

**ISAP 6 – Enterprise Risk Management Programs and IAIS Insurance Core Principles
Report on Treatment of Comments on Exposure Draft**

Submission

The ISAP 6 Task Force of the ASC is pleased to submit this report. It lists the comments that were received on the exposure draft of ISAP 6 (“ED”) and documents how those comments were addressed.

The ASC and the Task Force would like to express our thanks to all commenters, both organizations and individuals.

Preamble

The ED along with the amendments to the Glossary for the ED was published on the IAA website on 17 October 2017 with a comment deadline of 28 February 2018. A transmittal memo was published concurrently which requested answers to four specific questions. An MSWord template was provided to submit comments.

This report contains the answers to our questions and other comments we received on the ED and describes what was done as a result. It is organized into four sections:

- I. List of comments we received on the ED.
- II. Summary of the answers we received to our four questions and our responses.
- III. Summary of general comments received and our responses
- IV. Detailed paragraph by paragraph summary of the comments received and our responses.

This report was drafted by the ISAP 6 Task Force of the ASC and reviewed and edited by the ASC. Throughout the document “we” means the ASC.

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I. List of comments we received on the ED

We received the following submissions which can be viewed in their entirety on the IAA website at:

https://www.actuaries.org/index.cfm?lang=EN&DSP=PUBLICATIONS&ACT=STANDARDS_EXPOSUR E-ISAP6

Letter Number	Commenter	Date Received
1	Institute of Actuaries of India	06-Feb-18
2	Financial Reporting Council (UK) – Template and Markup	20-Feb-18
3	Deutsche Aktuarvereinigung e.V. (DAV) DAV has reviewed the exposure draft of ISAP 6; <i>“We agree with the proposed draft and have no comments for the time being.”</i>	26-Feb-18
4	Actuarial Society of Finland	27-Feb-18
5	Institute of Actuaries of Japan	28-Feb-18
6	Oliver Lockwood, FIA (Personal submission)	28-Feb-18
7	Canadian Institute of Actuaries	28-Feb-18
8	Institute and Faculty of Actuaries (Note and Template)	28-Feb-18
9	Society of Actuaries of Ireland (ED Comments and Template)	28-Feb-18
10	Casualty Actuarial Society	2-Mar-18
11	Institute of Actuaries of Australia	20-Mar-18

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II. Summary of the answers we received to our four questions

We asked the following questions in the transmittal letter for the ED. Each question is shown in **bold** and followed by a summary of the responses we received. The answers were thoroughly considered in preparing the final version of ISAP 6.

Note: ISAP 1 is used in this report to mean the proposed 2018 version of ISAP 1 which includes the guidance formerly contained in ISAP 1A.

Q 1: Is the guidance clear and unambiguous? If not, how should it be changed?

Comment	Eight of the eleven commenters felt the ISAP was, in general, clear and unambiguous with four of these commenters making suggested changes for clarity. Three additional commenters did not provide an answer to this question, making a number of specific suggestions for changes.
Response	Responses to all comments are included in this report.
Comment	One commenter noted that in several instances in ISAP 6, the phrase “or significantly involved in” is used and suggested that this phrase be defined in more quantitative terms in order to clearly outline the circumstances in which this ISAP applies to an actuary.
Response	Given the complex nature of ERM work, we felt it was important to also provide guidance to those actuaries who, while not directly “responsible” for the services described, were still involved in a critical way. We recognized this issue by incorporating the concept of “significantly involved”, relying on actuaries to use professional judgment to assess whether their involvement was “significant”. We don’t believe that it would be appropriate to establish quantitative criteria which would apply to the very broad spectrum of contributions that actuaries bring to ERM work. No action was taken.

Q2: Is the guidance sufficient and appropriate? If not, how should it be changed?

Comment	Eight of the eleven commenters felt the guidance was, in general, sufficient and appropriate with four of these commenters making suggested changes for clarity. Three additional commenters did not provide an answer to this question, making a number of specific suggestions for changes.
Response	Responses to all comments are included in this report.

Q3: Is the guidance at the right level of detail? If not, what text should be omitted because it is too detailed? In what areas do actuaries need more detailed guidance?

Comment	Seven of the eleven commenters felt the guidance was, in general, at the right level of detail with four of these commenters making suggested changes for clarity. Four additional commenters did not provide an answer to this question, but made a number of specific suggestions for changes.
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Response	Responses to all comments are included in this report.
Comment	One commenter suggested that actuaries need more detailed guidance regarding scenario assumptions for stress-testing, as well as integrated scenarios.
Response	The IAA has established a clear policy that ISAPs be principles-based and not prescriptive. We believe that this ISAP and ISAP 5 provide appropriate guidance while complying with that policy. No action was taken.

Q4: Are there other matters that should be included in this standard? Are there some included here that should not be?

Comment	Six of the eleven commenters felt that no other matters needed to be included or excluded. Five additional commenters did not provide an answer to this question, making a number of specific suggestions for changes.
Response	Responses to all comments are included in this report.
Comment	One commenter recommended incorporating reference to the principle of proportionality for an actuary to consider the size, nature, and scale of the organization when designing and/or conducting ERM work (i.e., one size does not fit all).
Response	We agree with the commenter that “proportionality” is a very important concept in ERM work. It is for that reason that, rather than merely rely on the actuary reading ISAP 1, we specifically have included a reference to ISAP 1 and added additional considerations which the actuary should make with respect to the underlying risks: <i>2.2 Proportionality – In applying ISAP 1 paragraph 1.5.2., the actuary should also consider proportionality in respect of the nature, scale and complexity of the underlying risks.</i> No action was taken.
Comment	One commenter suggested that the standard should help the actuary decide what his/her duty is if risk appetite exceeds risk tolerance since such a situation could lead to insolvency (e.g., should the actuary specifically raise the matter with the highest level in the organization and/or with the regulator?).
Response	In the course of providing actuarial services for insurers who seek to comply with regulations that are within the scope of regulations consistent with ICP 8 and ICP 16, actuaries could identify (and perhaps assess) a number of risks which threaten the financial stability of the insurer. We believe the actions of the actuary in these cases should be guided by the appropriate Code of Professional Conduct and relevant regulations, not an ISAP. This applies to many situations in ISAPs where the Code or law may require actions and ISAPs do not refer to these requirements. No action was taken.

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III. Summary of general comments received and our responses

We thoroughly considered each comment that was received, as is evidenced by the ED edits which are detailed in Section IV of this report. The summaries given below are intended to give the reader of this document insight into the comments received as well as how they were addressed.

Comment	One commenter suggested that local standard setters will need to be aware of the local equivalent regulation covering the principles in ICP 8 and ICP 16 and make the necessary changes to the standard.
Response	We agreed and note that this issue is addressed in item #5 of the <i>Drafting Notes</i> in the <i>Preface</i> .
Comment	One commenter observed that the standard uses the terms “risk management system” and “ERM framework” in different sections which actuaries may find confusing. While recognizing that these are terms used in ICP 8 and ICP 16, it was suggested that it may be helpful if the standard referenced the description of the terms in ICP 8 and ICP 16 and explain the differences between them. The commenter also questioned the introduction of the term “ERM Process” in this standard.
Response	We point out that the Introduction includes the paragraph: <i>Some terms..... are used both in this ISAP and in ICP 8 and ICP 16. When such terms are referenced without definition in this ISAP or in the associated Glossary, they are intended to have the meaning in the context with which they are used in ICP 8 and ICP 16.</i> While an explanation of the terms and their differences might be helpful, we do not believe that a standard is the appropriate place for such an educational exercise. This is something that would be better presented in a document like an International Actuarial Note (IAN). On this point, no action was taken. It should be noted that as a result of a specific comment discussed below, we have replaced the reference to “ERM Process” with “Risk Management System and ERM Framework”.
Comment	One commenter was very supportive of the format of the standard whereby the factors to consider are set out in bullet points under each main requirement. However, it was suggested that it would be helpful to highlight/embolden the verbs in each of the subsections (e.g. identifying in 2.3.1) to help readability.
Response	We note that the key terms are in bold in the title of the section: 2.3 Identification, Assessment and Management of Insurer Risks. Regarding using bold font for other content in the document, the style policy that the IAA has adopted to be applied consistently for all ISAPs has been followed here. No action was taken.

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Comment	<p>One commenter suggested that it would be helpful for the standard to include a recommendation that actuaries who have responsibility for, or are involved in, parts of the ERM process but not its entirety should confirm the extent to which the scope of their work includes the topics listed in each of the sub-sections. This could be included in Section 2.2 to ensure the actuaries’ work is proportionate to their agreed responsibilities. The commenter suggested the following wording: <i>“Where the actuary has responsibility for, or is involved in parts of the ERM framework, but not all of it, the actuary should confirm with the user the extent to which the scope of his or her work includes the topics addressed within the sub-sections 2.3, 2.4 and 2.5.”</i></p>
Response	<p>We believe this issue is covered in ISAP 1, 2.1 which states: <i>Acceptance of Assignment - When providing <u>actuarial services</u>, the <u>actuary</u> should confirm with the <u>principal</u> the nature and scope of <u>actuarial services</u> to be provided, including:</i> No action was taken.</p>
Comment	<p>One commenter observed that ISAP 6 is based on IAIS standards ICP 8 and ICP 16 and the public consultations of these ICPs have just terminated in January. The commenter has assumed that the development of standards ICP 8 and ICP 16 will be followed before making the final conclusions of the content of ISAP 6.</p>
Response	<p>We are closely following the development of the proposed revisions to ICP 8 and ICP 16. It should be noted that, based upon the changes proposed in the ICP consultation documents, we believe the wording in the ISAP 6 Exposure Draft will require no significant modifications. No action was taken.</p>
Comment	<p>One commenter observed that some of the factors listed in 2.3, 2.4, and 2.5 might not be objective or clear enough (e.g., “skills base of staff” and “culture”). Thus, more concrete guidance (i.e. basis for conclusion) may be required.</p>
Response	<p>It is a well-established policy that IAA model standards will be principles-based rather than prescriptive. We believe ISAP 6, and in particular, 2.3., 2.4., and 2.5. have been carefully worded to provide helpful guidance that is principles-based. Providing specific direction to achieve these considerations would be more appropriately provided in educational material such as an IAA International Actuarial Note (IAN). No action was taken.</p>
Comment	<p>One commenter suggested that the factors listed in Section 2.3, 2.4, and 2.5 are from the view point of a risk management department and, therefore, actuaries outside of risk management departments may not be able to follow how to comply with ISAP 6.</p>
Response	<p>We have carefully chosen wording in the ISAP which contemplates actuaries providing services in a wide variety of functions (e.g., Chief Risk Officers, Chief Actuaries, consultants, catastrophe modelers, Chief Financial Officers). The nature</p>

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	<p>of ERM is such that it broadly addresses insurer’s risks. While the factors listed for consideration involve many risk management issues, we do not agree that they will only apply to actuaries in risk management departments.</p> <p>No action was taken.</p>
Comment	<p>One commenter suggested that the ISAP could be more specific to point out areas where actuaries have a distinct input in the ERM process.</p>
Response	<p>While it may be educational and informative to highlight areas where actuaries may have distinct input and often fundamental roles in ERM work, we do not believe that a standard is the proper forum to discuss this issue. This is something that would be better presented in a document like an International Actuarial Note (IAN).</p> <p>No action was taken.</p>
Comment	<p>The ISAP 6 Exposure Draft is at a very high level and as such may not have much practical application.</p>
Response	<p>The IAA has established a clear policy that ISAPs be principles-based and not prescriptive. We believe this ISAP provides appropriate guidance while complying with that policy.</p>

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IV. Paragraph by paragraph summary of the main comments received and our responses.

Introduction

Comment	One commenter suggested deleting “comprehensively” to avoid excluding from scope actuaries who provide actuarial services involving enterprise risk management (ERM) programs that do not comprehensively address insurer risks.
Response	We agreed and made the change.
Comment	One commenter noted that the ISAP applies to ERM programs “ <i>within the scope of regulations consistent with two of the Insurance Core Principles (ICP 8 and ICP 16)</i> ”. This commenter asked, “ <i>Who makes the determination that a regulation is consistent with ICP 8 and ICP 16?</i> ”
Response	As an international organization, the IAA is responsible for developing model standards that can be adapted by standard-setting bodies in a variety of regulatory jurisdictions. We are aware of a number of situations around the world where local supervisors create regulations that are based on ICPs and other global principles/standards but are modified for circumstances unique to the region. It was for precisely this reason that the Statement of Intent (SOI) for ISAP 6 (approved by Council on 13 September 2014) was worded this way. It is the responsibility of the local standard-setting body to determine the applicability of its standards. No action was taken.
Comment	One commenter reviewed the paragraph: <i>This ISAP addresses ERM programs that may include stress testing, scenario testing and other modeling techniques. ISAP.5 (Insurer Enterprise Risk Models) provides helpful guidance on these subjects and actuaries reading this ISAP may find ISAP.5 to be a valuable resource.</i> ...and questioned whether this limits the scope to modelling.
Response	This paragraph recognizes that one of the numerous aspects of ERM analysis is risk modelling and points out that ISAP 5 could be valuable guidance when an actuary utilizes modelling techniques. We believe that ISAP 6 is very clear as to its broad application. No action was taken.

Paragraph 1.1

Comment	One commenter suggested the following change to the third bullet point under 1.1 : <i>“The assumptions and methodology used are disclosed appropriately, including any significant limitations”.</i>
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Response	<p>We believe that the current wording would imply that disclosing assumptions and methodology “<i>appropriately</i>” would include the identification of “<i>any significant limitations</i>”.</p> <p>No action was taken.</p>
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Paragraph 1.2. Scope

Comment	<p>One commenter suggested the following change: <i>Scope – This ISAP applies to <u>actuaries</u> when performing <u>actuarial services</u> with responsibility for, or significant involvement in, the development–design, implementation, maintenance or review of some or all of the components of ERM programs....”</i></p> <p>The commenter felt that “development” sounds as though it is referring to building a model while a design stage is required before building any model.</p>
Response	<p>We believe the current wording is appropriate and note that the use of the term “<i>development</i>” is consistent with ISAP 1 and ISAP 5.</p> <p>No action was taken.</p>
Comment	<p>One commenter suggested that the sentence, “<i>This ISAP applies to an <u>actuary</u> only to the extent of the <u>actuary</u>’s responsibility and involvement.</i>” fails to recognize the interconnectedness of each of the components of the ERM program, i.e. even where an actuary is not responsible or involved in a component of the ERM program, the actuary’s area of responsibility will need to place reliance on the other areas of responsibility.</p> <p>The commenter stated, “ERM cannot be performed in silos. This issue is pronounced within section 2.3. where separate factors are listed for actuaries involved in risk identification, risk assessment, and risk reporting/monitoring, whereas in reality these areas can and should be interdependent.”</p>
Response	<p>The scope of ISAP 6 has been carefully worded to recognize that the actuary may be part of a multi-disciplinary team and that this ISAP applies only to the actuarial services for which the actuary bears responsibility. We thus believe the current wording is appropriate.</p> <p>No action was taken.</p>
Comment	<p>One commenter reviewed the Scope wording: <i>“1.2 Scope – This ISAP applies to <u>actuaries</u> when performing <u>actuarial services</u> with responsibility for, or significant involvement in, the development, implementation, maintenance or review of some or all of the components of ERM programs, including ORSA, that are within the scope of regulations consistent with ICP 8 and ICP 16”</i> and came to the conclusion that “<i>an actuary performing the role of Operational Risk Manager arguably falls outside of scope. Perhaps this is intended</i>”?</p>

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Response	<p>An actuary serving as Operational Risk Manager (or Chief Risk Officer) might easily acknowledge having “<i>responsibility for, or significant involvement in, the development, implementation, maintenance or review of some or all of the components of ERM programs</i>” and therefore could conclude that he/she falls within the scope of ISAP 6.</p> <p>No action was taken.</p>
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Paragraph 2.1

Comment	<p>One commenter suggested the following changes:</p> <p>2.1. Understanding of Insurer’s ERM Process Risk Management System and ERM Framework– The <u>actuary</u> should have, or obtain, sufficient understanding of the ERM system risk management system and ERM framework of the insurer</p> <p>It was observed that ICP 8 describes the risk management system and its required components while ICP 16 describes ERM and refers to the ERM framework.</p>
Response	We agreed and made the changes.
Comment	<p>One commenter suggested making the following additions to 2.1.:</p> <p><i>“The <u>actuary</u> should have, or obtain, sufficient understanding of the ERM system of the insurer and should consider whether the risk management elements required by regulations consistent with ICP 8 and ICP 16 are in place, including risk management policies, risk tolerance statements, an ORSA process, and economic an insurer’s own assessment of its capital needs and regulatory capital assessments.”</i></p> <p>The commenter suggested that required risk management elements do not always include economic capital assessments and the revised wording is more broadly applicable and not limited to economic capital assessment approaches.</p>
Response	We agreed and made the changes.

Paragraph 2.3.

Comment	<p>One commenter suggested making the following additions to 2.3.1.:</p> <p><i>“An actuary who is responsible for, or significantly involved in, identifying any or all insurer risks should consider all factors including, but not limited to, the following:”</i></p>
Response	<p>We believe the terms “<i>any or all</i>” and “<i>all</i>” are too expansive and we believe the current wording is appropriate.</p> <p>No action was taken.</p>
Comment	<p>One commenter suggested making the following additions to 2.3.1.:</p> <p>Insert new paragraph (a):</p> <p><i>“The objectives of the enterprise and the way in which the risks identified pose a threat to those objectives.”</i></p>

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Response	We agreed that the factor, “ <i>The objectives of the enterprise</i> ” is appropriate and the change was made. However, we believe that the phrase “ <i>the way in which the risks identified pose a threat to those objectives</i> ” is not pertinent to 2.3.1, risk identification .
Comment	One commenter suggested making the following additions to 2.3.1. : Similar to 2.3.2 (h) , insert a new paragraph (I) : “ <i>Obtaining appropriate input regarding the identification of risks from management, other knowledgeable persons within the insurer, other subject matter experts and supervisors.</i> ”
Response	We agreed and made the change.
Comment	One commenter suggested that 2.3.1 (a) would be very difficult to achieve. Another commenter suggested that the following change be made: “ <i>The processes for collecting information and whether the skill base of staff is adequate staff have adequate qualifications, experience and training to understand and identify the risks;</i> ” The commenter observed that assessing a “skill base” can be impractical and judgmental. It was suggested that it would be more practical to look at the qualifications, experience and training, which are more factually assessed.
Response	We agreed and made the following change: <i>b. “The processes for collecting information and whether the staff have adequate qualifications, training and experience to understand and identify the risks;”</i>
Comment	One commenter suggested making the following additions to 2.3.1. (c) : “ <i>Whether the risk identification process is sufficient to identify all current and emerging risks that are material and foreseeable, including risks that directly impact the financial condition of the insurer and those that have an indirect impact on other objectives of the insurer (e.g. reputational risk);</i> ”
Response	We made the following change in light of this comment, and to align with the wording of ICPs 8 and 16,: <i>c. “Whether the risk identification process is sufficient to identify all current and emerging risks that are reasonably foreseeable, relevant and material, including risks that directly and indirectly impact the financial condition and other objectives of the insurer (e.g. reputational risk);”</i>
Comment	Two commenters suggested making the following changes to 2.3.1. (c) : “ <i>Whether the risk identification process is sufficient to identify all current and emerging risks that are material and reasonably foreseeable, including risks that directly impact the financial condition of the insurer and those that have an indirect impact (e.g. reputational risk);</i> ”
Response	We agreed and made the changes.
Comment	One commenter suggested making the following additions to 2.3.1. (c) : “ <i>Whether the risk identification process is sufficient to identify all current and emerging risks that are material and foreseeable, including risks that directly impact</i>

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Response	<p><i>the financial condition of the insurer and those that have an indirect impact (e.g. reputational risk);”</i></p> <p>The processes for identifying current risks may be quite different to the process for identifying emerging risks. It may not be helpful to conflate them here.</p> <p>While we agree that the methods by which current and emerging risks are identified will likely be different, this wording addresses the need for the entire risk identification process (including the various approaches taken for each risk) to be sufficient.</p> <p>We feel that the current wording is appropriate, and no action was taken.</p>
Comment	<p>One commenter suggested that 2.3.1. (e) “<i>The time frame over which the risks may emerge</i>”, needs to be clarified since two different interpretations are possible.</p> <p>A) The time frame from when fundamental events occur to when those have an impact on insurance financial structure.</p> <p>B) The time frame of emerging risks that grows over the time, such as low birth-rate and aging population.</p> <p>“<i>Emerge</i>” reminds us of emerging risk. It is not clear that 2.3.1. (e) focuses only on time frame of emerging risks or that of both A) and B).</p>
Response	<p>To clarify the meaning, we changed the phrase to “<i>The time frame over which the risks may impact the insurer</i>”.</p>
Comment	<p>Two commenters suggested that the following change be made in 2.3.1 (g): “<i>The risks that may arise from possible reasonably foreseeable changes in the business of the insurer (operations, markets, products) and from business conduct;”</i> ICP 16.1 requires the identification of reasonably foreseeable risks and this suggested wording will be clearer and consistent with ICP 16. Another commenter suggested replacing “<i>possible</i>” with “<i>plausible</i>”.</p>
Response	<p>We made the following change: “<i>The risks that may arise from reasonably foreseeable changes in the business of the insurer (operations, markets, products) and from business conduct;”</i>.”</p>
Comment	<p>One commenter suggested that the following addition be made to 2.3.1 (i): <i>Whether the potential causes of, and events likely to give rise to, insurer risks and their consequences have been sufficiently identified;</i></p>
Response	<p>We agreed and made the change.</p>
Comment	<p>One commenter suggested that an additional sub-bullet be added after 2.3.1 (i): “<i>The interaction of risks should be taken into account;</i>”</p>
Response	<p>We note that 2.3.1 deals specifically with identifying risk. We believe the discussion of interdependence and correlation of risk has been more appropriately covered in 2.3.2 (b), 2.4.1. (c), and 2.5.1 (j).</p> <p>No action was taken.</p>
Comment	<p>One commenter suggested that the following change be made in 2.3.1 (i):</p>

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	<p><i>“Whether the causes of, and reasonably foreseeable events likely to give rise to, insurer risks and their consequences have been sufficiently identified;”</i></p> <p>It was suggested that ICP 16.1.1 requires the identification of <i>“reasonably foreseeable risks”</i> and this suggested wording would be consistent with ICP 16.</p>
Response	We agreed and made the change.
Comment	<p>One commenter suggested that the following change be made in 2.3.1 (j):: <i>“Risks arising or becoming relatively more important as a consequence of risk management activities (e.g. credit risk arising from the transfer of risk); and”</i></p> <p>It was suggested that this point also be followed through to 2.3.2 or 2.3.3.</p>
Response	<p>We agreed and made the following change: <i>“Risks arising or increasing as a consequence of risk management activities (e.g. credit risk arising from the transfer of risk);”</i></p>
Comment	<p>One commenter suggested that the following change be made in 2.3.1 (k):: <i>“The impact that an insurer’s culture, governance structure and remuneration systems may have on the ability and willingness of the management and staff to identify and manage risks, and whether culture, governance structure or remuneration generates-or, magnifies or mitigates risks.”</i></p>
Response	We agreed and made all proposed changes.
Comment	One commenter suggested that 2.3.1 (k) be deleted since it relates more to the work of a CRO as opposed to the work of an actuary involved in ERM of an insurer.
Response	<p>We believe that this is an important consideration for all those involved in the process of identifying risk.</p> <p>No action was taken.</p>
Comment	<p>One commenter suggested that the following changes be made in 2.3.2:: <i>“An actuary who is responsible for, or significantly involved in, assessing the impact level of any or all of the insurer’s risks should consider factors for each risk including, but not limited to, the following:”</i></p> <p>1) It was observed that ICP 16.2.1 refers to the assessment of the level of risk, which is a combination of probability and impact. The commenter suggested that an alternative would be to include “probability” as well as impact.</p> <p>2) The commenter felt that the additional proposed revisions make it clearer that the actuary may be responsible for the assessment of “any or all” of the risks and that for each risk they should consider each of the bullets.</p> <p>3)</p>
Response	<p>We believe the terms “any or all” and “all” are too expansive. We did make the following change: <i>“An actuary who is responsible for, or significantly involved in, assessing the probability and impact of the insurer’s risks should consider factors including, but not limited to, the following:”</i></p>
Comment	<p>One commenter suggested that the following factor be added to the list in 2.3.2:: <i>“The likelihood and impact of any risks arising or becoming relatively more important as a consequence of risk management or mitigation.”</i></p>

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Response	<p>Another commenter suggested that consideration should also be given to the assessment of “<i>likelihood</i>”.</p> <p>Noting that ICP 16.2.1 refers to the assessment of the level of risk, which is a combination of probability and impact, we agreed with the commenters and, as noted in the response to the comment directly above, have changed the stem to:</p> <p><i>An <u>actuary</u> who is responsible for, or significantly involved in, assessing the probability and impact of the insurer’s risks should consider factors including, but not limited to, the following:</i></p> <p>This change was also made in 2.3.2. (d) and 2.3.2. (h).</p>
Comment	<p>One commenter suggested that 2.3.2. (a) be changed as follows: <i>“The appropriateness of assessing some risks qualitatively The qualitative assessment of risks in addition to, or instead of, assessing them quantitatively;</i></p>
Response	<p>We believe the proposed wording is an improvement and we made the change.</p>
Comment	<p>One commenter suggested that 2.3.2 (b) be changed as follows: <i>Risk correlations, risk aggregations and tail risks (e.g. catastrophe and pandemic risks, and complex outsourcing risks), including the uncertainty and credibility/relevance of the available data;</i></p>
Response	<p>We believe that credibility/uncertainty of data is addressed in ISAP 1. Here, 2.3.2 (b) focuses on very specific interdependence issues and not data volatility. We believe the current wording is appropriate.</p> <p>No action was taken.</p>
Comment	<p>One commenter suggested that the following change be made in 2.3.2. (c): <i>“The appropriateness of the enterprise risk models that are used, as well as the risk modelling, stress testing, scenario testing and reverse stress testing techniques that are applied;”</i></p>
Response	<p>We agreed that this wording is more consistent with ICP 16. and made the following change: <i>“The appropriateness of the risk modelling, stress testing, reverse stress testing and scenario testing techniques that are applied;”</i></p>
Comment	<p>One commenter suggested that the following change be made in 2.3.2. (c): <i>“The appropriateness of the enterprise risk models that are used, as well as the implications of the results of stress testing, scenario testing and reverse stress testing techniques that are applied”.</i></p>
Response	<p>The current wording asks the actuary to consider the “<i>appropriateness</i>” of the models and testing techniques that are applied. Such consideration would likely include, among many other factors, the “<i>implications of the results</i>”. We believe the current wording is appropriate.</p> <p>On this point, no action was taken.</p>

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	<p>However, recognizing that parts of the enterprise risk process may involve specific risk analysis and to be more consistent with ICPs, we changed “<i>enterprise risk models</i>” to “<i>risk models</i>”.</p>
Comment	<p>One commenter suggested that 2.3.2. (c) should reference assumptions.</p>
Response	<p>ISAP 1 and ISAP 5 all provide guidance regarding the use of assumptions in modeling. This factor addresses the appropriateness of risk models and techniques.</p> <p>No action was taken.</p>
Comment	<p>One commenter suggested that the following change be made in 2.3.2. (d): <i>“The extent to which the enterprise risk models that measure the impact of risks provide results that are consistent with information expressed by market prices for the risks concerned as well as the relevance and credibility of the market prices “</i> Another commenter suggested a similar change: <i>“The extent to which the results of the <u>enterprise risk models</u> used to measure the economic costs and benefits of risk mitigation are consistent with information expressed by market prices for the risks concerned or related risks, where available and relevant.”</i> A third commenter suggested adding “where available.” A fourth commenter suggested the following: <i>“The extent to which the <u>enterprise risk models</u> that measure the impact of risks provide results that are consistent with <u>historic risk experience, known and expected future changes, reasonably foreseeable potential extreme adverse events and</u> information expressed by market prices for the risks concerned”.</i></p>
Response	<p>The stem of 2.3 suggests that “...the actuary should consider factors including, but not limited to, the following...” We believe that “relevance” and “credibility” are issues that would be included in this “consideration” under ISAP 1.</p> <p>In addition, we note that the guidance in 2.3.2(d) is intended for the actuary to specifically consider “market information”. Factors such as “historic risk experience, known and expected future changes and reasonably foreseeable potential extreme adverse events” relate to issues beyond “market information” and, in that context, are addressed by the modelling guidance provided by ISAP 5.</p> <p>On these points, no action was taken.</p> <p>However, recognizing that parts of the enterprise risk process may involve specific risk analysis, and to be more consistent with ICPs, we changed “<i>enterprise risk models</i>” to “<i>risk models</i>”.</p>
Comment	<p>One commenter suggested that the following change be made in 2.3.2. (e): <i>“The existence of appropriate valuation methodologies for all risks to be assessed and the consistency among the various valuation methodologies;”</i></p>
Response	<p>We believe that this issue is addressed in 2.3.2 (c)</p> <p>No action was taken.</p>
Comment	<p>One commenter suggested that the following change be made in 2.3.2 (f):</p>

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Response	<p>The expression, “<i>The operation and effectiveness of the risk control and mitigation processes and mechanisms;</i>” should be clarified. Multiple use of “and” may be confusing.</p> <p>We agreed and changed the wording to: “<i>The operation and effectiveness of the processes and mechanisms used to address risk control and risk mitigation</i>”.</p>
Comment	<p>One commenter suggested that the following change be made in 2.3.2 (h): <i>Obtaining</i> <i>The appropriate input regarding likelihood and impact from management, other knowledgeable persons within the insurer, other subject matter experts and supervisors.</i></p>
Response	<p>We made the following changes to reflect ICP 8 and ICP 16 terminology (as in 2.3.2. (d) above): 2.3.2. (h): <i>Input regarding probability and impact from management, other knowledgeable persons within the insurer, other subject matter experts and supervisors.</i></p>
Comment	<p>One commenter suggested that the 2.3.2 (h) implies that it is mandatory to seek input from regulators and proposed eliminating “and supervisors”.</p>
Response	<p>We believe the stem is very clear that speaking to supervisors is one of many options to “consider”. We feel the current wording is appropriate.</p> <p>No action was taken.</p>
Comment	<p>One commenter suggested that a new factor be added to 2.3.2.: <i>(i) Consistency of risk assessments between risks and over time.</i></p>
Response	<p>We believe “<i>consistency of risk assessments between risks</i>” is addressed in 2.3.2. (e) “<i>The consistency among the various valuation methodologies underlying the ERM program;</i>”.</p> <p>We added the following factor: <i>(i) Consistency of risk assessments over time</i></p>
Comment	<p>One commenter suggested that, in addition to the bullets a) to h) in section 2.3.3, it would be helpful to add a further bullet on the appropriateness of the governance and escalation processes around the controls. The commenter suggested the following wording: “<i>The existence and effectiveness of the governance procedures and escalation protocols in the risk management system.</i>”</p>
Response	<p>We believe that these issues are addressed in 2.3.3.: e) <i>The operation and effectiveness of the risk control and mitigation processes and mechanisms;</i> and i) <i>The existence and effectiveness of the feedback loop in the risk management process.</i></p> <p>No action was taken.</p>
Comment	<p>One commenter observed that 2.3.3 (“<i>An actuary who is responsible for, or significantly involved in, implementing or maintaining risk management controls,</i>”</p>

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Response	<p><i>mitigation, monitoring or communication and reporting of the insurer’s risks should consider factors including, but not limited to, the following:</i>”) may be confusing in relation to the “three lines of defence” operating model which requires independence of the second line activities in order to effectively carry out the oversight aspect. The commenter recognized that the ERM work performed by an actuary may at times include these duties. However, they felt it would be important to emphasize that when an actuary does perform these duties in a first-line capacity, the actuary providing oversight of these same activities, must be independent from the actuary performing them (i.e., not one and the same).</p> <p>Independence of oversight is an important consideration of corporate governance and professional conduct. However, we believe it is a separate issue and the current wording does not override any independence requirements in the Code of Professional Conduct or in law (as stated in ISAP 1 paragraph 1.3.).</p> <p>No action was taken.</p>
Comment	<p>One commenter suggested that a new factor be added to 2.3.3:</p> <p>(i) <i>“How far risk management or mitigation actions may be appropriate, having regard to the extent to which these actions may cause some other risks to arise or become relatively more important;”</i></p>
Response	<p>We believe this is a risk identification issue and is covered in 2.3.1.</p> <p>No action was taken.</p>
Comment	<p>One commenter suggested that a new factor be added to 2.3.3:</p> <p>(i) <i>“Qualitative risk indicators;”</i></p>
Response	<p>We believe that many of the current factors are qualitative risk indicators.</p> <p>No action was taken.</p>
Comment	<p>One commenter suggested that a new factor be added to 2.3.3:</p> <p>(j) <i>“How the nature and relative importance of risks may change over the time horizon.”</i></p>
Response	<p>We agreed and made the addition.</p>
Comment	<p>One commenter reviewed 2.3.3. (b): <i>The relationship between the insurer’s financial strength and risk profile, and the insurer’s risk management system;</i>” and stated, <i>“Expand on the relevance of this point. Perhaps the point being made is that the risk management system is of greater importance when financial resources are limited?”</i></p>
Response	<p>We do not provide explanations/justifications within the standards themselves for elements of guidance. Educational material such as this is better provided in material such as International Actuarial Notes (IAN).</p> <p>No action was taken.</p>

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<p>Comment</p>	<p>One commenter suggested that the following change be made in 2.3.3, (d): <i>“The extent to which the results of the <u>enterprise risk models</u> used to measure the economic costs and benefits of risk mitigation are consistent with information expressed by market prices for the risks concerned or related risks, where available.”</i> Another commenter suggested adding <i>“where relevant and available.”</i></p>
<p>Response</p>	<p>The stem of 2.3 suggests that <i>“the <u>actuary</u> should consider factors including, but not limited to, the following:”</i> We believe that <i>“relevance”</i> and <i>“availability”</i> are issues that would be included in this <i>“consideration”</i> under ISAP 1.</p> <p>On this point, no action was taken.</p> <p>However, recognizing that parts of the enterprise risk process may involve specific risk analysis and to be more consistent with ICPs, we changed <i>“enterprise risk models”</i> to <i>“risk models”</i>.</p>
<p>Comment</p>	<p>One commenter suggested that the following change be made in 2.3.3 (e): <i>“The operation, and effectiveness and completeness of the risk control and mitigation processes and mechanisms; “</i> Another commenter suggested that the multiple use of <i>“and”</i> was confusing and should be clarified.</p>
<p>Response</p>	<p>We believe the concept of <i>“completeness”</i> is covered by the consideration of <i>“effectiveness”</i>, Regarding the second point, we changed the wording to: <i>“The operation and effectiveness of the processes and mechanisms used to address risk control and risk mitigation”</i>.</p>
<p>Comment</p>	<p>One commenter suggested that the following change be made in 2.3.3 (g): <i>“The culture within the insurer to commit to, and implement, risk mitigation actions when needed, having regard to past practices or commitments made in policies;</i></p>
<p>Response</p>	<p>We believe the proposed wording describes something that would be a part of the consideration necessary to gauge culture. We feel the current wording is appropriate.</p> <p>No action was taken.</p>
<p>Comment</p>	<p>One commenter suggested that the following change be made in 2.3.3 (h): <i>“The impact of potential reasonably foreseeable future adverse environments on the availability and effectiveness of future risk mitigation practices; and”</i></p>
<p>Response</p>	<p>We agreed and made the change. We also changed <i>“environments”</i> to <i>“circumstances”</i> in order to widen the scope of the statement.</p>
<p>Comment</p>	<p>One commenter suggested that the following change be made in 2.3.3 (i): <i>“The existence and effectiveness of the feedback loops in the risk management process”.</i></p>
<p>Response</p>	<p>We agreed and made the change.</p>

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Paragraph 2.4

Comment	One commenter suggested that the following change be made in 2.4.1. (a) .: <i>“The financial strength, risk profile, business management, governance structure and risk environment of the insurer;”</i>
Response	We agreed and made the change.
Comment	One commenter suggested that the following change be made in 2.4.1. (b) .: <i>“Whether the risk management processes are suitably aligned with the insurer’s objectives and strategy, regarding aggregate risk taking and regarding each major risk category, as reflected by the risk appetite, risk tolerance, and risk limits, and any other relevant policies;”</i> . The commenter observed that it would be suitable for the actuary to take account of any other relevant policies that might bear relevance e.g. ALM policy, underwriting policy etc.
Response	We believe that the current wording is sufficiently broad and is appropriate as it stands. No action was taken.
Comment	One commenter suggested that the current 2.4.1. (c) .: <i>“The interdependence of risks relating to the insurer’s assets and liabilities, noting that correlation of risks between different asset classes, products and business lines may not be linear”;</i> be changed to: <i>“Consistency between the allowances for risks relating to the insurer’s assets and to its liabilities”</i> . The commenter cites (e) : <i>(e) Diversification benefits that result from aggregation of risks.</i> and argues that (c) is intended to be about consistency between assets and liabilities, (e) about risk dependencies and the reference to correlation under (c) is then confusing.
Response	We believe that it is appropriate to distinguish between the interdependence of asset and liability risks as separate from the issue of potential diversification benefits resulting from the aggregation of risks. No action was taken.
Comment	One commenter suggested that the current 2.4.1. (c) be changed as follows: <i>“The interdependence of risks relating to the insurer’s assets and liabilities, noting that correlation of risks between different asset classes, products and business lines may not be linear, and in particular, may change and/or be more uncertain in stressed conditions;”</i>
Response	We made the following change: <i>“The interdependence of risks relating to the insurer’s assets and liabilities, noting that correlation of risks between different asset</i>

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	<i>classes, products and business lines may not be linear, and may change under stressed conditions;”</i>
Comment	One commenter suggested that 2.4.1. (d). ” <i>Off-balance sheet exposures that may revert to the insurer in times of difficulty; and”</i> may be considered in 2.3.1. , the section on identification of risks.:
Response	We agreed and added the proposed wording to new 2.3.1. (g).
Comment	One commenter suggested that the following change be made in 2.4.1. (e). : <i>“Diversification benefits that result from aggregation of risks, noting that correlation of risks between different asset classes, products and business lines may not be linear”.</i>
Response	We believe this issue is addressed in 2.4.1. (c). No action was taken.
Comment	One commenter suggested that the following change be made in 2.4.1. (e). : <i>“Diversification benefits that result from aggregation of risks but taking into account that in some circumstances risks may not be as well diversified as in base scenarios;”</i>
Response	We believe the current wording is appropriate. No action was taken.
Comment	One commenter suggested that 2.4.2. is too granular and essentially says that an actuary reviewing an ERM program should review the details of the ERM program. If an item within the ERM program is not listed below, should the actuary ignore?
Response	ISAPs are intended to provide guidance. We have intentionally included in the list of factors to be considered those that we believe are generally critical in the review of an ERM program. That is the guidance we intended. Regarding the question, “ <i>If an item within the ERM program is not listed below, should the actuary ignore?</i> ”, we believe that the stem is clear in its wording, “ <i>factors including, but not limited to, the following:</i> ”. No action was taken.
Comment	One commenter suggested that the following change be made in 2.4.2. : <i>“An <u>actuary</u> who is responsible for, or significantly involved in, developing designing, implementing, maintaining or reviewing the insurer’s ERM framework should.”</i>
Response	We believe the current wording is appropriate and note that the use of the term “ <i>developing</i> ” is consistent with ISAP 1 and ISAP 5. No action was taken.
Comment	One commenter suggested that the following change be made in 2.4.2. (b). :

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Response	<p><i>“The adequacy of the risk management resources and capabilities within the insurer for the current and projected risk profile and risk management strategies;”</i></p> <p>We made the following change: <i>“The adequacy of the risk management resources and capabilities within the insurer for the current and anticipated risk profile and risk management strategies;”</i>.</p>
Comment	One commenter suggested that the following change be made in 2.4.2. (g) : <i>“The effectiveness of risk communication channels within the insurer, including risk escalation processes, and with its supervisors.”</i>
Response	<p>We believe the nature of this ISAP and its relationship to regulatory principles makes the current wording appropriate.</p> <p>No action was taken.</p>
Comment	One commenter suggested that the following change be made in 2.4.2. (i) : <i>“The operational quality and effectiveness of key ERM framework related policies, processes and mechanisms, including, but not limited to, outsourcing management, business continuity management (including pandemic response management), whistle blowing policies, fraud and privacy risk management, model risks risk management and business conduct risk management;”</i>
Response	We agreed and made the change.
Comment	One commenter suggested that a change be made in 2.4.2. (l) : <i>(l) The adequacy of the insurer’s ORSA process.</i> by including a specific reference to 2.5 Own Risk and Solvency Assessment .
Response	<p>We believe that such a cross-reference is not necessary.</p> <p>No action was taken.</p>
Comment	<p>One commenter suggested that the following change be made in 2.4.3. (a): <i>“Potential risks and benefits of belonging to a group structure, recognizing potential limits on fungibility of capital and on transfer of assets between separate legal entities”</i></p> <p>This commenter felt that general consideration of the benefits and risks associated with being part of a group is beyond the scope of such a review. Furthermore, they felt that it is non-value-added to review each time since the benefits and risks will not change - this is equivalent to reviewing every year whether an acquisition closed years ago.</p>
Response	We believe that the <i>“potential risks and benefits of belonging to a group structure”</i> is an important issue that should be <i>“considered”</i> every year. If nothing has changed during the prior year, then the consideration will be straightforward. We believe the current wording is appropriate.

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	We made a minor editorial change: <i>“The risks and benefits of belonging to a group structure, recognizing potential limits on fungibility of capital and on transfer of assets between separate legal entities”</i> .
Comment	Two commenters suggested that the following change be made in 2.4.3. (b) : <i>“Potential Reasonably foreseeable changes in the group structure which could impact the capital and solvency of the insurer and its ability to continue in business;”</i>
Response	We agreed and made the change.
Comment	One commenter suggested that the following change be made in 2.4.3. (c) : <i>“Stress testing and reverse stress testing should include changes in the group structure and in the support that the insurer receives from other members of the group;”</i> This assumes that the intention is for changes in the support under stresses to be allowed for, rather than simply for the support to be allowed for in general. There is a potential ambiguity if the second “in” is not included.
Response	We agreed and made the change.
Comment	One commenter suggested that the following change be made in 2.4.3. (c) : <i>“Risk modelling, stress testing and reverse stress testing should include changes in the group structure and the support that the insurer receives from other members of the group;”</i>
Response	We agreed that this wording is more consistent with ICP 16 and made the following changes: <i>“Risk modelling, stress testing, reverse stress testing and scenario testing should include changes in the group structure and in the support that the insurer receives from other members of the group;”</i> .
Comment	One commenter suggested that the phrase <i>“<u>Stress testing</u> and <u>reverse stress testing</u> should include changes in the group structure”</i> in 2.4.3. (c) is similar to 2.4.3. (b) . The commenter also suggested that the phrase <i>“... and the support that the insurer receives from other members of the group;”</i> was redundant to 2.4.3. (a) , the reference to fungibility of capital and the transfer of assets between separate legal entities.
Response	We believe that each of these issues, while related, have important and distinct characteristics and that the current wording is appropriate. No action was taken.
Comment	One commenter suggested that the following change be made in 2.4.3. (e) : Current: <i>“Imposition of risk management controls and tolerance limits by group management;”</i> Change to: <i>“Reporting and implementation of the entities group risk management strategy where appropriate;”</i>
Response	We believe the current wording is appropriate. No action was taken.

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Comment	One commenter suggested that 2.4.3. (f) (“ <i>Differences in legal and regulatory requirements between jurisdictions;</i> ”) was very broad. The commenter asked the questions, “Does an actuary in subsidiary A of a multinational company operating in 150 countries need to consider differences in all 150 countries? What is the intent of this suggested consideration, and how would it work in practice?”
Response	It is a fact that regulatory differences can create significant risks for a multinational company and should be “considered”. In practice, it is likely that even a company operating in 150 countries will only have a few situations that might give rise to any material risk. However, it is important that this issue is “considered”. While that may appear cumbersome, it is an important risk element that should be accounted for. No action was taken.
Comment	One commenter suggested that the following change be made in 2.4.3. (g) : <i>“Assessment of adequacy of any risk transfer strategies between companies in the same insurance group. This should include contagion effect of adverse circumstances in other members of the group which could impact the capital and solvency of the insurer”</i>
Response	We believe that the suggested additional wording is a specific example of the “contagion effect” that might impact one company within a group. and felt that the existing language is broader and more appropriate. No action was taken.
Comment	One commenter questioned the need for 2.4.3. (g) since they felt it was a <i>“combination of a, c and g, as all concern risk, capital and asset flows between entities within a group.”</i>
Response	We believe that the issue of “contagion” is important enough to highlight here. Also, by definition, it will usually be some combination of these or other risk factors. We believe the wording is appropriate. No action was taken.

Paragraph 2.5.

Comment	One commenter suggested that the following change be made in 2.5.1 : Replace “ <i>developing</i> ” with “ <i>designing</i> ”.
Response	We believe the current wording is appropriate and note that the use of the term “ <i>developing</i> ” is consistent with ISAP 1 and ISAP 5. No action was taken.
Comment	One commenter suggested that the following change be made in 2.5.1 : <i>“The <u>actuary</u> responsible for, or significantly involved in, developing, implementing, maintaining or reviewing an ORSA or ORSA process for an insurer, should consider, in addition to the items in sections 2.3. and 2.4. above, factors including, but not limited to, the following:”</i>

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Response	<p>Neither ICP 8 nor ICP 16 refer to “the ORSA process” and we believe the concept of “process” is included in the “Assessment” aspect of ORSA.</p> <p>We changed “<i>ORSA process</i>” to “<i>ORSA</i>” in the Introduction, 2.1, 2.4.2. (l) and 2.5.1 (b).</p> <p>No action was taken on 2.5.1.</p>
Comment	One commenter suggested that “ <i>Accounting basis</i> ” be added as an additional factor to the list in 2.5.1 .
Response	We agreed and made the change.
Comment	One commenter suggested that the following change be made in 2.5.1. (e) : “ <i>The assumptions regarding expected and unexpected reasonably foreseeable changes in the economie external environment;</i> ”
Response	We agreed and made the changes.
Comment	One commenter suggested that the following change be made in 2.5.1. (g) : “ <i>Assumptions regarding future management actions, including the appropriateness of such management actions having regard to any relevant past practices or commitments made in policies, and access to new capital in times of financial stress as well as prior experiences in the industry with similar actions;</i> ”
Response	<p>For clarity, we removed the reference to “<i>future management actions</i>” from 2.5.1. (g) and inserted it as a new factor after 2.3.2. (f):</p> <p>2.3.2. (g) <i>The appropriateness of the assumptions regarding future actions taken by management and by external parties, taking into account prior experiences in the industry with similar actions.</i></p> <p>We made a similar insertion after 2.3.3 (e).</p>
Comment	<p>One commenter suggested that the following change be made in 2.5.1. (g): “<i>Assumptions regarding future management actions and access to new capital in times of financial stress as well as, <u>and their reasonableness given</u> prior experiences in the industry with similar actions”.</i></p> <p>This clarifies that the point is whether the assumptions are realistic bearing in mind the prior experience.</p>
Response	<p>We believe “reasonableness of assumptions” is adequately covered in ISAP 1.</p> <p>We changed 2.5.1. (g) to read “<i>Assumptions regarding access to new capital in times of financial stress</i>” to be consistent with the changes presented above.</p>
Comment	One commenter suggested that the following change be made in 2.5.1. (g) : “ <i>Assumptions regarding future management actions by management and other stakeholders and access to new capital in times of financial stress as well as prior experiences in the industry with similar actions”.</i>

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Response	Given the changes we have discussed above, we have incorporated this suggestion as follows: New 2.3.2 (g) and new 2.3.3 (f) : <i>The appropriateness of the assumptions regarding future actions taken by management and by external parties, taking into account prior experiences in the industry with similar actions.</i> Revised 2.5.1. (g) : <i>Assumptions regarding access to new capital in times of financial stress.</i>
Comment	One commenter suggested that the following change be made in 2.5.1. (h) : <i>“Differences between the insurer’s economic capital own assessment of its capital needs and its regulatory capital;”</i>
Response	We agreed and made the change.
Comment	One commenter suggested that the following change be made in 2.5.1. (j) : <i>“The level of severity of the risk modelling, stress testing, scenario testing and reverse stress testing; and”</i>
Response	We agreed that this wording is more consistent with ICP 16 and made the following changes for clarity. We also changed the order to read <i>“stress testing, reverse stress testing and scenario testing”</i> to be consistent with ICP 16 and 2.4.3. (c) . 2.5.1. (j) now reads: <i>“The level of severity reflected in the risk modelling, stress testing, reverse stress testing and scenario testing”.</i>

Paragraph 3.1.

Comment	One commenter suggested that 3.1. could include the need for disclosure of reliance on the other components of the ERM program.
Response	We believe ISAP 1 is clear on the issue of reliance in general. No change was made.

Glossary

Comment	One commenter suggested the following additions to the Glossary: Risk Limit: <i>qualitative or quantitative measures that allocate the organization’s risk appetite to business units and subsidiaries (as relevant), specific risk categories, concentrations, and other levels as appropriate.</i> Risk Tolerance: <i>the maximum level of variation from an organization’s desired level of risk that it is both willing and able to accept.</i> Risk Profile: <i>a point-in-time assessment of an organization’s composite risk exposures aggregated within and across each relevant risk category.</i>
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<p>Response</p>	<p>In the introduction, it is stated that “Some terms, such as risk appetite, risk tolerance or risk limit, are used both in this ISAP and in ICP 8 and ICP 16. When such terms are referenced without definition in this ISAP or in the associated Glossary, they are intended to have the meaning in the context with which they are used in ICP 8 and ICP 16.”</p> <p>The absence of consistent definitions can lead to confusion regarding the amount of risk deemed appropriate for an entity or an individual risk. We recommend that the IAA review the definitions used throughout the referenced documents and the ERM glossary and seek to harmonize and fill gaps in relevant definitions. For example, gaps we have identified include definitions for “risk limit” and “risk profile”. We have also provided an alternate definition of “risk tolerance” that is in use within many organizations</p> <p>Also, “Sensitivity Test” is an important component of a stress-testing program and should also be defined in the ERM glossary.</p> <p><i>Sensitivity Test: the process of recalculating outcomes under alternative assumptions to determine the impact of a variable.</i></p> <p>This ISAP is intended to be a Model standard which local standard-setting bodies could use to develop guidance for their actuaries in complying with regulations consistent with ICP 8 and ICP 16. As such it would not be productive for the IAA to propagate definitions different from those which are specifically contained in the appropriate regulations, regardless of what some other actuaries or companies may use within their own environment. To this point, the IAIS has published definitions in their current Glossary for “<i>risk tolerance</i>” and “<i>sensitivity test</i>” and have announced their intention to add definitions for “<i>risk profile</i>” and “<i>risk limit</i>”.</p> <p>No action was taken.</p>
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