

Title of Exposure Draft: Enterprise Risk Management ASOP

Comment Deadline: [September, 15, 2023]

Instructions: Please review the exposure draft, and give the ASB the benefit or your recommendations by completing this comment template. Please fill out the tables within the section below, adding rows as necessary. Sample for completing the template provided at the following link: <http://www.actuarialstandardsboard.org/email/2020/ASB-Comment-Template-Sample.docx>

Each completed comment template received by the comment deadline will receive consideration by the drafting committee and the ASB. The ASB accepts comments by email. Please send to comments@actuary.org and include the phrase 'ASB COMMENTS' in the subject line. Please note: Any email not containing this exact phrase in the subject line will be deleted by our system's spam filter.

The ASB posts all signed comments received to its website to encourage transparency and dialogue. Comments received after the deadline may not be considered. Anonymous comments will not be considered by the ASB nor posted to the website. Comments will be posted in the order that they are received. The ASB disclaims any responsibility for the content of the comments, which are solely the responsibility of those who submit them.

I. Identification:

Name of Commentator / Company
Michael Fong, FSA, MAAA / New York Life Insurance Company
Sent on behalf of New York Life Insurance Company

II. ASB Questions (If Any). Responses to any transmittal memorandum questions should be entered below.

Question No.	Commentator Response

III. Specific Recommendations:

Section # (e.g. 3.2.a)	Commentator Recommendation (Please provide recommended wording for any suggested changes)	Commentator Rationale (Support for the recommendation)
1.2	<p>Suggest further clarification of what is meant by "part of" in the scope of the ASOP:</p> <p>This standard applies to actuaries when performing actuarial services with respect to developing, maintaining, or reviewing all or part of an ERM framework.</p>	<p>Based on a particular interpretation of the phrase part of, would the following actuaries be subject to this ASOP:</p> <ul style="list-style-type: none">• Actuary evaluating the impact of reinsurance on new business pricing• Actuary working on the product development of a new product that requires the understanding of new risks and the potential impact on the organization• Actuary working on the team to evaluate a potential M&A transaction that may have an impact on the company's capital position and risk profile <p>The "Enterprise" in ERM would suggest that the above would list would be in scope, however, clarification on scope and applicability of the ASOP would be beneficial.</p>

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		<p>For example, can the pricing actuary address all elements of the Standard by focusing on measuring the risk created by the product being priced and rely on others to look at how the product impacts risk limits, internal capital, required capital, etc. This could be via:</p> <ul style="list-style-type: none"> a) Other actuaries involved in approving the product, e.g. a member of the Risk Management team or b) Governance process that requires the product be captured in future capital determination, etc.
2.19	<p>The definition of each line of defense should be in relation to its role within the ERM framework.</p>	<p>For example, the “first line” is defined as business and process owners with no mention of what their role is relative to risk management (i.e., primary responsibility to own and manage risk).</p>
2.3	<p>Seeking clarification on:</p> <p>Enterprise Risk Management (ERM) Framework— The collection of processes by which the organization identifies, classifies, sets risk appetite for, mitigates, measures, and finances (with capital) its risk exposures.</p>	<p>It is unclear why specifying financing risks with capital was added to this ASOP as it was not included in ASOPs 46 and 47.</p>
3.1	<p>Suggest striking the following sentences:</p> <p>“<u>Governance</u>—When performing actuarial services related to an ERM framework, the actuary should understand how their roles and deliverables fit into the governance framework. If an organization uses the three lines of defense model, the actuary should understand which line(s) of defense their activities fall under and, if in the second line, should understand the extent of the independence they have from the first line. An actuary working in risk management will often be in the second line. However, the actuary may work in both first and second lines.”</p>	<p>We do not think the last two sentences provide additional value and can be excluded.</p>
3.3	<p>This section appears to combine risk classification (categorization) with risk assessment:</p> <p><u>Risk Classification</u>—When performing actuarial services related to risk classification, the actuary should use a risk inventory and prioritize risks on the basis of 1) management’s assessment of the importance of a risk to the organization’s business objectives, and 2) the financial and operational significance of the risk. The actuary should take into account any risk taxonomy, if established by the organization, for purposes of classification of risks into the inventory.</p>	<p>Items a – f in particular, relate to risk assessment. If the intent is for risk classification to include risk assessment, then the definition in Section 2 should reflect this.</p>

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	<p>For any given risk, the actuary should take into account the following:</p> <ul style="list-style-type: none"> a. the organization’s attitude to the risk, such as risk avoiding, risk taking, or risk neutral; b. the impact of the risk on the organization’s business objectives; c. the impact of the risk across different time horizons; d. any existing classifications or assessments, which may already be articulated within the organization; e. capital implications of the risk; and f. classification of risk exposures by other parties, such as internal or external auditors. 	
<p>3.4</p>	<p>Most of the quantitative components could apply to qualitative components as well. These include:</p> <ul style="list-style-type: none"> • risk metrics for each risk identified in the risk appetite; • risk appetite limits that constrain individual risks and the aggregation of risks at or below levels supported by the organization’s available capital; • risk appetite triggers that serve as early warning indicators that a risk metric is approaching its respective risk appetite limit at levels sufficient to allow management time for risk mitigation strategies; 	<p>One would still want early warning indicators for qualitative components, as well as governance to monitor the risks.</p> <p>For example, qualitative metrics such as rankings (Low, Medium, High) can be identified.</p>
<p>3.4.1 and 3.4.2</p>	<p>Seeking clarification on the following phrase: To the extent these items do not exist or are inappropriate, the actuary should recommend they be developed or modified.</p>	<p>Similar to comments on Section 1.2, is the intent of the ASOP to be as inclusive as possible? If so, it may be helpful to tighten the verbiage to help optimize the outcomes (e.g., soften the verb “recommend” to “consider” so as not to generate a significant number of recommendations from all lines of work OR only recommend <u>key risks</u> and not just any related risks)?</p>
<p>3.6</p>	<p>Risk Metrics—When performing actuarial services related to risk metrics, the actuary should confirm the following:</p> <ul style="list-style-type: none"> a. risk metrics align with the organization’s strategic and business goals; b. risk metrics align with business and risk drivers both at an organizational level and within specific business units, if applicable; c. risk metrics measure the level of risk exposure before and after risk mitigation 	<p>Measuring inherent risk is highly subjective as it assumes a total absence of mitigating controls. As a result, in practice this is often more of a qualitative assessment rather a reported loss amount.</p>

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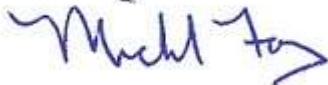
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	<p>(i.e., inherent risk and residual risk), if applicable;</p> <ul style="list-style-type: none">d. risk metrics align with the organization's risk appetite; ande. risk metrics cover all the risks that have been identified and classified by the organization.	
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IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
We appreciate the opportunity to comment on this new ASOP and believe this is a big improvement over the current ASOPs 46 and 47.	

V. Signature:

Commentator Signature	Date
	Sept 14, 2023