

December 16, 2011

ERM Discussion Drafts
Actuarial Standards Board
Suite 300, 1850 M Street
Washington, DC 20036

Re: Comments on Discussion Drafts – Actuarial Standards of Practice for Enterprise Risk Management (ERM)

We are pleased to provide our comments on the above-mentioned discussion drafts.

GENERAL COMMENTS

We are supportive of the ERM Task Force’s objectives in developing standards of practice for ERM outlined on page iii. However, in order to strengthen the standards, the term “appropriate actuarial practice” should be replaced with “accepted actuarial practice”. The latter term is consistent with the term currently applicable to other standards of practice, and provides a more robust and rigorous requirement for adherence to actuarial practice. In addition, the standards should be streamlined by using a “principle-based” approach and also provide sample wording on opening of ERM work. There are other groups outside the actuarial profession which are also promulgating standards for ERM; therefore, a more rigorous definition and opening on ERM work will provide the necessary differentiation of the actuarial profession over other groups.

COMMENTS RELATING TO QUESTIONS OUTLINED IN THE DISCUSSION DRAFTS

The following comments are provided in the same order as listed in the Request for Comments:

1. Is the structure of two discussion drafts dealing with “risk evaluation” and “risk treatment” separately appropriate or should the task force consider some other organizational structure for any possible ASOPs?

In our view, the two discussion drafts read more like educational notes that usually supplement standards of practice (this comment is made in the CIA context). If read as educational notes then the separate treatment of “risk evaluation” and “risk treatment” is appropriate from a clarity and learning standpoint. However, viewed as standards of practice, the structure and organization of material need to be streamlined and framed so that they actually read as standards of practice. The two discussion drafts have some duplications and overlaps and this could be addressed by using combining/restructuring. Furthermore, this would ensure consistency in definitions we used.

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2. Would standards along these lines integrate well with the existing body of ASOPs, or would there be overlaps, inconsistencies, etc.?

There are certain sections of the discussion drafts that would integrate very well with the standards of practice; for example, the Communications and Disclosures section and certain paragraphs on definitions, data and methodology. With some editing, these sections could be incorporated in a single document. Other sections listing considerations that the actuary may wish to consider could also be included in standards as “may” is also permitted language in standards. But most likely these would be best suited for guidance material, at least in the early days. Interestingly, most such paragraphs refer to considerations that one “may wish to consider” but others are more prescriptive. Sections 120–131 use “should consider” and sections 139–148 an even stronger “should take into account”. We prefer at this point the wording “may wish to consider” for all such sections and leave the more prescriptive language “should contain” to items related to Communications and Disclosure (see also question 6).

It is important to keep in mind that unlike other standards of practice pertaining to a specific practice, ERM crosses multiple practices (life insurance, pension, health, other non-traditional actuarial practices, etc.) and, therefore, there is bound to be overlap with other standards of practice. Any inconsistencies can be removed by careful editing to ensure that the intended meaning in the standards is not altered. For example, we must ensure that ERM standards for economic capital models and ASOP 38 Using Models Outside the Actuary’s Area of Expertise (Property and Casualty) are consistent.

3. Would such standards adequately cover contemporary ERM practice? For example, would the standards adequately address the various types of risks (i.e., contingencies, financial, operational, strategic, etc.) that are currently addressed in a comprehensive ERM study?

The discussion drafts provide good material to capture current ERM practice; for example, the material on economic capital under Risk Evaluation and the material on risk appetite, limits and tolerance under Risk Treatment adequately cover current practice. The material on emerging risks and other risk evaluations, although adequate, does not capture all practices, which are very different among different organizations. The material covers the various types of risk in generality, although certain risks prevalent in the pension, health and other non-traditional fields must be incorporated to make it relevant to the enterprise in its entirety. For example, the concept of economic capital is not yet broadly deployed in the pension or health industries.

4. Do the standards cover core elements satisfactorily, while still allowing for the future emergence of new elements of ERM practice?

The discussion drafts did cover the core elements allowing for future emergence. However, the drafts should include statements that make it clear to the user of the standards that new elements of ERM practice and emerging practice (if justifiable) are within the realm of accepted actuarial practice.

5. Would such standards create any conflicts with internal policies and procedures that various firms are currently utilizing in their ERM activities?

The standards should recognize that actuaries are not employed by all enterprises that use ERM frameworks and risk practices. These standards will be useful for actuaries practising in the traditional actuarial practices (life insurance, pension and health) who are also engaged in ERM activities within their organizations. For non-actuaries working in critical risk areas in the

energy, mining and other such companies *with or without* actuaries, there may be potential for conflicts with internal policies and procedures because non-actuaries in a peer organization may apply policies that are acceptable practices in this specific industry but not acceptable under actuarial standards.

6. Are the drafts too prescriptive or not prescriptive enough? Are they clear or are there ambiguities?

The discussion drafts appear to be a little too prescriptive (example: items 139 to 143 of the Risk Treatment section read as a process rather than a set of standards). The discussion drafts should be written into educational notes by including additional reference material, thereby providing material at a level which is not prescriptive and is a future roadmap for developing standards. The discussion drafts are generally clear. However, certain definitions (risk appetite, risk limits, residual risk, etc.) may result in ambiguities between actuaries and other risk practitioners.

7. Could these standards be applied to entities outside of the traditional practice areas for actuaries?

There is little traction of ERM activities in non-traditional practices. There is also limited understanding of actuarial techniques and methodology for non-traditional ERM work. The standards would need to be significantly refined once “acceptable ERM practice” in non-traditional practices is developed and understood. As it stands, these standards would have little application in non-traditional practice areas.

8. Would these standards provide adequate guidance for CERA practitioners? Would they encourage the right behaviours and discourage wrong behaviours?

These standards may provide adequate guidance to CERA practitioners in the life insurance practice area. The standards would not be relevant to CERAs in pension, health and non-traditional areas.

9. Would such standards be helpful in dealing with situations in which ERM work is being reviewed by auditors or regulators?

In our view, ERM standards should not be prescriptive due to the nature of their application to different businesses, units and activities. The standards cannot and should not attempt to cover all possible activities. They should allow for actuarial judgment and use of techniques and procedures that may seem relevant and applicable in the circumstances as long as the actuary can justify such approaches.

ERM standards which are not prescriptive (“principle-based”) will result in auditors and regulators engaging actuaries in strategic roles rather than actuaries being “modellers and calculators” (as has been the case in a significant amount of pension actuarial work).

10. Although ASOPs are developed for U.S. practice, are there additional issues the task force should consider with respect to international practice?

ERM is international, as is the CERA designation; therefore, any standards applicable to U.S. CERAs will be relevant to non-U.S. CERAs. It is important that any ERM ASOP is coordinated with the International Actuarial Association (IAA) to ensure consistency with IAA standards.

Also, it is important to obtain feedback from other key organizations (UK, Australia and Canada) where there are a significant number of CERA and ERM practitioners.

IN SUMMARY

We are fully supportive of the ERM Task Force initiative to develop standards for ERM practice.

We believe that it would be best to gradually introduce standards as the practice emerges and use educational notes to cover the gap in the meantime. Once there is more traction of actuaries in ERM activities, the knowledge and practices will be used to develop more robust standards, thereby allowing for a disciplinary process to be established.

Sincerely,

A handwritten signature in blue ink that reads "Jim Christie". The signature is written in a cursive style with a large, stylized initial "J" that loops around the first part of the name.

Jim Christie
President