



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		Society of Actuaries in Ireland
Disclosure of comments:	Please indicate if your comments should be treated as confidential, and if so why:	Comments are not required to be treated as confidential
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</p> <p>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?	The guidance is clear.
Q2.	Is the guidance sufficient and appropriate? If not, how should it be changed?	
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?	
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?	
Q5.	Are there other matters that should be included in this standard? Are there some included here that should not be?	The topic of validation of ERM models could be considered in this ISAP also.

	General Comments on the ISAP 5 Exposure Draft
	<p>The definition of “Actuary” is simply “An individual member of one of the member associations of the IAA”. There is no recognition of the level of seniority or of the level of responsibility/ownership of the ERM model.</p> <p>The ISAP is written assuming the actuary can independently choose assumptions and stress tests whereas this would be the case only where the Actuary is the “owner” of the model and/or the ERM function. However, the actuary (including a junior unqualified actuary) may be working under the instruction of another person who may or may not be an actuary and who is ultimately responsible for the ERM model.</p> <p>The ISAP places a responsibility to reconcile the model in question to other models / stress tests developed by the same company. This is a reasonable requirement if these models are also within the actuary’s sphere of responsibility. However there may also be models where the actuary may have had no input in their design, calibration or use.</p>



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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)
1.2 Scope		While the aims in paragraph 1.1 are not questioned, this ISAP should apply to the most senior actuary in a team with clear responsibility for supporting an ERM process. As written it applies to all actuaries, whatever their seniority, role or responsibility.
2.3.1	<p>When <u>responsible for</u> choosing, <u>or advising on the choice of</u>, 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> <p>....</p> <p>The <u>actuary</u>'s <u>chosen, or advised</u>, assumptions should normally reflect the actual situation as of the <u>valuation date</u>, modified for any known future changes</p>	<p>The ISAP is written assuming the actuary can independently choose assumptions whereas this would be the case only where the Actuary is the "owner" of the model and/or the ERM function.</p> <p>The proposed markup recognises this fact.</p>
2.4.1	<p>When <u>responsible for</u> constructing, <u>or advising on the construction of</u>, 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:</p>	<p>The ISAP is written assuming the actuary can independently choose stress and scenario tests whereas this would be the case only where the Actuary is the "owner" of the model and/or the ERM function.</p> <p>The proposed markup recognises this fact.</p>



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2.4.1	<p>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.</p>	<p>This paragraph is written under the assumption that stresses and scenarios are always intended to be “significantly adverse”. This may or may not be the case depending on the purpose of the stress test.</p> <p>For example, the purpose of a scenario test may be to see how the company’s capital position would respond to a new line of business, a different investment policy or reinsurance arrangement. These would be reasonable scenarios to run but would not necessarily be significantly adverse.</p> <p>Perhaps the base definitions of Stress Test and Scenario Test should make it clear that these are intended to mean “significantly adverse situations”. Other less severe model runs would not then be in the scope of 2.4.1.</p>
2.5	<p>Assessing Consistency Among Models– <u>The actuary is often responsible for multiple models and multiple stress tests or scenario tests are often developed for the same entity</u> (e.g. accounting requirements, regulatory valuation, risk evaluation to determine capital needs).</p> <p>The <u>actuary</u> should assess the reasons for and the impact of using multiple <u>models</u> and multiple <u>stress tests</u> or <u>scenario tests</u> and provide a reconciliation of any material differences <u>between the models under his or her responsibility</u>.</p>	<p>The ISAP places a responsibility to reconcile the model in question to other models / stress tests developed by the same company.</p> <p>This is a reasonable requirement if these models are also within the actuary’s sphere of responsibility.</p> <p>However there may also be models where the actuary may have had no input in their design, calibration or use.</p>
3.1	<p>Disclosures in the Report – <u>Where the actuary is responsible for reporting on or contributing to the report, on an enterprise risk model, in addition to complying with ISAP 1 Section 3. Communication, the actuary should disclose in the report:</u></p>	



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	Report (ISAP 1, 2, 3, 5) – The <u>actuary's communication(s)</u> presenting some or all results of <u>actuarial services</u> to an <u>intended user</u> in any recorded form, including but not limited to paper, word processing or spreadsheet files, e-mail, website(s), slide presentations, or audio or video recordings.	
3.1.6	An appropriate reconciliation of any material differences if multiple models and multiple stress tests and scenario tests <u>under the actuary's responsibility</u> are used by the entity (2.5).	
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)