

Survey Results
Enterprise Risk Management ISAP - Draft Statement of Intent
May 30, 2012

Note: Individual written responses to the survey can be found on pages 2 through 10. Links to comments received in addition to those submitted on Zoomerang are given on page 9 of this document.

1. Do you agree that the IAA should produce a document at this juncture on ERM?

Yes		16	89%
No		2	11%
Total		18	100%
6 Written Responses			

2. If you answered "Yes" to question 1, what is the most appropriate form:

An International Standard of Actuarial Practice (ISAP), as proposed by the discussion draft of the SOI		8	44%
An International Actuarial Note (IAN)		6	33%
Some other form of publication (for example, a monograph or research paper)		3	17%
<i>Answered "No" to question 1 and responded to question 2 as N/A</i>		1	6%
Total		18	100%

3. Do you agree with the purposes of the proposed ISAP, as described in the discussion draft SOI?

Yes		14	78%
No		4	22%
Total		18	100%
6 Written Responses			

4. Do you agree with the topics proposed to be covered? Are there others you would add? Are there some listed there that you would delete?

18 Written Responses

5. Please provide the name of the person completing the survey, association and email address for further clarifications (if needed).

18 Written Responses

Individual Written Responses

Question 1. Do you agree that the IAA should produce a document at this juncture on ERM?	
Respondent	Response
Actuarial Society of South Africa	Will aid development of local standards, but must provide sufficient flexibility to local associations in developing guidance specific to each jurisdiction.
Society of Actuaries in Ireland	<p>It is not clear whether the proposed document is intended to address ERM practices in insurance (the list of topics under “Scope” is very insurance-oriented) or more widely (“The ERM ISAP will apply to all actuarial work in the areas of</p> <ul style="list-style-type: none"> •The evaluation and reporting of risk positions and •The treatment of risk within a control cycle”; “The development of a professional standard for ERM practitioners would help . . . throughout financial services and many other industry sectors”). <p>Either way, the list of topics proposed indicates the breadth and complexity of the subject. Moreover, even within the insurance sector, never mind more widely, there is significant diversity in the types of company that exist.</p> <p>We think that it would be extremely difficult, if not impossible, to develop an ISAP that would be reasonable and appropriate in all situations, especially as this is an evolving field. A further complication is that any one actuary might carry responsibility only for some aspects of the work covered by the ISAP.</p> <p>Rather than try to develop an all-embracing ISAP at this stage, we suggest that a series of IANs be developed on relevant topics - releasing them as they are completed, rather than waiting until all are ready. Over time, feedback on experience of working in accordance with the IANs could be very valuable in deciding whether it would be appropriate / possible to develop an ISAP or suite of ISAPs at a later date, at least for quantitative aspects of ERM work.</p> <p>We suggest IANs rather than, say, a monograph or research paper in order to indicate that they are formal and authoritative documents that have been approved by the IAA.</p>

<p>Institute of Actuaries of Australia</p>	<p>Whilst agreeing that a document relating to ERM should be produced, the Institute considers that an ISAP would not be appropriate at this time because:</p> <p>(a) the proposed scope is very broad in terms and, as such, it seems inevitable that there would be significant overlaps between such an ISAP and existing standards in areas like solvency and capital adequacy reporting and (for example) financial condition reports. Other parallel standards development work currently being undertaken under Solvency II would also seem to lead to inevitable overlap. The Institute considers it important to avoid conflict with other standards affecting the same entities and actuaries and, as such, considers that an IAN would deliver benefits to the profession and stakeholders but would not cause conflict;</p> <p>(b) the ERM subject area is still an emerging area of actuarial practice and therefore it might be said that practice has not yet stabilised to the point where standards can be drafted with confidence;</p> <p>(c) so few actuarial practitioners are presently operating in the true ERM space that the Institute considers that developing an IAN would be less costly and time consuming – and therefore more efficient – than developing an ISAP; and</p> <p>(d) since the profession's competitive position is still developing in ERM, it is important to consider the extra cost of a standard (to the customer) which might inhibit the profession's ability to develop that practice area.</p>
<p>Institute and Faculty of Actuaries</p>	<p>The Institute and Faculty believes that it may be beneficial for the IAA to produce a document on ERM at this stage. However, it does not believe that this document should be a mandatory or model standard.</p> <p>The need for a standard has not yet been satisfactorily demonstrated. Moreover, as the IAA will be aware, the broad scope and evolving nature of ERM work means that it is not simply confined to actuaries. Many other professions are involved. However, other professions do not necessarily have specific ERM standards to which their members must adhere. The Institute and Faculty is not convinced that actuaries should at this point be bound by a specific standard on ERM, or, if there is an appetite for such a standard, that the IAA and actuaries should be alone in driving the standard setting process. Working with other professions may be more effective.</p> <p>The Institute and Faculty believes that before the IAA considers further whether, and in what form, any standard or International Actuarial Note (IAN) might be issued (if that is what the feedback the IAA receives favours), the IAA should survey users of actuarial services to test their appetite for any standard in this area.</p>

	<p>Further to this, in its view, the Institute and Faculty’s Actuaries’ Code, complemented by relevant APSs, already provides reasonable coverage of actuarial work that may be categorised as ERM.</p> <p>Similarly other IAA associations have their own Codes of Conduct, as they are required to, compliant with the IAA criteria for such a Code. We also note the proposal for an Actuarial Standard of Practice on ERM from the Society of Actuaries, who are more developed in the ERM subject area in comparison to the Institute and Faculty. As the ERM practices of our members develop further, we would seek to learn from associations who are at a more advanced stage.</p>
Dutch Actuarial Association	We are the first profession with personal standards, and this is a big plus to promote our profession.
Financial Reporting Council	<p>Insufficient evidence to justify a specific standard or guidance at this stage. In line with the UK’s principles of good regulation, the FRC considers that standard-setters should follow a process that is demonstrably accountable, transparent, independent and focused on producing targeted standards that can stand the test of time. We consider that the Task Force should demonstrate first, with appropriate evidence, that there is a current need for either an ISAP or an IAN on ERM. We suggest that this evidence should include a clear description of the risks to the users of actuarial information concerning ERM which might be addressed through an ISAP or an IAN.</p> <p>We also suggest that the following information would be useful in order to justify a decision to commission work either preparing an ISAP or an IAN:</p> <ul style="list-style-type: none"> • An analysis of the work currently undertaken by actuaries in the field of ERM, and the risks to the users of actuarial information • A summary of the current standards that apply to the work of actuaries in ERM. Clearly local ethical and professional standards will apply concerning integrity, competence, impartiality, compliance and communication. In the UK, the FRC’s Technical Actuarial Standard (TAS) on insurance and its generic TASs on data, modelling and reporting already apply to much of the ERM work for insurance companies. • A summary of IAN-type material that is available to actuaries working in the field of ERM. This may include educational material or guidance produced by other bodies.
Question 3. Do you agree with the purposes of the proposed ISAP, as described in the discussion draft SOI?	
Respondent	Response

<p>Investment & Risk Committee, Actuarial Society of Hong Kong</p>	<p>The second point of the purposes stated that “In addition, many ERM practitioners were applying techniques that were often new and untested. Actuaries have a 100+ year history of providing assessments of many types of risk.” In the modern world of finance, risks are evolving and the risk management skills need to be evolving and adoptive as well. New techniques, by nature, are often untested. The above sentences seem to make an impression that actuaries only based on time-proven techniques and are not willing to start with new ideas / techniques.</p>
<p>Society of Actuaries in Ireland</p>	<p>We agree with the first, second and fourth purposes listed, and we believe that they would also apply if a series of IANs is produced instead of an ISAP. “Help to give certainty to managers and regulators” We feel that “certainty” is a very high aspiration, and stating this as a purpose could give an unrealistic expectation regarding what an ISAP (/ IAN) can achieve. Moreover, the second sentence of the paragraph on this purpose – “Actuaries who practice within a set of clearly articulated professional standards . . . will be relied upon more readily by managers and regulators . . .” - perhaps belongs more properly to the first purpose (“Help to increase public confidence in the ERM work of actuaries”). If the SOI proceeds, we suggest that the third purpose be restated as “Help managers and regulators to evaluate the quality of ERM work”, and that the second sentence of the descriptive paragraph be deleted (/ moved to the first purpose).</p>
<p>Institute of Actuaries of Australia</p>	<p>As noted in response to question 1, the Institute’s preference is for the development of an IAN rather than an ISAP. The Institute supports the general sentiments and themes of the purposes of the proposed ISAP (as described in the discussion draft SOI), but considers that these should be expressed as objectives of an IAN.</p>
<p>Institute and Faculty of Actuaries</p>	<p>The Institute and Faculty does not agree with the purpose of the proposed ISAP as described in the discussion draft of the SOI.</p> <p>As mentioned earlier, ERM as a subject can be very broad in nature and can have many different definitions. It is also still evolving as a subject. Therefore, it is not clear what purpose the ISAP would be serving over and above the existing Code and Standards with which the members of the Institute and Faculty must comply.</p> <p>There is also a need to integrate the actuarial work with the work of other professions. This will need flexibility while adhering to basic principles as set out in the Actuaries’ Code. If an IASP or IAN limits that flexibility there is a possibility that other professions may prefer restricting the role of actuaries in ERM teams.</p>

Casualty Actuarial Society	<p>(1) We disagree with the wording of the 3rd purpose listed: “Help to give certainty to managers and regulators”. We suspect that the intent is to give greater comfort to users of actuarial (and ERM) workproducts that the work is reasonably consistent in approach and quality over time and across practitioners, but it is invalid and overreaching to call this “certainty”.</p> <p>(2) We see the proposed scope as too broad. A standard that attempts to cover this scope will need to be too generic and hence will be of limited guidance (and may imperil the IAA’s credibility). We recommend instead that broad principles be created first, perhaps via a monograph, with separate standards created later to address difference areas of ERM application (e.g., health services, provider of spread products, etc.).</p>
Financial Reporting Council	<p>We acknowledge that an objective of the ISAPs is to promote high quality actuarial practice globally. The IAA states that high quality actuarial practice helps serve the public interest and that actuarial associations and individual actuaries benefit from the enhanced credibility of the actuarial profession, stemming from high quality actuarial practice. However, we believe that the purpose, as drafted, is not sufficiently focused on the public interest.</p> <p>The purpose of each of the FRC’s actuarial standards is framed in terms of our Reliability Objective: users for whom a piece of actuarial information was created should be able to place a high degree of reliance on the information’s relevance, transparency of assumptions, completeness and comprehensibility, including the communication of any uncertainty inherent in the information.</p> <p>We suggest that the purpose of any ISAP on ERM is to serve the public interest by ensuring that in the performance of work within its scope:</p> <ul style="list-style-type: none"> • actuarial information provided to managers and the governing body of an enterprise is relevant, comprehensible and sufficient to support decisions about the business and includes information on risk and uncertainty; • calculations are carried out using measures, methods and assumptions which are fit for purpose and are performed correctly; and • the key issues that affect the variability or discounted value of projected cash flows are taken into account and given the appropriate weight.
Question 4. Do you agree with the topics proposed to be covered? Are there others you would add? Are there some listed there that you would delete?	
Respondent	Response
Tsakadze	Yes, agree.
Den Danske Aktuarforening	I agree

Actuarial Society of South Africa	Yes, fully agree, but would broaden Stress Testing topic (eg Scenario analysis and extreme events modeling). Also possibly include topic relating to delivery and reporting format and client consultation, although distinct from integration into decision making. Rather process of delivery of results for consideration by client.
Deutsche Aktuarvereinigung (DAV)	The IAN should be consistent with the Panjer Syllabus on which the CERA qualification is based to avoid discrepancies.
Institute of actuaries of Japan	The functions of ERM practice below, which were excluded from the SOI as largely management issues, might be beneficial to be included if the discussions of ERM ISAP among IAA member associations ended up making IAN on ERM. i. The management of risk management systems ii. The integration of risk management information into decision making
Conference of Consulting Actuaries	The only concern we have is that the scope of the standard be restricted to activities that are accurately classified as ERM, a scope that is specifically restricted so that it does not seem to encompass any risk management type activities that are not scoped as enterprise-wide.
Colegio Nacional de Actuarios	Yes I agree
Investment & Risk Committee, Actuarial Society of Hong Kong	In general, agree with the topics proposed. In fact, many of the items (e.g. stress testing, risk metrics, ALM, risk mitigation, etc) have been the fundamentals of many actuaries over the years but probably lack general guidelines for better controls and comparability. One additional item for consideration is operational risk. However, would rephrase the second bullet point, “economic capital modeling and methodologies for capital allocation” to “economic capital modeling and methodologies”. In addition, would add a topic “capital management” which should also be a central part in the ERM.
Society of Actuaries in Ireland	<p>(a) The discussion draft SOI says that the ISAP will apply to “all actuarial work” in the areas of the evaluation and reporting of risk positions and the treatment of risk within a control cycle. However, the list of topics seems to be very insurance-oriented – is it, in fact, intended that the ISAP will apply only in an insurance context? We think that would be appropriate at this stage, though further work could be done at a later date on, for example, ERM in a pensions context. The paragraph on “all actuarial work” needs to be modified to provide greater clarity. We comment further on “Scope” by separate email.</p> <p>(b) We suggest that the document(s) should not completely ignore “The management of risk systems” and “The integration of risk management information into decision-making” – notwithstanding that the actuary may not be in control of these activities and therefore it may be appropriate to address them only at a high level (e.g. provide information on good practices</p>

	<p>and encourage actuaries who carry out ERM roles to take reasonable steps to ensure / encourage good practices).</p> <p>(c) The list of topics seems to be geared towards evaluation and reporting of risks. It is not clear that these topics will address the treatment of risk within a control cycle (including how risk metrics / tolerances are updated within a control cycle and the monitoring of risks over various time horizons).</p> <p>(d) Under “Purpose”, the discussion draft SOI says that “An ERM standard will support the expansion of our discipline into the areas of contingent losses that are not directly a part of traditional actuarial assessments but which will rely heavily on the time-proven techniques that underlie many traditional analyses of risk”. In the absence of topics such as operational risk, credit risk, market risk etc, it is difficult to see how the standard (/IAN) would achieve this.</p>
<p>Institute of Actuaries of Australia</p>	<p>As noted above, the Institute considers the scope of the proposed ISAP to be very broad. Nonetheless, it notes that there appears to be a focus on financial and insurance risks, rather than the full range of risks.</p>
<p>Institut des Actuaire</p>	<p>To add :</p> <ul style="list-style-type: none"> • the reporting of risk management information (format, layouts, categories, etc), • reverse stress testing, • Code of Ethics Enterprise Risk Management framework and purposes Perimeters of ERM (Finance- Banks , Insurance, Industry), • actuarial practises and sustainable investments, • the 2 functions listed page 2 in the ISAP, at least in a limited form: Management of risk systems but, more importantly: Integration of risk management information into decision making seems a critical issue in an ERM framework, • emerging risks, • risk accounting (standard ?) We wonder how ALM will be adressed. <p>Would'nt it better if the topic was "Integration of ERM in ALM.</p> <p>About modification and revision of the standards : How, when,...? An enhancement of the risk culture should be one of the first priority of the ERM function. - Setting up a clear governance framework is more important than any calculation the ERM function could provide. ERM is not just a question of calculation but equally of processes, communication and integration.</p>

<p>Institute and Faculty of Actuaries</p>	<p>As a general comment, the scope of “all actuarial work” could conceivably be quite broad and “evaluation and reporting of risk positions” and “treatment of risk with a control cycle” could be an integral part of work not necessary labelled as “ERM”. Therefore, the boundaries of the suggested scope are not clear. It is also not clear why “management” issues would be excluded.</p> <p>The Institute and Faculty does not agree that the key functions listed are those that are “generally agreed amongst practitioners and academics”. It is not clear where, for example, setting risk appetite would sit. On the specific list identified, we would suggest making reference to:</p> <ul style="list-style-type: none"> • Compliance and Corporate Governance • Cultural considerations of risk management • Categorisation and classification of risks • Broadening “stress testing” to include “scenario analysis” <p>Further to this, some of the specific items listed in the discussion draft would not necessarily be classified as purely “actuarial” – for example determination of duration, convexity, delta.</p> <p>A final comment would be that the specific examples in the discussion draft are very focused on traditional financial services and insurance. If the purpose of the standard is to promote actuaries as ERM specialists, any standard, guidance or resources may need to be flexible to suit actuaries working in ERM roles in other industries.</p>
<p>American Academy of Actuaries</p>	<p>It appears to cover life insurance and annuity products (including asset build up products) quite well. We are not sure it does as good a job on general/Casualty products.</p>
<p>Society of Actuaries</p>	<p>The draft appears to cover life insurance and annuity products (including asset build up products) quite well. The weakest coverage appears to on general insurance products. It is very similar in scope to that of the Actuarial Standards Board exposure draft ASB’s ERM Risk Evaluation, currently in an open comment period in the U.S. SOA recommends that IASSC communicate formally with ASB to avoid duplication of effort and improve alignment of both proposed standards where possible.</p>
<p>Dutch Actuarial Association</p>	<p>We strongly recommend to take step two of “be good and tell it”. The IAA should seek maximum press coverage using all the influences it has to inform all communities: academic, political, regulatory, governmental, but also other professions...Furthermore, we should maximize to effort to collect good practical cases where ERM made a difference. Maybe a \$2500 award... (a delegated task for the Sections...). The material collected can be used for marketing purposes. IAA will ask members to promote this item locally. For information: on 24 May 2012 an interactive session will be held by Ad Kok and Rajish</p>

	Sagoenie during the President's Forum in Los Angeles. The objective is to identify the trends and topics for the Actuary of the (nearby) future.
Casualty Actuarial Society	We suggest adding the following topics: 1. General understanding of the business model and environment as a first step, before investigating the risks that arise from the business model. 2. Reverse stress-testing and scenario testing. 3. Discussion of risk metric tradeoffs, such as VaR vs. TVaR and the use of a more observable threshold (such as 1 in 20 year) vs. a more stringent but less observable level (such as 1 in 200). 4. The need to customize the ERM approach to the industry & market involved, as one-size-does-not-fit-all. For example, asset/liability management for a spread business may be very different from that for a personal motor business with a steady renewal flow.
Financial Reporting Council	N/A
New Zealand Society of Actuaries	In general we agree with the topics listed although we would note that some of the topics may already be covered by existing standards so alignment and consistency will be important.

Additional Comments received (in addition to those submitted on Zoomerang):

[Actuarial Society of Hong Kong](#)

[Financial Reporting Council](#)

[Institute and Faculty of Actuaries](#)

[Society of Actuaries in Ireland](#)

List of Respondents

	Association	Name of Individual completing the response	E-mail Address
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5	Institute of actuaries of Japan	Yosuke Nakano	general.secretary@actuaries.jp
6	Conference of Consulting Actuaries	Barbara Lautzenheiser	conference@ccactuaries.org
7	Colegio Nacional de Actuarios	Jesús Alfonso Zúñiga San Martín	jesuszuniga@me.com
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