



Comment Template

Draft Statement of Intent to issue International Standards of Actuarial Practice in relation to insurer ERM models and programs (ISAPs [5] and [6])

1. Do you agree an ISAP is needed on actuarial services in relation to insurer ERM models?

Yes

No

2. Do you agree an ISAP is needed on actuarial services in relation to insurer ERM programs envisaged by the IAIS's ICPs (particularly 8 and 16)?

Yes

No



3. Are any of the proposed topics inappropriate for inclusion in these ISAPs? If so, please explain why the particular topic should not be included.

Please find a letter enclosed.

4. What other topics should be included in these ISAPs?

Please cover why you wish guidance in this area and if appropriate provide an example to illustrate the issue. Also please indicate in which of these two ISAPs such guidance should be placed. Please note that ISAPs are not intended to address unique, country-specific issues. Member associations and local actuarial standard setting organizations could address such issues by providing additional guidance to their members as the ISAP is adopted, or adding such additional guidance within the local adaptation of the ISAP.

Please find our letter enclosed.



| | |
|-------------------------|--|
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| Type of response | <input type="checkbox"/> Personal <input checked="" type="checkbox"/> Organization |

IMPORTANT:

Please check if the relevant check boxes are ticked appropriately and save the file renamed with the organization's or individual's name (e.g., SOI_CommentTemplate_[NAME].Doc). E-mail the file as an attachment to SOI.ISAPs5-6.comments@actuaries.org, with "ERM" in the e-mail header.



13 June 2014

Secretariat
601-150 Metcalfe
Ottawa
ON Canada
K2P 1P1

Dear Nicole

Draft Statement of Intent to issue ISAPs 5 and 6

The IFoA supports the IAA's objective of promoting high standards in reporting of ERM work. It believes this can best be achieved by applying standards, where they are needed, to entities rather than restricting them to only actuaries. This will serve the public interest and represents sound business logic. The IFoA suggests that universal standards, perhaps relating to all relevant role holders, would be more appropriate than standards aimed solely at actuaries.

We recognise this may not be easy to achieve in the short term. However, if the proposed ISAPs are to be of maximum use in supporting the IAA's objectives, and to actuaries working in the field of ERM, we suggest three areas that will require careful consideration as the ISAPs are developed.

1. Scope of work covered by each ISAP;
2. Application (i.e. which bodies / people does each ISAP apply to); and
3. Interaction with other ISAPs.

Some issues that we believe the IAA will need to address under each of these headings are discussed below.

1. Scope (i.e. what activities / actuarial services does it apply to)

ERM is a multi-disciplinary activity, with most risk functions comprising of a mix of actuaries, quantitative analysts, statisticians, qualitative risk experts and business leaders. Therefore, actuaries may not be in the majority, or even the sole decision makers, within an ERM process. As can be inferred from ISAP1, it may not always be practicable for an actuary to follow an ISAP where others within the process (including the potential decision makers) are not bound by such requirements. For example, while high documentation standards represent good practice, it will not always be practical or cost effective to deliver these.

The IFoA notes that the IAA document 'Criteria to decide what issues are worthy of being included in an ISAP', states that an issue should only be included in an ISAP if "*it is primarily actuarial in nature – rather than primarily pertaining to another profession*". As outlined above, the IFoA considers that ERM is not primarily actuarial in nature. This recognition should support the appropriate application of high standards to only certain specified areas of ERM.

The IFoA proposes that any such standards should be specific in terms of the activities they apply to, for example:

- For work specifically circulated to the external third parties;
- Capital and solvency assessment reports; and
- Capital / risk model validation reports.

The IFoA suggests the IAA prepares, and then consults on, a complete list of the activities to which the standards will apply.

Any such standards could also helpfully provide a list of activities they do not apply to, for example:

- Internal papers not meant for external consumption, such as papers for discussion or to prompt debate; where the Board asks to see an exploratory paper by the actuary on a newly developing area to help the firm find its way forward. We consider that mandatory documentation standards, as proposed in these SOIs, may prevent the actuary from sharing such a piece of work with the Board, and make him less valuable. A current example is if the Board sought the views of the actuary on ways to implement a risk culture initiative within a firm's ERM framework;
- Papers on strategic risk, emerging risks; and
- Business continuity planning / crisis management, where the reality of the situation will be evolving rapidly and the focus needs to be on fixing the issue for the benefit of all parties, as opposed to, for example, ensuring the application of documentation standards set by an ISAP.

Alternatively, any ERM standard itself could allow the actuary to disclose when they have / have not followed the detail of certain sections, using a "comply or explain basis". This could be applied:

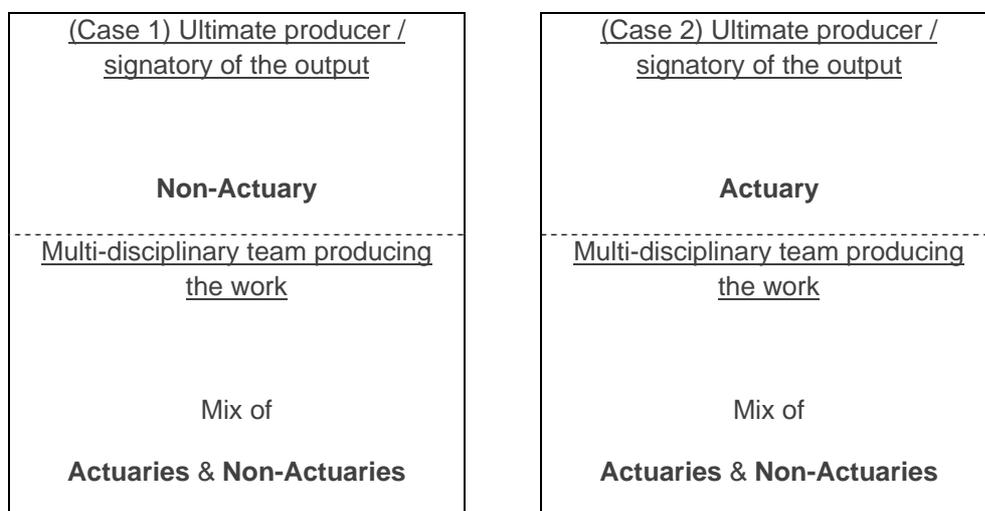
- sometimes at the judgement of the actuary.
- when the end user states that, for example in the interests of speed and creativity, they asked the actuary to dispense with the full detail.

The above options for flexibility should not however, be available for work that relates to control function activities in respect of formal reporting requirements to parties external to the firm, nor for review work supporting external reporting.

2. Application (i.e. which bodies / people does it apply to)

Most risk functions comprise a mix of people with different professional backgrounds, with members being drawn from the Institute of Risk Management (IRM), Association of Insurance and Risk Managers in Industry and Commerce (AIRMIC), Professional Risk Managers' International Association (PRMIA), Global Association of Risk Professionals (GARP) amongst other associations. Mandatory standards for actuaries alone could create a competitive disadvantage for actuaries relative to other professionals, and reduce their ability to contribute in the public interest.

In particular, the IAA standards could helpfully consider how they deal with the following situations:



In case (1) how does the signing non-actuary view the actuaries in the multi-disciplinary team producing the work who have to build in additional steps to finish their work compared to individuals from other professions?

In case (2) how does the signing actuary deal with the case if the non-actuaries in the multi-disciplinary team producing the work apply normal business as usual standards, or their own profession's standards, especially where such individuals may not report to the actuary?

The issues of how actuaries depend on work prepared for them by non-actuaries are not unique to risk management, but are particularly important here as a result of the cross disciplinary schemes and questions as to whether the issues are primarily actuarial in nature.

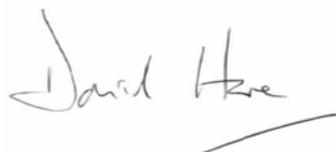
3. Duplication with ISAP1

Included in the outline contents at the end of Section 3 of both ISAPs are the topics of data, assumptions, models (methodology), and peer review. These topics all appear to be covered by ISAP1. We recommend that existing standards are not duplicated.

Any materials in ISAP 5 and 6 should be specific to ERM only. We note that most sections of the IAA's own document, "Comprehensive Actuarial Risk Evaluation (May 2010)", achieve this, i.e. they are specific to ERM only. In the interests of thought leadership, we consider it beneficial for the IAA to promote this work, albeit as best practice guidance rather than standards.

The IFoA is voting in favour of the IAA continuing its work to make preparations for introduction of ISAPs 5 and 6 because it supports the IAA's objective of promoting high standards in reporting of ERM work. However, as this letter has outlined, it does have a number of concerns that it wishes to see the IAA work through to enable the introduction of ISAPs 5 and 6 to be universally viewed as a positive development. Should you wish to discuss any of the points raised please contact Paul Shelley, IFoA Policy Manager (paul.shelley@actuaries.org.uk/ 07917604985) in the first instance. This response has been prepared with input from the Institute and Faculty of Actuaries' (IFoA) Risk Management Board, Regulation Board and International Board.

Yours sincerely,

A handwritten signature in blue ink that reads "David Hare". The signature is written in a cursive style with a long horizontal stroke at the end.

David Hare
President, Institute and Faculty of Actuaries