



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:	Orginazation
Name of organization		Royal Dutch Actuarial Association
Disclosure of comments:	Please indicate if your comments should be treated as confidential, and if so why:	Our comments don't have to be treated 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>	



	Specific Questions asked by the ASC	Response
Q1.	Is the guidance clear and unambiguous? If not, how should it be changed?	<p>No, the standard is somewhat generally formulated and therefore not always clear and unambiguous.</p> <p>We recommend to:</p> <ul style="list-style-type: none">- To add a good definition of Enterprise Risk Models in the standard and Glossary, e.g. “models which assess solvency and produce risk metrics for ERM programs” and a brief introduction of the different kind of models which are used for this purpose. See for example the distinction between risk evaluation, economic capital and emerging risk models as described in ASOP46.- To add separate guidance on each of the models defined in so far this has not already been captured in ISAP1A. This includes, but should not be limited to a brief description of the different methods and more specific guidance on assumption setting that is very relevant for that specific model.- We also recommend to check the recent IAA publication Actuarial Aspects on ERM for Insurance Companies (January 2016) for elements that could be included in the



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		standard.
Q2.	Is the guidance sufficient and appropriate? If not, how should it be changed?	<p>No, we believe the information is very limited. An important source used for this standard is ASOP46, which contains much more detailed information, which makes the standard better to understand.</p> <p>We recommend to add more guidance like in ASOP46.</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>No, written in this way articles like 2.3 (Assumption setting) and 2.5 (Assessing Consistency Among Models) refers to guidance which could also be applicable to other actuarial models as well and it could be considered to record this as well in ISAP1A.</p> <p>We recommend to make a more clear distinction between minimum model development requirements which should be recorded in ISAP1A and requirements which are very specific for Enterprise Risk Models which should be recorded in ISAP5.</p>
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?	No, see also Q2 and Q5.
Q5.	Are there other matters that should be included in this standard? Are there some included here that should not be?	<p>We would like to add the following items to the standard:</p> <ul style="list-style-type: none"> - This ED focuses very much on scenario and stress testing in some more detail and not on any other ERM models, especially capital models.



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		<ul style="list-style-type: none"> - For capital models we expect guidance on all the known model requirements as in Solvency II. At a minimum we expect a reference to Solvency II. - Expert judgements with a link to common or best industry practice. This is referenced in 2.4.1. With respect to model development and assumption setting the description of used expert judgements is an important topic to address.
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	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)
1.1	This ISAP provides guidance to actuaries when performing actuarial services involving the development and use of models which assess solvency and produce risk metrics for ERM programs of insurance entities.	Why limit the standard to insurance entities, as many actuarial work is also performed for pensions and more recently also other sectors of the industry? If the scope must be limited to insurance entities, then we suggest to add this to paragraph 1.2 on the scope.
1.1	Results are in line with legislation and regulation	We suggest to add to the bullet list this requirement as many models are used for



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		regulatory purposes.
1.3	References in ISAP 1 and ISAP1A to “this ISAP” should be interpreted as applying equally to this ISAP 5, where appropriate.	Suggest to add for consistency “and ISAP1A”
2.1.1 and 3.1.1	Information about the financial strength, risk profile, risk appetite and environment of the organization that is relevant to the assignment;	Risk models are often used to assess if the risk profile is within the limits of the risk appetite
2.1.2	Information about the organization’s own risk management system including its attitude to the assumption of risk as relevant to the assignment	It is not clear to us what is meant here. Is it risk appetite, risk classification?
2.1.3	If in the actuary’s professional judgment, a significant inconsistency exists, then that inconsistency should be reflected in the risk assessment and in the report	This almost seems like performing an ORSA. It is not clear to use why this is relevant for the Enterprise risk model which is developed.
2.3.1	Internal policies and requirements	We suggest to add to the bullet list this requirement as many organizations have internal policies and requirements in place for assumption setting.
2.3.2	When probability distributions are incorporated into a model, the actuary should be satisfied that the assumed distributions are appropriate relative to historical data but also consider the possibility of plausible extreme values. The actuary should also consider the possibility of simultaneous extreme values from multiple probability distributions. A precondition is that the actuary should also assess if the historical data used are a good representation of the future risk profile.	Internal and external changes can make the data less representative for assessments of the future risk profile.

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)
ERM		Definition is missing
ERM Models		Definition is missing
Stress test	<p>A process for measuring the impact on an organization's financial position of adverse changes in one or relatively few factors affecting an organization's financial position-specific factor, multiple factors or a scenario.</p>	<p>The definition for stress test doesn't make clear the relationship between a scenario and a stress test as described in the IAA paper on Stress Testing and Scenario Analysis (July 2013) which clearly shows that not only relate to a single factor/few factors but also that an adverse but plausible scenario is also a form of stress testing. We therefore suggest to change the definition to reflect this fact.</p> <p>The difference between scenario and stress testing is not clear and not consistent with definitions used by others. The way it is now worded in the ISAP is not in line with other definitions. As a result, we suggest to consider these in ISAP5. For example, the definition of scenario testing in ISAP5 is quite similar to the definition of stress test in the ECB 2014 stress test: (quote)" The common methodology and underlying assumptions cover a wide range of risks including: credit and market risks, exposures towards securitisation, sovereign and funding risks. To ensure consistency, the methodology is restrictive and rests on a number of key constraints. These include a static balance sheet assumption, which precludes any defensive actions by banks, prescribed approaches to market risk and securitisation, and a series of</p>



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		caps and floors on net interest income, risk weighted assets (RWAs) and net trading income.
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