



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:	<b>Samuel Achord, FIA CERA (UK) – individual/personal submission</b>
Name of organization		
Disclosure of comments:	Please indicate if your comments should be treated as confidential, and if so why:	<b>Comments not confidential</b>
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?	Yes, N/A.
Q2.	Is the guidance sufficient and appropriate? If not, how should it be changed?	Very good and very nearly. Please see response to Q5.
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?	This is clear. I would add an explicit reference to ISAP 1 section 2.7.2 within ISAP 5 section 2.5.
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, right level of detail.
Q5.	Are there other matters that should be included in this standard? Are there some included here that should not be?	ISAP 5 is very good. However, it is lacking in two areas: (1) policyholder behaviour (and similar, difficult to model, difficult to quantify risks) and (2) the importance of coherently incorporating qualitative risks into the ERM models. The latter point has to do with using ERM models for Internal Models (Solvency II and Economic Capital), in ERM and day-to-day risk management, for the ORSA, and for business planning and strategy. For ORSA et al, qualitative risks will need to be brought into the discussion, perhaps into the modelling, ERM models, risk models, etc.
	<b>General Comments on the ISAP 5 Exposure Draft</b>	
	None	



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	<p>Add an additional letter:</p> <p>"d. Policyholder behaviour, if applicable, and interactions with points (a) to (c) above. If policyholder behaviour is not modelled, then this should be disclosed (3.1.6)"</p>	While this could be included in letter c, it is worth mentioning explicitly. It is more akin to a than c.
2.3	<p>Add a new subsection 2.3.3 (this expands 2.3.2 when considered under a different paradigm, namely using Bayesian networks with past data, etc):</p> <p>"The actuary should be satisfied that the assumption setting process:</p> <p>a. Incorporates relevant and sufficient past historical data;</p> <p>b. Incorporates current understanding of the situation being modelled;</p> <p>c. Incorporates current expectations of future experience; and</p> <p>d. Provides a suitable range of values/outcomes to serve the intended purposes."</p>	
2.3	<p>Add a new subsection 2.3.4 to discuss the inclusion of qualitative risks:</p> <p>"The actuary should ensure coherent inclusion of qualitative risks within the Enterprise Risk Models, as needed and as appropriate, especially risks for which continuous probably distributions are not well-defined, risks for which discrete probability functions are used and appropriate, and risks for which discrete probability functions are only estimates (i.e. do not meet data or calibration standards).</p> <p>Coherent inclusion of such qualitative risks may require understanding by the actuary of uncertainty around such risks and the downstream effects of the methods</p>	It is a important distinction to make in recognising that risks which are difficult to quantify will still need to be incorporated into risk and ERM models, and that this poses potential problems especially if those risks are incorporated blindly into the process(es).



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	chosen for inclusion (e.g. risk of spurious accuracy when a qualitative risk is incorporated naively into a Monte Carlo risk capital model)."	
2.4.2	<p>Insert a new letter between 2.4.2 (a) and (b), which would explicitly require a bit of narrative about the SSTs:</p> <p>"b. The nature of the interactions or dependencies which have been assumed among the components of the stress test or scenario test; and"</p>	This is for the benefit of other actuaries and users of model output/documentation. It would also provide for a useful feedback loop: increased understanding can be incorporated into the SSTs in future iterations.
3.1.5	<p>Add a new subsection between 3.1.5 and 3.1.6, about communicating policyholder behaviour:</p> <p>"3.1.6 Any known limitation due to the modelling, or lack thereof, of policyholder behaviour and an assessment of the potential impact of these limitations on results (2.4.2 a, b and c)"</p>	For some of the major products (in the EU and UK), some of the major risks/uncertainties arise from policyholder options and guarantees. For this reason, it is important to mention policyholder behaviour explicitly.

**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)
None		