



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

Our view is that ISAP [5] is not currently **needed** (*emphasis on “needed”*).

However, many actuaries would welcome guidance (/high quality educational materials) on good practices in this area.

As a short-term alternative, we would strongly support the development of an IAN, to promote good practice whilst allowing the area of economic modelling to mature. This approach would facilitate the evolution of practice prior to the publication of an ISAP at a later date, if that was considered appropriate. In the meantime, the IAN, if positioned and promoted well, could be very effective in fostering high quality work. Moreover, it would not suffer from the negative connotations that could be associated with an ISAP, particularly if the ISAP is introduced prematurely (compliance burden, costs, risk of box-ticking, might restrict actuaries' competitiveness, etc). Consequently, an IAN may be more readily accepted by practitioners and stakeholders, and more readily applied both in letter and spirit. Also, it should be possible to introduce an IAN faster than an ISAP, and easier to update it over time.

The scope of the IAN could be as suggested for the ISAP. We would particularly welcome the inclusion of stress-testing and risk metrics within scope (as proposed for the ISAP), given their critical importance to decision making. Another area of emphasis might be the promotion of consistency in relation to regulatory capital calculations.



If ISAP [5] goes ahead, it should reflect the current diversity of economic modelling approaches and not go beyond setting out a framework and principles. It should not be so prescriptive as to discourage innovation or promote “group think”. It should recognise the principle of proportionality. It should also recognise that actuaries might not “own” the model, and assumption-setting will typically be a team effort with others, including non-actuaries.

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

Our view is that ISAP [6] is not currently needed.

We consider that the broad and comprehensive scope of ISAP [6] is ambitious - perhaps overly so, given that ERM practices are as yet immature and emergent.

We note that ICPs do not specify a broad ERM role for actuaries. We understand that in some jurisdictions actuaries are called upon to give an actuarial professional opinion regarding ERM programmes. Whilst Australia appears to be one example, this approach does not appear to be common amongst Supervisors. Furthermore, in Australia the “information note” available to actuaries has yet to be developed into a professional standard. With this in mind, ISAP [6] may be premature.

Consideration should be given to proceeding only with ISAP [5] or (our preference, as stated above) an alternative IAN, mindful that most of the areas identified in ISAP [6] would apparently also be covered by the IAN/ISAP [5], including:



- risk identification
- quantification
- aggregation
- measuring risk
- modelling risk
- differences between regulatory and economic capital.

Should ISAP [6] be pursued, it should note that the successful delivery of an ERM Framework relies on many and diverse Stakeholders. It should not overstate the role of the Actuary to the extent that the role of other key Stakeholders is diminished, most notably the role of the Board.

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.

ISAP [5]: We have a preference for an IAN rather than an ISAP. Subject to that, we do not consider any of the proposed topics to be inappropriate for inclusion.

ISAP [6]: As indicated above, we do not think there is a need for ISAP [6].

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.

ISAP [5] or (our preference, as stated above) an alternative IAN:

The aspects of practice identified appear sensible. Others areas to consider for inclusion include:



Comments on draft Statement of Intent to Issue ISAPs [5] and [6]

- application of the principle of proportionality
- the treatment of risks outside the scope of the model
- interactions between risks and dependency structures
- correlations between lines of business and how they should be measured and allowed for in the model
- tail aggregation / correlations
- model error and model uncertainty
- comparison of actuarial experience with expected
- frequency of model updates and how this may vary by risk type
- peer review
- communication of model results and the limitations of models
- regulatory constraints
- conflicts of interest
- definitions of common risk terms
- risk mitigation
- risk monitoring
- risk reporting

Perhaps the stated requirement of “Assessing consistency with the valuation bases” might be expanded to “Assessing consistency with the valuation bases, including those used in reserving, product pricing and reinsurance modelling”.

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