INTERNATIONAL ACTUARIAL ASSOCIATION **Comments Template for Exposure Draft of ISAP 5**

Deadline: 31 March 2016

Please use this template to comment on the Exposure Draft of ISAP 5 on Insurer Enterprise Risk Models, and the proposed revisions to the Glossary for ISAP 5.
The IAA invites comments on this Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:
(a) Comment on the questions as stated;
(b) Indicate the specific paragraph or group of paragraphs to which they relate;
(c) Contain a clear rationale; and
(d) Include any alternative that the IAA should consider, if applicable within the scope of the Statement of Intent for ISAP 5.

	Identification and instructions	
Name of Individual:	Please indicate if your comments are personal, or represent your organization:	**Julian Gribble (comments of organisation)**
Name of organization		**International Association of Insurance Supervisors**
Disclosure of comments:	Please indicate if your comments should be treated as confidential, and if so why:	**Comments as public**
Instructions for filling in and sending the template	Please follow the following instructions for filling in the template: ⇨ Do **not** write in the yellow shaded cells ⇨ Write in the white cells ⇨ When commenting on a specific paragraph: ○ Please use a separate row for each paragraph, sub paragraph, or bullet. ○ Please include the full reference in the first column such as "Introduction 3rd paragraph 2nd bullet" or "2.6.1.b.ii" ○ Please insert/append extra rows as needed. **Please send the completed template, renamed with the organization's or individual's name, attached in Word Format, to** ISAP5.comments@actuaries.org	

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	Specific Questions asked by the ASC	Response
Q1.	Is the guidance clear and unambiguous? If not, how should it be changed?	Guidance is high level and directional only. This may be appropriate for developing guidance that it is anticipated may be further developed by member associations to reflect their more specific circumstances
Q2.	Is the guidance sufficient and appropriate? If not, how should it be changed?	See Q1
Q3.	Is it clear how the guidance in the proposed ISAP relates to the guidance in ISAP 1 and ISAP 1A? If not, how should it be changed?	No comment
Q4.	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?	See Q1
Q5.	Are there other matters that should be included in this standard? Are there some included here that should not be?	See Q2 and specific comments below

	General Comments on the ISAP 5 Exposure Draft	
	1 Background The International Association of Insurance Supervisors (IAIS) welcomes the opportunity to provide comments to be considered by the International Actuarial Association's (IAAs) drafting committee developing its International Standards of Actuarial Practice (ISAP) 5, "Insurer Enterprise Risk Models" (ISAP5). The IAIS represents insurance regulators and supervisors of more than 200 jurisdictions in nearly 140 countries, constituting 97% of the world's insurance premiums. Its objectives are to: • Promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders; and to	

	• Contribute to global financial stability Fundamental to the IAIS achieving these objectives is for the IAIS to develop principles, standards and guidance for the supervision of insurance markets, and to support the implementation and practical application of its principles and standards. As with the IAA and its relationship with its member Associations, the IAIS does not itself carry out the implementation of its supervisory materials in any jurisdiction, as that is the responsibility of that jurisdiction's supported by its insurance regulators and supervisors. In this context the IAIS supports the work the IAA is undertaking in developing global actuarial guidance with the objective of supporting IAA members developing their own guidance, consistent with IAA guidance, to support their actuaries when performing actuarial services. **2 Scope and coverage** It is not clear to us whether there are key issues that may impact IASP5 addressed in other ISAPs (current or planned) or not. Wesuggest further clarity be added to ISAP 5 regarding what is explicitly in its scope and what is out of the scope due to it being coveredin other standards (noting those related standards). As it stands, in isolation, we suggest that there may be gaps in the scope and balance of ISAP5. For example there are few to no provisions made in terms of model scope, data quality, parameterization methodology, general provisions on model structure and theory, statistical quality standards and model calibration. In the same vein, the level of detail of the document also seems mixed. We are not clear on what the intended appropriate level of detail, but suggest that is be consistent throughout the ISAP. For example, there are specific provisions for stress and scenario testing (a modelling approach) but no general provisions on various areas as noted above, and no specific provisions on stochastic modelling (another widely used modelling approach).

Comments on specific paragraphs of the ISAP 5 Exposure Draft		
Full paragraph reference	**Change proposed to the paragraph (markup preferred)**	**Reason the change is needed (can be kept very brief or left blank if obvious from the change)**
Introduction	Actuaries play a principal role in assuring financial soundness of insurers. Their approach includes ERM and the use of enterprise risk models for assessment of ***risk and*** capital. Enterprise risk models are those models that are developed for	

	insurers to comprehensively and consistently evaluate risks. Examples include "capital models" and "internal models" as ***specified*** by the International Association of Insurance Supervisors (IAIS). Specifically, the central importance of enterprise risk models to insurance business management is clearly demonstrated in two of the ***I***nsurance ***C***ore ***P***rinciples ***(ICPs)*** published by the IAIS for assessment and supervision of insurance entities, ICP 16 - Enterprise Risk Management for Solvency Purposes and ICP 17 - Capital Adequacy.	
Introduction	Increasingly, boards and senior managements of insurers rely on enterprise risk modelling for both regulatory and management decision-making purposes. As a result, insurance entities, their stakeholders and other interested parties have a strong interest in the reliable operation and transparent governance of the use of enterprise risk models. As employees or advisors, actuaries play an important role in advising insurers and others on the development or selection of the appropriate models***, and the related management, testing, validation and interpretation of outcomes.***	
1.2	***Scope:*** This standard will apply to actuaries when performing actuarial services involving the development and use of enterprise risk models, including stress tests and scenario tests, to assess solvency and produce risk metrics for ERM programs of both group and solo insurance entities. These models are generally categorized as those that aid in evaluating risk to an organization (risk evaluation models) or those that are used to ***support setting*** appropriate levels of capital (capital models).	
2.1.1	Information about the financial strength, risk profile, ***business management*** and environment of the organization that is relevant to the assignment;	
2.1.3	Relationship between the organization's financial strength, risk profile, ***business management*** and risk environment as identified in 2.1.1. above, and the organization's risk management system as identified in 2.1.2. above. If in the actuary's professional judgment, a significant inconsistency exists, then that inconsistency should be reflected in the risk assessment and in the report; and	

2.3.1	The actuary's assumptions should normally reflect the actual situation ***and purpose of the modelling*** as of the valuation date, modified for any known future changes.	
2.4.1.c)	The company's business plan and/or past or current own risk and solvency assessments regarding how the company will function during ***stressed and*** catastrorhic event***s***;	
2.4.1 e)	Add to this requirements of law ***'and, where relevant, any supervisory and regulatory requirements'.***	It is appreciated this may by implied by the word 'law' but suggest an explicit rather than implicit statement.
2.4.1 g)	***Other*** subject matter experts.	External industry experts already referred to in d)
2.5	Multiple models and multiple stress tests or scenario tests are often developed for different ***purposes*** for the same entity (e.g. accounting requirements, regulatory valuation, risk evaluation to determine capital needs). The actuary should assess the reasons for and the impact of using multiple models and multiple stress tests or scenario tests and provide a reconciliation of any material differences ***and assess whether they are fit for the purpose they are proposed to be used for.*** ***When multiple models are available, especially if some of these models are developed and/or managed external to the insurer, the actuary should provide reasons for the choice of model(s) preferred, particularly when the model(s) used and/or the relative preference for them changes from the prior position***.	The matching of models used and the purpose to which their outputs will be used need to be managed carefully and explicitly to avoid inappropriate use of model outputs. When external models and their outputs are used additional care needs to be exercised to gain assurance there is adequate and appropriate understanding of the modelling and its limitation so that outcomes can be appropriately interpreted and communicated. Catastrophe modelling is a specific example of complex third party models that may be used. This implicitly addresses matters of governance and management, especially when using outputs from externally sourced and managed models.
3.1.4	The significant assumptions used in the ***models (including*** stress test or scenario test***)***, including the actions assumed to be taken by management (2.4.2.a.);	

3.1.5	Any known limitations of the ***models (including*** stress tests or scenario tests***)*** and an assessment of the potential impact of these limitations on results (2.4.2.b.); and	

Comments on specific definitions in the Exposure Draft of the updated Glossary **Note that only the proposed revisions are open for comment**		
Defined Term	**Change proposed to the definition (markup preferred)**	**Reason the change is needed (can be kept very brief or left blank if obvious from the change)**
No comment	**No comment**	**No comment**