

IAA Subcommittee on Education and Practice

Nov. 30, 2011

Interim Actuarial Standards Subcommittee of the Executive Committee
via e-mail ISAP.comments@actuaries.org e-mail

Dear Colleagues

Re: Comments on ISAP 1 General Actuarial Practice – Exposure Draft

In response to the request for comments on the ISAP 1 General Actuarial Practice (ISAP 1) we are pleased to submit our comments and recommendations.

General Comments

The Sub-committee on Education and Practice welcomes this exposure draft of ISAP 1. We believe it strikes a reasonable balance in attempting to develop an international standard of General Actuarial Practice whilst recognising subsidiarity.

We believe that the ISAP would be better if there were an explicit section on Models – we set out a suggested section in our specific comments below.

Specific Comments

1. In Introduction 2 –The current wording states, “If a conflict exists between this standard and applicable law or regulation, compliance with applicable law or regulation is not considered to be a deviation from this ISAP.” We agree with that conclusion but believe it would be appropriate for the actuary to comment in his report or work product where (s)he might have deviated from this ISAP for that purpose.
2. Section 3.1.1 b – Whilst we agree with the wording “be qualified to perform the services, or able to become qualified ..” we think it would be helpful if there were some explanation as to what was meant by “be qualified” – e.g., through education, experience or training – or that the actuary should be made aware that there might be a need to be able to demonstrate that (s)he has the necessary qualification to perform the work.
3. In Section 3.1.2 - the sentence “Responsible actuaries who are not employed actuaries typically document...” should be changed by replacing “typically” with “should”.
4. Section 3.4 – Where information prepared by another party is used, we believe the actuary should state in the Report or the Work Product the source of that information.
5. Section 3.4.3 - states that the actuary should consider “the other party’s awareness of how the information is expected to be used”. The ISAP should elaborate on this point and give guidance regarding the actuary’s need to make the other party aware and to seek a letter of representation from the other party confirming their understanding if that is appropriate.

6. Section 3.5 – We suggest that the following should be added: “The responsible actuary should ensure the principal / recipient of the report or work product is advised of the definition of materiality being adopted.”
7. Section 3.6.3 – We believe that the actuary should state in the report or work product what has been done to verify the consistency, completeness and accuracy of the data used.
8. Section 3.7.1 – In determining the assumptions to be used, the actuary also needs to take into account local regulations, etc. This is covered in 3.7.4 but we suggest it should also be mentioned in 3.7.1.
9. Section 3.8.1 – Whilst we agree with the intention of the current wording, there are some jurisdictions where regulations / standards require an explicit margin within stated ranges for each assumption and it would not be possible to make such an adjustment. We suggest the last sentence be changed to: “If not, the actuary should consider whether it would be appropriate to adjust any of the assumptions to achieve a more reasonable aggregate set of assumptions.”
10. Section 3.8.2 – We suggest the wording be changed to: “The actuary should determine whether or not the assumptions used” The word “the” is missing towards end of the section; it should finish “ ... inconsistency in the actuary’s report.”
11. Section 3.8.4 - We suggest the wording “... subject to appropriate disclosure in the report of those results” should be “... subject to appropriate disclosure in the report that the assumptions were those selected by the client and that they may not correspond to assumptions that the actuary would have selected and consider adding disclosure of the results”. Similar wording should be used when the assumptions are mandated by the statutory authority.
12. Section 3.10.2 a – We do not agree that the actuary should not have any disclosure obligation in the circumstances described in this section. We suggest the actuary should always disclose where assumptions or methodology are selected by another part and then comment on his / her views on their suitability.
13. Section 3.11 – Consulting and other similar firms usually have their own internal peer review requirements and we would therefore suggest the wording be changed to: “Where the responsible actuary is not subject to peer review under his normal firm’s requirement, (s)he should consider”
14. Section 3.12 – The actuary also needs to consider any regulatory requirements pertaining to the retention of documents. We would suggest that the following also should be added: “The documentation being retained should include documentation of the model, the process pursued to derive the results, and evidences for performed controls”.
15. Section 4.2.1 – We believe it would be appropriate to include in sub-section c the need for the actuary to write the report bearing in mind the intended user’s understanding of the relevant issues to enable the reader to form the view discussed.
16. Section 4.2,3 – We do not agree with the way this is worded. We suggest it be re-worded as “The actuary should consider the appropriateness of including the following information in a report.”
17. Section 4.2.4 – We do not believe it is always appropriate or necessary to include all of the information shown. Again we suggest the wording should be changed to “... should also consider the appropriateness of disclosing all or some of the following.”

Suggested section on Models

We suggest that a section on Models should be included along the following lines.

1. Selection of appropriate model – The actuary should consider whether or not it is necessary to use any model or modeling technique, including spreadsheets, in order to perform the assignment and, if it is, determine the most appropriate form of that model and document the reasoning for the choice.
2. Reasonableness and reliability of the model – The actuary should consider the reasonableness of the model being used, whether his own model or that of another party, and seek to understand how the model has been developed and what testing has been performed to ensure the model behaves as expected. The actuary should also seek to gain comfort that the controls around the model are robust and that it cannot be unintentionally changed.
3. Testing of the model – The actuary should consider whether or not (s)he needs to perform any independent testing of the model to confirm its accuracy and robustness. The actuary should comment in the report or the work product the extent of any such testing performed.