than for risk modelling (section 2.1.4) Due to the similarity of the work and its purposes we have commented that it would be desirable to have the same standards for stress testing, scenario testing and risk models (section 2.4).
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?	In general it is at the right level. We have commented where we consider there is too much detail (section 2.1.3).
Q5.	Are there other matters that should be included in this standard? Are there some included here that should not be?	It is important for the user to understand where risk modelling assumptions include caution or optimism so it may be helpful to include this in the standard.



General Comments on the ISAP 5 Exposure Draft	
	<p>We consider that the word “enterprise” is not necessary in the name or the scope of this standard as requirements could equally apply to risk modelling that is not enterprise-wide, or that models just an individual risk item (eg insurance risk).</p> <p>We support the scope including the development and use of risk models, and the inclusion of risk metrics. We agree that other more qualitative aspects of the risk framework should be out of scope.</p>

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)
1.2	<p>This standard will apply to actuaries when performing actuarial services involving the development and use of enterprise risk models for regulatory purposes, including stress tests and scenario tests, to assess solvency and produce risk metrics for ERM programs of both group and solo insurance entities. These models are generally categorized as those that aid in evaluating risk to an organization (risk evaluation models) or those that are used to develop appropriate levels of capital (capital models).</p>	<p>We support the scope including the development and use of risk models, and the inclusion of risk metrics. We agree that other more qualitative aspects of the risk framework should be out of scope.</p> <p>For risk modelling for internal purposes to support commercial decisions it is important that the requirements on the actuary are not overly burdensome.</p> <p>We consider that the word “enterprise” is not necessary in the scope as requirements could equally apply to risk modelling that is not enterprise-wide, or that models just an individual risk item (eg insurance risk). If the term ERM is to be used it would be helpful for it to be defined in the glossary.</p>



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2.1	Understanding of Risk and Uncertainty – To be confident in performing the actuarial services, the <u>actuary</u> should have, or obtain, sufficient understanding of the nature of risk and uncertainty in relation to the subject of the <u>work</u> .	We consider that it is important for the actuary to obtain sufficient understanding of the risk for many reasons not just to be confident in performing the work and that the words “To be confident in performing the actuarial services” are not necessary and can be deleted.
2.1.3		We were not clear of the purpose of this point. It appears overly detailed as it is just one of many things that could be considered.
2.1.4	Intended purpose and uses of the model.	We consider this point is generic to actuarial modelling and not specific to risk modelling and hence should sit in ISAP 1 rather than in ISAP 5
2.3.1	<p>When choosing assumptions for inclusion in the insurer enterprise risk model, in addition to following <u>ISAP 1</u> paragraph 2.7. Assumptions and Methodology Set by <u>Actuary</u>, the <u>actuary</u> should consider the following:</p> <ol style="list-style-type: none"> Likely management actions and experience with past history of management actions; Contractual requirements, approval process, timing, and past experience; and Relevant factors outside of management control such as tax rates <u>and</u> regulatory requirements, Other relevant matters <p>The <u>actuary</u>'s assumptions should normally reflect the actual situation as of the <u>valuation date</u>, modified for any known future changes.</p>	<p>Policy “language” to us means whether the policy is written in English / French etc. The term policy “wordings” is clearer <u>but we consider is not needed as it is covered by contractual requirements. We are unclear why the approval process is relevant and what timing refers to.</u></p> <p>We consider that there are many factors outside of management control and that only the relevant ones need to be considered. <u>Reserving requirements could be deleted as they are a subset of regulatory requirements.</u></p> <p>The list is not exhaustive and it may be important for the actuary to consider other matters so we have suggested the addition of consideration of other relevant matters.</p>

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2.3.2	When probability distributions are incorporated into a model , the actuary should be satisfied that the assumed distributions are appropriate, taking account of factors such as relative to historical data, but should also consider the possibility of plausible extreme values. The actuary should also consider the co-dependencies of probability distributions possibility of simultaneous in extreme stressed scenarios values from multiple probability distributions .	It may not always be appropriate to be satisfied that assumed distributions are appropriate taking account of historical data as other matters may be more relevant in a changing world. The exposure draft wording is not clear that co-dependencies are to be considered.
2.4	Stress Testing and Scenario Testing are types of risk modelling and hence the requirements in ISAP 1 and ISAP 1A apply. The remainder of this section could potentially be deleted.	We consider that stress and scenario testing is a form of risk modelling and hence that the requirements for stress testing and scenario testing should be the same as the requirements for risk modelling or this could be considered when validating the model.
2.4.1	When constructing a risk model , stress test or scenario test for insurer enterprise risk models , the actuary should be satisfied that the assumptions are reasonable The assumptions can be considered reasonable only if the impact of the stress(es) applied is significantly adverse and the occurrence of the stress(es) is plausible.	See our comments to 2.4 above. We do not consider that this is correct. For example an insurer could have a hedged position and so the impact of stresses may not be significantly adverse.
2.4.2	In relation to the stress test or the scenario test the actuary should disclose: a. The significant assumptions used in the stress test or the scenario test , including the actions assumed to be taken by management; and b. Any known limitations of the stress test or the scenario test and an assessment of the potential impact of these limitations	See 2.4 above. We consider that stress and scenario testing is a form of risk modelling and hence that the requirements for stress testing and scenario testing should be consistent with the requirements for risk modelling.

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	on results.	
2.5	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.	It is unclear what is required by a reconciliation in the final sentence. Stress tests and scenario tests may be used as a validation of a complex model and it may be overly onerous to provide a full reconciliation.
3.1	<i>Disclosures in the Report</i> – In addition to complying with ISAP 1 Section 3. Communication and ISAP 1A Section 3. Communication , the actuary should disclose	Compliance with ISAP 1A is also assumed for compliance with ISAP 5
3.12	The reconciliation between experience data and potential extreme adverse values in the risk models and stress tests and scenario tests	We consider that an explanation of the rationale and validation of the assumptions is more appropriate
3.13	The reconciliation between the experience data and the incidence of multiple extreme events in the enterprise risk model	We consider that an explanation of the rationale and validation of the assumptions is more appropriate
3.14	The significant assumptions used and any probability distributions adopted in the stress test or scenario test , including the actions assumed to be taken by management and the rationale for their selection . Insert new para under existing 3.14 A description of the validation of the risk model and the underlying assumptions.	
3.1.5	Any known limitations of the risk models and stress tests or scenario tests and an assessment of the potential impact of these limitations on results (2.4.2.b.);	We consider this is more generic and that limitations for modelling and stress and scenario testing should be communicated. We note that the requirement in ISAP 1A 3.1 relates to communication of limitations and uncertainty. We



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		consider that stress and scenario testing is a form of risk modelling and hence that the requirements should be the same.

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)