

IAA Final Review Consultation for ISAP 5

Review period – 18 August 2016 to 18 September 2016

Responses Received

	Organization	Comments	Date Received
1.	Institute of Actuaries of Korea	<p>We have reviewed the proposed final ISAP 5 and we have no objection to it. This is an opinion from the Risk Management Committee of the IAK.</p> <p>Regards, Youngdo Park, Senior Researcher at IAK</p>	9 September 2016
2.	Canadian Institute of Actuaries	<p>The Canadian Institute of Actuaries (CIA) is the national organization and voice of the actuarial profession. The Institute is dedicated to serving the public through the provision, by the profession's 5,200+ members, of actuarial services and advice of the highest quality. In fact, the Institute holds the duty of the profession to the public above the needs of the profession and its members. The CIA would like to offer the following comment on the proposed final (PF) version of ISAP 5, dealing with insurer enterprise risk models. We are pleased with the changes made to the ISAP 5 exposure draft (ED) in arriving at this PF ISAP 5. The changes adequately alleviate the concerns we had raised in our feedback on the ED. We have no further comment. The CIA hopes that its comments provided herein will be of value to you. Please feel free to contact me if you have any questions or require any clarifications.</p> <p>Sincerely, Dave Dickson CIA President</p>	12 September 2016
3.	Casualty Actuarial Society	<p>Greetings,</p> <p>This comment is on behalf of the Casualty Actuarial Society (CAS), based on our review of the Final Consultation documents related to the draft of ISAP 5 on Insurer Enterprise Risk Models. CAS submitted quite a number of comments on an earlier draft of ISAP 5, and we are pleased to note that quite a few of the issues we raised in those comments have been addressed in the current draft. We appreciate the opportunity to comment, and we</p>	16 September 2016

appreciate that the comments are reviewed and considered very thoughtfully.

We are concerned that issues we raised in several areas have not been addressed. We do not mean that they have been ignored; we realize that your team reviewed and considered them. But we believe these issues warrant another look by your team. 2.2 Proportionality. The new language addresses some of the earlier CAS comments, but still includes the phrase “nature, scale and complexity of the underlying risks.” Our earlier submission of comments noted the potential unintended consequence that this phrase may be misinterpreted to mean: “Do less, if the insurer is small and specialized.” And we suggested then (and suggest now), the solely cross-referencing ISAP 1 paragraph 1.5 would be a straightforward way to avoid this unintended consequence. □ 2.4.1 seems to imply that the disclosure requirement applies to all stress/scenarios that were performed, but it seems to us that it really should only apply only for those tests where results are reported. Clearer language would clarify this point. □ 3.1 our comment noted that ISAP1 Section 3 does not always require a report, and suggested a refinement to the draft language here: “if the actuary completes a report the actuary should disclose in the report...”

In reviewing the current draft, we also noted two areas where we had questions rather than comments: 2.3.3 talks about probability distributions. Does there need to be a corresponding (though different) paragraph for situations where scenario testing is used? 2.3.2.c language seems to imply that stress testing or scenario testing might or might not be performed. Should there be a stronger direction to indicate that the use of the ERM model should include stress testing or scenario testing?

Finally, we noted a few wording issues in the new draft of ISAP5: 2.1.1 refers to “insurers.” It seems it should be “insurer” 2.3.2 says the actuary should “obtain” information from appropriate sources. Should the wording perhaps be “obtain and examine.” The point is that the actuary should do something with the information, not just store it in a filing cabinet to prove that it was obtained.

		<p>We hope that these comments will be of assistance in finalizing ISAP5.</p> <p>On behalf of the CAS, submitted by Bob Conger, CAS Delegate to IAA Council</p>	
4.	Society of Actuaries in Ireland	<p>The Society of Actuaries of Ireland is satisfied with the proposed draft. Many thanks.</p> <p>Kind regards, Emily O’Gara, Manager of the Professional Affairs</p>	16 September 2016
5.	Canadian Actuarial Standards Board	<p>Thank you for providing us with the opportunity to comment on the proposed Final ISAP 5 on Insurer Enterprise Risk Models and the accompanying Glossary. This response reflects the views of the Canadian Actuarial Standards Board. On a general note we found the changes from the exposure draft very extensive and wondered if a re exposure would be in order. However, we also have very few comments and found these to be of high quality so this is more of an observation than a concern. In the Proposed Final ISAP 5:</p> <ul style="list-style-type: none"> • In Paragraph 2.3.3 at the start of the paragraph the terms ‘distributions and correlations’ is used whereas at the bottom ‘distributions and their related codependencies’ is used. We don’t understand why different terms are used to describe the same concept. <p>In the accompanying glossary:</p> <ul style="list-style-type: none"> • We find the definition of model somewhat ambiguous. It may not be sufficiently clear that a single model may have many model runs. Controls for the inputs and outputs of each run are needed, but validation is not. It is easier to clarify this when using the UK/Cdn/(and until recently US) terminology of distinguishing of model specification, model implementation and model realization/run. Then one can state clearly that a model will have one or more model runs determined by distinct sets of input. It is also not clear "that simplify a more complex system" is intended to modify "methodologies" only, and not "assumptions, data, and methodologies". <p>We suggest this definition could be changed to something like - "A model has a specification, uses methodologies that simplify a more complex system, and requires a set of assumptions and data for each</p>	18 September 2016

		<p>run which produces results that are intended to provide useful information on that system."</p> <p>Tyrone Faulds, Chair of the CASB</p>	
6.	Svenska Aktuarieföreningen	<p>Svenska Aktuarieföreningen has no further comments on "Proposed Final ISAP 5 on Insurer Enterprise Risk Models".</p> <p>Regards, Jan Åke Persson Chairman of Svenska Aktuarieföreningen</p>	18 September 2016
7.	Institut des Actuaire (France)	<p>Thank you very much for this new submission, the final draft was distributed to our working group and we did not receive any new comments.</p> <p>We also reviewed how our comments were taken into account and outcome is deemed reasonable.</p> <p>Given timing of our working group meetings we will formalise the closure of this review in the next days only with recognition that any additional feedback would be post deadline.</p> <p>Kind regards, Elsa Renouf for the Institut des Actuaire (France) working group on Actuarial Standards</p>	18 September 2016
8.	Polish Society of Actuaries	<p>The Polish Society of Actuaries welcomes the proposed ISAP and has no comments to its contents.</p> <p>Yours sincerely, Jacek Skwierczyński, President</p>	18 September 2016
9.	Italian FMA Istituto degli Attuari and Ordine degli Attuari	<p>I am answering on behalf of FMA Istituto degli Attuari e Ordine degli Attuari.</p> <p>I wish to thank much both the TF colleagues and the colleagues who sent comments on the ED for their worthwhile work.</p> <p>We have read carefully all the documents. In the Consultation Report several principles points and intents are better explained (focus on Insurer Enterprise Risk models, Solvency Modelling and Enterprise Risk Modelling,.....) We then haven't problems with the</p>	18 September 2016

		<p>final draft's wording and we think the TF has appropriately considered the comments.</p> <p>One comment: the TF thinks that some matters (description of different modelling techniques, motivation of ERM models, references to common "best practice".....) are more appropriately addressed in Educational Notes. We fully agree with the TF but we think that the EN should have to be available concurrently.</p> <p>Best regards, Carla Angela</p>	
10.	Royal Dutch Actuarial Association	<p>Below you will find 2 responses on ISAP 5 submitted by the Dutch Actuarial Association.</p> <p><u>Original Response (submitted 20 September 2016):</u> <u>ISAP5</u></p> <p>The Royal Dutch Actuarial Association has reviewed the final draft of ISAP5, especially on the follow up on our comments made. We appreciate in this respect that a Report on Treatment of Comments has been provided with an extensive feedback on the comments provided. Our overall conclusion is that the standard has made some limited improvements, but the guidance provided is still not sufficient and appropriate. We therefore do not support the standard in its current form. We believe that the amount and quality of the guidance is too limited for a standard of the IAA.</p> <p>More specific:</p> <ul style="list-style-type: none"> - We believe that the standard should be improved on readability and guidance provided. We miss a clear description on what ERM models are and more specific guidance on each of the models which can be distinguished. We believe that ISAP1 and ISAP1A should provide the general guidance with respect to modelling, whereas ISAP5 had value added if it contains further guidance for a specific set of ERM models. The content recorded is in our opinion not sufficient for this purpose. We again refer to ASOP46 where for example a distinction is made between economic capital models in general and more specific scenario- and stress testing and more specific guidance is recorded which we generally support. Furthermore, in our opinion this line of thinking is supported by the definition that 	20 September 2016

has been added to the standard on an Enterprise Risk Model which also clearly mentions that this standard is applicable to a specific set of models: “Those models that are developed to comprehensively and consistently evaluate the risks of an entity. Examples include internal models as specified by the International Association of Insurance Supervisors (IAIS), and capital models.”

- In the response to our comment it is mentioned that ASOP46 is for broad applications of all ERM models, whereas ISAP5 is designed specifically for insurance entities. We don't understand this argumentation. This standard is also called Enterprise Risk Models and the fact that the industry scope is narrower does not mean that any requirements as mentioned in ASOP46 should not be applicable to insurers.

For making the necessary changes we are willing to assist you in improving the standard to the sufficient level.

Kindly let us know if you have any further questions.

With kind regards,

Monique Schuilenburg | International coordinator

Subsequent response (submitted 30 September 2016):

Dear colleagues,

We hereby send you - as discussed in the call of Monday on the final draft of ISAP5 - our updated response. We again would first like to express our thanks for your written response to our comments as recorded in the Comment Template on ISAP5 which you shared for the call, the good discussion in the call on Monday in which we both shared our views on the draft standard and finally the response to the mail with two questions on this matter we sent earlier this week. All helped us in better understanding the motivation of the Task Force on the choices made in the standard.

Our overall conclusion is that, given the explanations on the choices made, we support the standard, but at the same time we would also like to have a discussion in the IAA on the minimal requirements and criteria to be applied with respect to the content of standards within the IAA including a discussion on the different

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views on what is considered educational. We therefore would like to accept the invitation mentioned in the call to further discuss this in the IAA.

More specific:

- We concluded that the discussion on this final draft standard is not a discussion on specific elements that should or should not be added, but is more a discussion of what the minimum requirements and criteria are for a good standard of the IAA.
 - o We understand that important criteria which have been applied are: (1) IAA standards are model standards for all standard-setting bodies around the world and each country can adopt or add guidance to the standard, (2) the guidance should be applicable in all member countries, (3) educational material that can be provided in International Actuarial Notes and other IAA material is excluded and (4) the standards of the IAA complement each and therefore duplication of guidance included in other standards is avoided.
 - o As mentioned we would like to have a further discussion in the IAA on the minimal requirements and criteria used for standards including a discussion on the different views on what is considered educational. We believe it really adds value if the minimal requirements and criteria are further elaborated and documented. This is important as in general standards are important for the professionalism of the actuarial profession and more specific this will help in ensuring consistency and the quality of the standards.
 - o As we sometimes also observe different opinions and expectations on some other standard documents of the IAA we believe it should be considered to also evaluate the overall document hierarchy within the IAA on standards, International Actuarial Notes (IAN, educational notes), white papers, monographs and perhaps also the status of the Risk Book where clear criteria for each of them could be defined, as all these documents have a close relationship with each other.

		<p>For example, we didn't understand why the IAN on ERM in the final stage was turned into a white paper. We believe that clear criteria for all of these documents will contribute to the consistency between these documents and will support the manageability of the different projects on several of these documents in the IAA, therefore a better utilization of resources and in the end better documents with clear references between them for the actuaries to be used in their work.</p> <ul style="list-style-type: none"> - Important for our overall conclusion is also the fact that the standards are presented as model standards, where each association is free to make any changes. As done before we would like this to be stressed in the communication to the member associations. In the adoption process of the standard in The Netherlands we intend to use this option to further enhance the standard for our purpose. <p>As always we are available should you have any additional questions.</p> <p>With kind regards, On behalf of the Dutch representatives involved Monique Schuilenburg International coordinator</p>	
11.	Financial Reporting Council	<p>Thank you for the opportunity to comment on the final draft of the Exposure Draft for ISAP5. I am responding on behalf of the Financial Reporting Council.</p> <p>We are pleased that our suggestions have been considered and amendments have been made to reflect most of them.</p> <p>We have no further comments on this draft.</p> <p>Kind Regards, Ann Muldoon</p>	22 September 2016

12.	Institute and Faculty of Actuaries	<p><u>ISAP 5</u></p> <p>We have considered the responses provided by the ASC/Task Force to the points raised in the IFoA's consultation response and accept that the ASC has provided proper reasons for not accepting some of those suggestions.</p> <p>In particular, while the IFoA's response suggested that ISAP 5 might have a wider scope, we accept that the ASC has given a reasoned explanation as to why that suggestion has not been adopted.</p> <p>There are, however, a couple of comments that we felt it might be useful to raise at this stage:</p> <p>(i) The IFoA's consultation response suggested that consideration might be given to the introduction of an ISAP on solvency modelling as well as the one for ERM. The comments indicate that this would be put to the ASC but it would be useful to understand the outcome of the ASC's consideration of that proposal (if that consideration has now taken place).</p> <p>(ii) The response also provided specific comment on 2.3.1 and observed that this seemed to imply that the actuary should always consider management actions when setting assumptions. It was suggested that the drafting of this section might be amended to clarify if this is proposing more prudent approach than under solvency II (which would require the actuary to justify their inclusion). There does not appear to be any changes made to section 2.3.1 to reflect this comment and there is also no response from the ASC/Task Force. It would be helpful to understand the ASC's response to those comments.</p> <p>Submitted on behalf of the IFoA.</p> <p>Tim Werkhoven, Head of Public Affairs</p>	27 September 2016
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