



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:	David Bell (comments represent those of my organisation)
Name of organization		Institute of Actuaries of Australia
Disclosure of comments:	Please indicate if your comments should be treated as confidential, and if so why:	No
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>	



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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?	See general comment 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?	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?	Yes
Q5.	Are there other matters that should be included in this standard? Are there some included here that should not be?	References to 'risk metrics' are fairly brief and perhaps, as a result, some gaps arise – for example, reviewing the consistency of messaging resulting from risk metrics and other metrics reported across the organisation.

	General Comments on the ISAP 5 Exposure Draft	
	The scope of ISAP 5 relates to models used for solvency and risk metrics, but there is little detail on solvency models and the section on communication is almost exclusively on stress and scenario testing. Feedback from some of our practice areas was that this was confusing and that, as a result, ISAP 5 was possibly missing the mark. Hence we consider that there would be benefit from greater clarity on the purpose, scope and desired outcomes of the standard.	



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 section states that “this standard will apply to actuaries when performing actuarial services involving the development and use of enterprise risk models...”. Actuarial services, in turn, are defined as “services based on actuarial considerations”. There is no definition of “actuarial considerations”.</p> <p>The Professional Standards Committee of the Institute of Actuaries of Australia is currently reviewing ISAP 1 with the aim of adopting it with appropriate amendments as required. The scope of ISAP 1 is also defined by reference to actuarial services/actuarial considerations, and we are finding that this latter term in particular means quite different things to different people. This is proving to be a major stumbling-block with our review of ISAP 1, and we see similar issues arising in relation to ISAP 5.</p> <p>We understand and appreciate that the use of the terms “actuarial services” and “actuarial considerations” is intended to narrow the scope of the standards to actuarial matters (and thereby avoid competitive disadvantage in situations where actuaries compete with non-actuaries). However, in the context of ISAP 5, this could be taken to mean that an aspect of ERM work that does not involve actuarial considerations (such</p>



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		<p>as, for example, operational risk) is out of scope. It is not clear to us that this would make sense or that this is the intended outcome.</p> <p>We do not have a solution to propose at this stage, but wish to highlight our deep concern with the lack of clarity around the terms actuarial services/actuarial considerations and the potential uncertainty that this creates for actuaries in the application of ISAPs.</p>
2.4	Stress testing	The standard implies that the actuary is determining stress tests by themselves, rather than this being a collaborative effort with the rest of the business. The expectations placed on the actuary should reflect this.
3.1.2 and 3.1.3	<p>3.1.2. The reconciliation between how the experience data and potential extreme adverse values in the risk <u>models</u> and <u>stress tests</u> and <u>scenario tests are compatible</u> (2.3.2.);</p> <p>3.1.3. The reconciliation between how the experience data and the incidence of multiple extreme events in the enterprise risk model <u>are compatible</u> (2.3.2.);</p>	A “reconciliation” can be interpreted to mean that there is a numeric proof that relates one item to the other (eg reconciling a bank account). Since extreme adverse values are unlikely to be in the experience data (almost by definition), then such a proof is too high a burden.
2.4.1	Define, or provide guidance on the terms „significantly adverse“ and „plausible“.	The concluding sentence of this section uses the terms “significantly adverse” and “plausible”. We suggest that these terms be defined or that guidance be provided on how they should be interpreted.
2.5	If the actuary is aware that multiple models are in use within the entity, the actuary should make it clear which models have been used for the current purpose and provide a statement to the effect that he/she is unable to comment on whether the other models produce consistent results (unless a reconciliation of the models has been undertaken).	This section requires an actuary to assess the reasons for and the impact of an entity using multiple models and to provide a reconciliation of material differences. A principal may or may not want such an assessment undertaken, and it may



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		not be relevant in all circumstances.
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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)
Scenario Test	Scenario Test (ISAP 5) – A process for assessing the impact of one possible event or several simultaneously or sequentially occurring possible events on an organization’s financial position <u>or capacity to operate its business.</u>	Scenario tests can also give insights into wider aspect of the business than just the financial position. It could highlight operational risks, strategic risks, dependencies.