



Deadline: 28 February 2018

Please use this template to comment on the [Exposure Draft of ISAP 6 on Enterprise Risk Management Programs and IAIS Insurance Core Principles](#), and the proposed revisions to the [Glossary for ISAP 6](#).

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 6](#).

	<b>Identification and instructions</b>	
Name of Individual:	Please indicate if your comments are personal, or represent your organization:	
Name of organization		<b>Financial Reporting Council</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 <a href="mailto:ISAP6.comments@actuaries.org">ISAP6.comments@actuaries.org</a></b></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?	We agree that the guidance is in general clear, unambiguous and at the sufficient level of detail.
Q2.	Is the guidance sufficient and appropriate? If not, how should it be changed?	
Q3.	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?	We have made some specific suggestions in a number of areas where we feel making changes to the wording or adding further detail would make the guidance more effective.
Q4.	Are there other matters that should be included in this standard? Are there some included here that should not be?	Other than the changes detailed below we do not believe that there are other matters which should be included or excluded from the standard.

	General Comments on the ISAP 6 Exposure Draft
	<p>In this section we have made general comments about the standard's format and overall style and made two suggestions for additional points to be included. Where we have specific suggestions for wording changes these are dealt with in the section below.</p> <p><u>Overall</u></p> <ul style="list-style-type: none"> <li>We are generally supportive of the standard and consider that all of the points included would be helpful for an actuary working in ERM.</li> <li>We note that the local standard setters will need to be aware of the local equivalent regulation covering the principles in ICP8 and ICP16 and make the necessary changes to the standard.</li> <li>The standard uses the terms "risk management system" and "ERM framework" in different sections which actuaries may find confusing. We recognise that these are terms used in ICP8 and ICP16; it may be helpful if the standard referenced the description of the terms in ICP8 and ICP16 and explain the differences between them. ICP 8.0.4 articulates what it means by risk management system and ICP16 articulates what is meant by enterprise risk management.</li> </ul>



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- The standard uses the term “ERM process” in 2.1. ICP 8 describes the risk management system and its components and ICP16 describes ERM and refers to the ERM framework, which this standard also refers to in 2.4.2. We suggest that the actuary should be familiar with both the insurer’s risk management system and ERM framework to have a comprehensive understanding. We also suggest that it would be helpful to use consistent terminology rather than introducing another term “ERM process”.
- The standard introduces the term “ERM program”. In line with our observation on “ERM process” and the use of consistent terminology we suggest that it may be helpful to use risk management system and ERM framework as alternatives.
- We consider that the format of the standard whereby the factors to consider are set out in bullet points under each main requirement will make it easy for actuaries to identify the activities in which they are involved and the factors which they should consider. However, it may be helpful to highlight/embolden the verbs in each of the subsections (e.g. identifying in 2.3.1) to help the readability of the standard.

#### Additional Points

- We consider that it would be helpful for the standard to include a recommendation that actuaries who have responsibility for, or are involved in, parts of the ERM process but not its entirety should confirm the extent to which the scope of their work includes the topics listed in each of the sub-sections. This could be included in Section 2.2 to ensure the actuaries’ work is proportionate to their agreed responsibilities. We suggest the following wording: *“Where the actuary has responsibility for, or is involved in parts of the ERM framework, but not all of it, the actuary should confirm with the user the extent to which the scope of his or her work includes the topics addressed within the sub-sections 2.3, 2.4 and 2.5.”*
- In addition to the bullets a) to h) in section 2.3.3, we consider that it would be helpful to add a further bullet on the appropriateness of the governance and escalation processes around the controls. We suggest the following wording: *“The existence and effectiveness of the governance procedures and escalation protocols in the risk management system.”*



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Comments on specific paragraphs of the ISAP 6 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)
2.1	<p><u>Change from:</u> Understanding of Insurer’s ERM Process</p> <p><u>Change to:</u> Understanding of the Insurer’s risk management system and ERM framework</p>	<p>ICP 8 describes the risk management system and its required components; risk management strategy, appetite, processes and policies.</p> <p>ICP 16 then describes ERM and refers to the ERM framework, which this standard also refers to in 2.4.2.</p>
2.1	<p><u>Change from:</u> The actuary should have, or obtain, sufficient understanding of the ERM system of the insurer....</p> <p><u>Change to:</u> The actuary should have, or obtain, sufficient understanding of the <b>risk management system</b> and <b>ERM framework</b> of the insurer...</p>	<p>We suggest that the actuary should be familiar with both the insurer’s risk management system and ERM framework to have a comprehensive understanding.</p> <p>We also suggest that it would be helpful to use consistent terminology rather than introducing another term “ERM process”.</p>
2.3.1	<p><u>Change from:</u> An actuary who is responsible for, or significantly involved in, identifying insurer risks should consider factors including, but not limited to, the following:</p> <p><u>Change to:</u> An actuary who is responsible for, or significantly involved in, identifying <b>any or all</b> insurer risks should consider <b>all</b> factors including, but not limited to, the following:</p>	<p>We consider that the proposed revision makes it clearer that the actuary may be responsible for “any or all” of the risks identified and that they should consider all factors.</p>



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2.3.1.a	<p><u>Change from:</u></p> <p>The processes for collecting information and whether the skill base of staff is adequate to understand and identify the risks;</p> <p><u>Change to:</u></p> <p>The processes for collecting information and whether <b>the staff have adequate qualifications, experience and training</b> to understand and identify the risks;</p>	<p>We consider that the staff which the actuary is being asked to assess may not report directly to the actuary making any direct assessment of the skill base of the staff impractical. Assessing the skill base of staff is also judgemental. It may be more practical to look at the qualifications, experience and training which are more easily measured.</p>
2.3.1.e	<p><u>Change from:</u></p> <p>The risks that may arise from possible changes in the business of the insurer (operations, markets, products) and from business conduct;</p> <p><u>Change to:</u></p> <p>The risks that may arise from <b>reasonably foreseeable</b> changes in the business of the insurer (operations, markets, products) and from business conduct</p>	<p>It is unclear whether the scope of the risk identification in 2.3.1 (e) and (g) is intended to include all possible risks or only those which are plausible or reasonably foreseeable.</p> <p>ICP 16.1.1 requires the identification of reasonably foreseeable risks.</p> <p>We consider that the suggested wording will make the extent of the identification clearer and consistent with ICP 16.</p>
2.3.1.g	<p><u>Change from:</u></p> <p>Whether the causes of, and events likely to give rise to, insurer risks and their consequences have been sufficiently identified;</p> <p><u>Change to:</u></p> <p>Whether the causes of, and <b>reasonably foreseeable</b> events likely to give rise to, insurer risks and their consequences have been sufficiently identified;</p>	



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2.3.2	<p><u>Change from:</u></p> <p>An <a href="#">actuary</a> who is responsible for, or significantly involved in, assessing the impact of the insurer’s risks should consider factors including, but not limited to, the following:</p> <p><u>Change to:</u></p> <p>An <a href="#">actuary</a> who is responsible for, or significantly involved in, assessing the <b>level of any or all of</b> the insurer’s risks should consider factors <b>for each risk</b> including, but not limited to, the following:</p>	<p>ICP 16.1.6 refers to the assessment of the <b>level of risk</b>, which is a combination of probability and impact.</p> <p>We suggest that this requirement is reflected here or alternatively that the wording is extended to include “probability” as well as impact.</p> <p>We consider that the additional proposed revisions make it clearer that the actuary may be responsible for the assessment of “any or all“ of the risks and that for each risk they should consider each of the bullets</p>
2.3.2.c	<p><u>Change from:</u></p> <p>The appropriateness of the <a href="#">enterprise risk models</a> that are used, as well as the <a href="#">stress testing</a>, <a href="#">scenario testing</a> and <a href="#">reverse stress testing</a> techniques that are applied;</p> <p><u>Change to:</u></p> <p>The appropriateness of the enterprise risk models that are used, as well as the <b>risk modelling</b>, stress testing, scenario testing and reverse stress testing that are applied;</p>	<p>ICP 16.1.6 includes reference to risk modelling in addition to the other terms included in this point.</p> <p>We suggest that it would reinforce that other methods of modelling risk may be appropriate and be more consistent with ICP 16.1.6.</p>
2.3.2.e	<p><u>Change from:</u></p> <p>The consistency among the various valuation methodologies underlying the ERM program;</p> <p><u>Change to:</u></p> <p>The <b>existence of appropriate valuation methodologies for all risks to be assessed</b> and the consistency among the various valuation methodologies;</p>	<p>The proposed wording makes clearer that the actuary should ensure that there is an appropriate methodology to assess the impact of all the insurer’s risks, and also the consistency of approach of the valuation methodologies</p>



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2.4.3.c	<p><u>Change from:</u>  <u>Stress testing and reverse stress testing should include changes in the group structure and the support that the insurer receives from other members of the group;</u></p> <p><u>Change to:</u>  <b>Risk modelling</b>, stress testing and reverse stress testing should include changes in the group structure and the support that the insurer receives from other members of the group;</p>	<p>ICP 16.1.6 includes reference to risk modelling in addition to the other terms included in this point.  We suggest that it would reinforce that other methods of modelling risk may be appropriate and be more consistent with ICP 16.1.6.</p>
2.5.1.i	<p><u>Change from:</u>  <u>The level of severity of the stress testing, scenario testing and reverse stress testing; and</u></p> <p><u>Change to:</u>  <u>The level of severity of the <b>risk modelling</b>, stress testing, scenario testing and reverse stress testing; and</u></p>	

**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)