



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:	
Name of organization		<b>Institute and Faculty of Actuaries</b>
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	<p>Please follow the following instructions for filling in the template:</p> <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</b></p> <p><a href="mailto:ISAP5.comments@actuaries.org">ISAP5.comments@actuaries.org</a></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?	<p>No. The guidance should distinguish more clearly between solvency and ERM. Both are referred to in the introduction but the stated aims are all about ERM.</p> <p>Also, the definition of models covered in the Introduction does not seem the same as that described in section 1.2.</p>
Q2.	Is the guidance sufficient and appropriate? If not, how should it be changed?	<p>The guidance is relevant but as noted in Q1 it is focused on ERM. We believe that just as there is a need for ISAP 5 on ERM for insurers, there may be a need for another ISAP on solvency modelling for insurers. Some content might be common to both documents – for example, the models used for pricing and business planning.</p>
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?	<p>The relationship between ISAP 5 and ISAP 1/1A is not very clear. We suggest that much of the content of ISAP 5 could usefully be included in more generic form in ISAP 1A, which looks thin and without context in comparison e.g. it does not mention scenario testing.</p> <p>The flow of ISAP 1 to ISAP1A and then to ISAP</p>



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		5 does not look logical or consistent in the level of detail.
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?	The guidance is more detailed than that given in ISAP 1A, which is helpful. However, the list in 2.4 looks too long/specific and is inconsistent with the high level principles (e.g. why specify economist?). The list could be simplified to relevant management/senior staff at the company, the company's business plan/prior risk and solvency assessments, legal requirements, and external subject matter experts. Much rests on the judgement of the actuary, as noted in ISAP 1.
Q5.	Are there other matters that should be included in this standard? Are there some included here that should not be?	Yes - under "Understanding of Risk and Uncertainty" there is no reference to the external environment and risks that the organisation cannot control.

	General Comments on the ISAP 5 Exposure Draft	
	<ol style="list-style-type: none"> <li>1. ISAP 5 is to be considered in the context of ISAP 1 and ISAP 1A.</li> <li>2. ISAP 1 provides guidance to actuaries when performing actuarial services. It applies to all actuarial services and is broad ranging in scope.</li> <li>3. ISAP 1A is about the governance of models - it is very high level and is to be used in the context of ISAP 1.</li> </ol>	



4. We have responded separately to the ED of ISAP 1A. In our view it would benefit from some expansion and context, especially to comment about ensuring that assumptions are appropriate and reasonable.
5. The IFoA believes that some of the content of ISAP 5 relates to generic modelling, whereas it is intended to be specific to insurance company solvency and risk metrics for insurance company programs. Some of this generic content might have been better placed in ISAP 1A, especially the essentials of the sections covering "Understanding of Risk and Uncertainty" and "Assumption Setting", provided it does not incorporate too much expectation on the actuary working with simple models. This would make a more logical structure of ISAP 1 (generic actuarial services) leading to ISAP 1A (generic modelling) and ISAP 5 (insurance company specific modelling).
6. ISAP 5 focuses on enterprise risk modelling, although the Introduction refers in addition to solvency modelling, for insurance companies. The last paragraph of the Introduction sets out aims that are all about ERM but it is not clear if they include solvency and capital models, such as Standard Formula solvency calculations. These aims include (a) facilitating convergence of standards for actuarial practice in relation to ER models, (b) increasing public confidence in actuarial services for ERM purposes and (c) demonstrating commitment to achieving good insurer ERM internationally.
  - 6a The Introduction could note that although actuaries have a key role in ERM, it is beneficial for ERM teams to be multi-disciplinary to avoid one perspective dominating.
7. If modelling activity in insurance companies is strongly biased towards solvency as opposed to ERM, emphasising ERM modelling in this document might be seen as an attempt to promote actuaries to be recognised in the ERM space in insurance companies by developing and encouraging related standards, rather than as a helpful guide about how to handle modelling for insurance companies.
8. We suggest that ISAP 5 should focus on insurance company modelling as a whole, differentiating clearly between solvency and ERM and making clear how they are related. For example, is one a subset of the other?
9. If there are formal requirements for ERM modelling for insurers, separate from solvency, in different jurisdictions, then it might



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	then be appropriate to have an additional document (ISAP 5A?) on insurance company ERM modelling.
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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)
2.3.1	Section 2.3.1 seems to imply that the actuary should always consider management actions when setting assumptions. The draft should clarify if this is proposing a more prudent approach than under Solvency II, which would require the actuary to justify their inclusion.	
2.3.2	Section 2.3.2 requires the actuary to consider the relevance of distributions to historical data, but if the model's purpose is to reflect risk, then this only makes sense to the extent that the past is indicative of the future. We would like to see more consideration about the degree to which distributions reflect expected future experience, not past experience.	
2.4.1	We have a concern that the definition of "significantly adverse" in 2.4.1 is rather vague and could cause concerns about evidencing compliance with that requirement.	
2.5	We would question the extent to which 2.5 could be enforced. In companies with large numbers of models it does not seem feasible for "the actuary" to know about them all. It would seem more appropriate to ensure that the purpose of the model is clearly described so that if another user is aware of a different model then they can easily compare and decide which is best for their particular use.	
3.1.3	3.1.3 seems to suggest a rather granular "bottom-up" approach to explaining the model. Whilst such input might be useful it is important not to lose sight of the outcomes being conveyed.	



<b>Comments on specific definitions in the Exposure Draft of the updated Glossary</b>		
<b>Note that only the proposed revisions are open for comment</b>		
<b>Defined Term</b>	<b>Change proposed to the definition (markup preferred)</b>	<b>Reason the change is needed (can be kept very brief or left blank if obvious from the change)</b>