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.

a) ERM roles do not necessarily filled by actuaries. How do we manage different expectations from people outside the actuarial profession? What if there are diverging views from what ISAP proposes?

b) How do we draw a consistent view with ERM standards issued by other industry/professions (e.g. audit industry)?

c) With (a) and (b) above, we are generally of the view that guidance on wider ERM program would not be too useful because:

1) There are differing and sometimes inconsistent views outside actuarial profession on the expectation & deliverables of ERM framework & process;

2) The expectation and the structure of ERM program is likely to be different from industry to industry and rather unique from company to company (this means the ISAP would need to be rather generic in order to cater to wider application. But a very generic ISAP may not be too useful to the companies); and

3) The actuarial profession may not have the necessary expertise and reputation to set guidance notes beyond non-traditional technical/actuarial fields.

d) However, we think that guidance on specific technical areas such as Economic Capital Models and Stress Testing would be useful and areas where actuarial profession can provide some rather specific and value adding guidance.
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]

a) ISAP [5] explicitly mentioned enterprise risk models and stress and scenario tests as scope of the ISAP [5].

1) ISAP [5] stated that “enterprise risk models are those models that are developed for insurers to comprehensively and consistently evaluate risks”. This definition may be too broad as compared to that under Solvency II, where internal model refers to a model constructed by an insurer for the purpose of computing the capital requirements. In other words, the term “model” under Solvency II refers specifically to Economic Capital Model.

2) We suggest that IAA establishes a consistent understanding of the scope covered under enterprise risk model, i.e. does it go beyond an Economic Capital Model to include other enterprise-wide risk management software? For example, enterprise-wide software used for risk register (e.g., OpenPages, Q-Radar), or catastrophe models etc.

3) The Solvency Subcommittee of the IAA Insurance Regulation Committee has produced a Note on the use of Internal Models for Risk and Capital Management Purposes by Insurers in November 2010 (http://www.actuaries.org/CTTEES_SOLV/Documents/Internal_Models_EN.pdf). The contents are in fact very similar to the proposed scope of the ISAP [5]. IAA should consider incorporating the contents from the abovementioned Note into the ISAP [5] as appropriate.

ISAP [6]

a) ISAP [6] specifically covers ORSA related guidance. However, we need to be careful to balance between providing overly-prescriptive guidelines versus according companies with the flexibility to adopt/adapt their unique methodologies and process in managing their “own” risks under their ORSA program.
Comments on draft Statement of Intent to Issue ISAPs [5] and [6]

b) We suggest that ISAP [6] provides further guidance on the proper approach of performing Risk-and-Control Self-Assessment, which is an essential (yet often neglected) step to determining the key risk and control indicators within an organization.

c) The scope of ISAP [6] should also include risk governance and risk culture.

  a. Risk governance provides the overall structure, authority and oversight (i.e. “tone from the top”) for any ERM program to be rolled out effectively in any organisation.

  b. Risk culture, on the other hand, provides the means how an ERM program can be successfully implemented.

d) The scope of ISAP [6] should also cover risk appetite framework and how risk appetite can be cascaded to risk tolerance and limits. The risk appetite statement acts as the benchmark where the success of an ERM program would be measured against in an organisation. Therefore, guidance on setting risk appetite and monitoring risk tolerance and limits against companies’ risk appetite statement in a robust risk appetite framework would be crucial for a successful ERM program.

General

a) The goal/value proposition of ISAP should go beyond capital adequacy. Instead, the focus of ISAP should be providing guidance to companies to set up the right infrastructure for risk taking activities to enable long term sustainability in the business.

b) Some additional guidance on specific risk categories may be useful (e.g., operational risk, liquidity risk, group risk).

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<tr>
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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.