



Institute  
and Faculty  
of Actuaries

# Consultation: Exposure Draft of Proposed ISAP6 – Enterprise Risk Management Programs and IAIS Insurance Core Principles

IFoA response to Actuarial Standards Committee

28 February 2018

## **About the Institute and Faculty of Actuaries**

The Institute and Faculty of Actuaries is the chartered professional body for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuous professional development and a professional code of conduct supports high standards, reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.



By email

28 February 2018

Dear Mr Perrott,

**Consultation: Exposure Draft of ISAP 6 on Enterprise Risk Management Programs and IAIS Insurance Core Principles**

Thank you for the opportunity to comment on the Actuarial Standards Committee's (ASC) Exposure Draft of ISAP 6 on Enterprise Risk Management Programs and IAIS Insurance Core Principles (ISAP 6).

The Institute and Faculty of Actuaries (IFoA) commends the IAA's efforts to promote high standards in reporting of Enterprise Risk Management work. It has considered the proposals and is generally supportive of the standard as drafted. We have suggested that the standard could include guidance to help actuaries respond appropriately in cases where risk appetite exceeds risk tolerance. We have also suggested changes to specific paragraphs of the Exposure Draft, which are set out in the completed Comments Template (enclosed). Other than these specific comments we have no further feedback on the detail of the standard.

We note that the Exposure Draft of ISAP 6 references the current versions of ISAP 1 *General Actuarial Practice* and ISAP 1A *Governance of Models*. We also note from the Transmittal Memorandum of 17 October 2017 that it is intended that ISAP 6 will be modified accordingly, should the proposed revisions to ISAP 1 to merge it with ISAP 1A be approved by Council of the IAA. We do not have any comments in relation to this proposed approach, beyond those provided in our response to the ASC on its Exposure Draft of Proposed Revisions to ISAP 1 (dated 9 November 2017).

We hope that this feedback is useful. If there is anything within this response that is unclear or if the ASC has any questions then we would be happy to discuss it further or provide additional information.

If you have any questions about the response please contact Michael Williams ([Michael.Williams@actuaries.org.uk](mailto:Michael.Williams@actuaries.org.uk)).

Yours sincerely,

Des Hudson  
Chair, Regulation Board



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Please use this template to comment on the [Exposure Draft of ISAP 6 on on Enterprise Risk Management Programs and IAIS Insurance Core Principles](#), and the proposed revisions to the [Glossary for ISAP 6](#).

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 6](#).

<b>Identification and instructions</b>		
Name of Individual:	Please indicate if your comments are personal, or represent your organization:	
Name of organization		<b>Institute and Faculty of Actuaries</b>
Disclosure of comments:	Please indicate if your comments should be treated as confidential, and if so why:	
Instructions for filling in and sending the template	<p>Please follow the following instructions for filling in the template:</p> <ul style="list-style-type: none"> <li>⇒ Do <b>not</b> write in the yellow shaded cells</li> <li>⇒ Write in the white cells</li> <li>⇒ When commenting on a specific paragraph:               <ul style="list-style-type: none"> <li>○ Please use a separate row for each paragraph, sub paragraph, or bullet.</li> <li>○ Please include the full reference in the first column such as “Introduction 3<sup>rd</sup> paragraph 2<sup>nd</sup> bullet” or “2.6.1.b.ii”</li> <li>○ Please insert/append extra rows as needed.</li> </ul> </li> </ul> <p><b>Please send the completed template, renamed with the organization’s or individual’s name, attached in <u>Word Format</u>, to <a href="mailto:ISAP6.comments@actuaries.org">ISAP6.comments@actuaries.org</a></b></p>	



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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?	
Q2.	Is the guidance sufficient and appropriate? If not, how should it be changed?	
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?	
Q4.	Are there other matters that should be included in this standard? Are there some included here that should not be?	We suggest that the standard could help the actuary to decide what it is his duty to do if risk appetite exceeds risk tolerance. Such a situation could lead to insolvency and it may be that the actuary should specifically raise the matter with the highest level in the organisation and/or with the regulator.

	General Comments on the ISAP 6 Exposure Draft	

Comments on specific paragraphs of the ISAP 6 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)
1.1, 3 <sup>rd</sup> bullet	<p><b>Change from:</b> The assumptions and methodology used are disclosed appropriately.</p> <p><b>Change to:</b> The assumptions and methodology used are disclosed appropriately.</p>	



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	<p>including any significant limitations.</p>	
2.3.1	<p><b>Insert new paragraph a.</b></p> <p>The objectives of the enterprise and the way in which the risks identified pose a threat to those objectives.</p>	
2.3.1.b	<p><b>Change from:</b> 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 (e.g. reputational risk);</p> <p><b>Change to:</b> 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);</p>	
2.3.1.g	<p><b>Change from:</b> Whether the causes of, and events likely to give rise to, insurer risks and their consequences have been sufficiently identified;</p> <p><b>Change to:</b> Whether the potential causes of, and events likely to give rise to, insurer risks and their consequences have been sufficiently identified;</p>	



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2.3.1.h	<p><b>Change from:</b> Risks arising as a consequence of risk management activities (e.g. credit risk arising from the transfer of risk); and</p> <p><b>Change to:</b> Risks arising <b>or becoming relatively more important</b> as a consequence of risk management activities (e.g. credit risk arising from the transfer of risk); and</p>	
2.3.2	<p><b>Insert new paragraph:</b> <b>The likelihood and impact of any risks arising or becoming relatively more important as a consequence of risk management or mitigation.</b></p>	<p>Section 2.3.1 provides that an actuary who identifies insurer risks should consider risks arising or becoming relatively more important as a consequence of risk management activities. However, we note that this point is not followed through to 2.3.2 or 2.3.3. We therefore suggest this addition.</p>
2.3.2	<p><b>Change from:</b> An actuary who is responsible for, or significantly involved in, assessing the impact of the insurer's risks should consider factors including, but not limited to, the following:</p> <p><b>Change to:</b> An actuary who is responsible for, or significantly involved in, assessing the <b>likelihood and</b> impact of the insurer's risks should consider factors including, but not limited to, the following:</p>	
2.3.2.a	<p><b>Change from:</b> The appropriateness of assessing some risks qualitatively in addition to, or instead of, assessing them quantitatively;</p> <p><b>Change to:</b> <del>The appropriateness of assessing some risks q</del><b>Qualitatively assessments of risk</b> in addition to, or instead of, assessing them quantitatively;</p>	
2.3.2.b	<p><b>Change from:</b> Risk correlations, risk aggregations and tail risks (e.g. catastrophe and pandemic risks, and complex outsourcing risks);</p>	



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	<b>Change to:</b> Risk correlations, risk aggregations and tail risks (e.g. catastrophe and pandemic risks, and complex outsourcing risks), <b>including the uncertainty and credibility/relevance of the available data;</b>	
2.3.2.c	<p><b>Change from:</b> The appropriateness of the enterprise risk models that are used, as well as the stress testing, scenario testing and reverse stress testing techniques that are applied;</p> <p><b>Change to:</b> The appropriateness of the enterprise risk models that are used, as well as the <b>implications of the results of</b> stress testing, scenario testing and reverse stress testing techniques that are applied;</p>	
2.3.2.d	<p><b>Change from:</b> 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;</p> <p><b>Change to:</b> 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 <b>as well as the relevance and credibility of the market prices;</b></p>	
2.3.2.g	<p><b>Change from:</b> Obtaining appropriate input regarding impact from management, other knowledgeable persons within the insurer, other subject matter experts and supervisors.</p> <p><b>Change to:</b> <del>Obtaining</del> <b>The</b> appropriate input regarding <b>likelihood and</b> impact from management, other knowledgeable persons within the insurer, other subject matter experts and supervisors.</p>	
2.3.2.h	<b>Insert new paragraph h: Consistency of risk assessments between risks and over</b>	



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	time;	
2.3.3	<b>Insert new paragraph:</b> 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.	Section 2.3.1 provides that an actuary who identifies insurer risks should consider risks arising or becoming relatively more important as a consequence of risk management activities. However, we note that this point is not followed through to 2.3.2 or 2.3.3. We therefore suggest this addition.
2.3.3.e	<b>Change from:</b> The operation and effectiveness of the risk control and mitigation processes and mechanisms;  <b>Change to:</b> The operation <del>and</del> effectiveness <b>and completeness</b> of the risk control and mitigation processes and mechanisms;	
2.3.3	<b>Insert new paragraph h:</b> Qualitative risk indicators;	
2.3.3	<b>Insert new paragraph i:</b> How the nature and relative importance of risks may change over the time horizon; and	
2.4.1.c	<b>Change from:</b> 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;  <b>Change to:</b> 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, <b>and in particular may change and/or be more uncertain in stressed conditions;</b>	
2.4.1.e	<b>Change from:</b> Diversification benefits that result from aggregation of risks;  <b>Change to:</b> Diversification benefits that result from aggregation of risks <b>but taking into account that in some circumstances risks may not be as well diversified as in</b>	



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	base scenarios.	
2.4.2.b	<p><b>Change from:</b> The adequacy of the risk management resources and capabilities within the insurer;</p> <p><b>Change to:</b> The adequacy of the risk management resources and capabilities within the insurer <b>for the current and projected risk profile and risk management strategies;</b></p>	
2.4.3.e	<p><b>Change from:</b> Imposition of risk management controls and tolerance limits by group management;</p> <p><b>Change to:</b> <b>Reporting and implementation of the entities group risk management strategy where appropriate;</b></p>	
2.4.3.g	<p><b>Change from:</b> Contagion effect of adverse circumstances in other members of the group which could impact the capital and solvency of the insurer.</p> <p><b>Change to:</b> <b>Assessment of adequacy of any risk transfer strategies between companies in the same insurance group. This should include</b> <del>C</del>contagion effect of adverse circumstances in other members of the group which could impact the capital and solvency of the insurer.</p>	

Comments on specific definitions in the Exposure Draft of the updated Glossary

Note that only the proposed revisions are open for comment



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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)