

Title of Exposure Draft: Proposed Actuarial Standard of Practice Enterprise Risk Management

Comment Deadline: September 15, 2023

Instructions: Please review the exposure draft, and give the ASB the benefit of 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
Christine Bass, Marjorie Carlson, Geoff Flaxbard, Jared Lavinder, and David Ross Pacific Life Insurance Co.
Please note: The responses below represent solely our own opinions. No part of our responses should be deemed to represent the opinions of Pacific Life nor the opinions of the other actuaries at Pacific Life.

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)
2.8	Third sentence should read “ORSA, <u>or a risk self-assessment similar to ORSA</u> , is a requirement in most...”	Since language refers to “global” regulatory regimes, there are clear counterexamples where ORSA itself is not a requirement (e.g., BMA’s CISSA/GSSA)
3.1	“... the actuary should understand how their roles and deliverables fit into the governance <u>of the framework</u> .”	Minor wording edit to specify that it is governance of the ERM framework vs. a separate “governance framework”.
3.3.a	Consider “risk accepting” instead of “risk neutral”. In addition, consider “risk minimizing” for risks that cannot be avoided, but are expected to be materially mitigated within risk appetite.	Risk neutral seems to imply no opinion on risk, which seems like a poor practice. Risk accepting would imply that the organization is willing to accept certain risks but does not actively seek it out (e.g., “risk taking”) and does not avoid it or cannot fully mitigate it.
3.4	“The risk appetite framework <u>should include both qualitative and quantitative</u> components.”	Language should be more rigid than may/or. All quantitative components are essentially formed from qualitative components; otherwise, risk appetite limits are completely arbitrary. See general

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		recommendation below regarding qualitative and quantitative components.
3.4.1.a	“... for each risk identified in the risk appetite <u>with material financial or non-financial impacts</u> ”	Current language mandates that each risk identified has a quantitative risk metric, which is not necessary if a qualitative assessment can demonstrate that the risk is immaterial or mitigated.
3.4.1.b and 3.4.1.c	Combine b & c to “risk appetite limits for individual risks or the aggregation of risks that represent the level of risk the organization is willing to take at or below levels supported by the organization’s capital, earnings, or liquidity profile”	Unclear distinction in current wording of 3.4.b and 3.4.c. In 3.4.c, capital is not the only lens that should be considered when establishing risk appetite limits. See below general recommendation discussing capital implications vs. liquidity and earnings.
3.6.c	Suggest rewording to “risk metrics are clearly defined to measure the level of risk exposure before or after risk mitigation (i.e., inherent risk or residual risk), if applicable;”	The current language states that risk metrics should measure both, which is not always practical nor feasible. Instead, suggested edit would limit the guidance to ensure the metric is well-defined with respect to the risk being measured.
3.6.e	Add “, where possible” to the end of this point	Not all risks identified will lend themselves to a risk metric, so it may not be possible to comply with this section
3.8.3	“... the actuary should align the stress(es) with those prescribed <u>or document rationale for deviating from prescribed stress(es).</u> ”	Depending on the context, it may not be necessary or practical to fully align with prescribed stresses. It is more important to clearly document if you are deviating from prescribed stresses than to mandate following entirely.
3.9	The final recommendation of 3.9 ORSA should be something to the effect of “Upon development, maintenance, or review of a risk management framework, the actuary should review the language of the ORSA to confirm that the risk management framework is appropriately represented and materially captured. If the ORSA contains an incomplete or misrepresentative description of the risk management framework, the actuary should recommend modifications.” Other details in section 3.9 should be focused on applicable sections of ORSA that describe risk management framework, and should not discuss application of framework (e.g., completing capital and solvency assessment).	Scope of 3.9 ORSA is different than scope of ASOP, and language should be more generalized to prevent scope-creep within the standard of practice. The current wording of section 3.9 significantly changes the scope of the ASOP to the application of a risk management framework in ORSA (e.g., completing capital and solvency assessments). The scope of the actuary’s work in relation to ORSA should be similar to the scope of the ASOP itself, which would be the applicable sections of the ORSA that describe the risk management framework, not the entirety of the ORSA report. If this change is made, consider removing the definition of ORSA report from Section 2.
4.1	Move the first sentence later in the section.	It is important to acknowledge that the ORSA report is not considered an actuarial report for this section, but it should not be the first sentence because it draws attention away from other actuarial reports within the scope of the section.

IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
Scope	ASOPs 46 & 47 were clear that their scope specifically related to developing and evaluating a risk management framework, and specifically excluded other activities that might be

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<p>The Scope of the current ASOP should clarify whether it covers activities not specific to risk frameworks (i.e., is it meant to cover specific calculations or activities performed as part of the framework).</p> <p>Clarify whether decision-making about implementation of a framework is within the scope of this ASOP</p>	<p>performed by risk management, such as setting risk limits for pricing new products.</p> <p>Furthermore, guidance is focused on ‘recommendations’ but in some cases an actuary is also responsible for making a final decision about a risk framework (for example, a CRO). Is that decision in the scope of this ASOP or is this decision-making somehow a non-actuarial activity and/or covered by another ASOP?</p>
<p>Ensure the ASOP includes consideration for the effect of risks on liquidity and earnings profiles as well as capital.</p>	<p>The draft repeatedly refers to capital impacts of risk, but consideration of the associated liquidity and earnings profiles can be very important to understanding the overall impact of risk and a company’s risk appetite. Recent banking failures demonstrate the importance of considering liquidity and capital together, not just liquidity or capital alone.</p>
<p>Move references to prioritization/preference of risk from section 3.3 to 3.4. Section 3.4 should then reference that risk limits should be reasonable in relation to the risk preferences (e.g., if risk is deemed “avoided”, the risk appetite limit should be moderately low).</p>	<p>Current language in section 3.3 blends the “register” of risks with the prioritization of risks. The Risk Management Framework should identify risks and document the sources and potential impacts, but the Risk Appetite Framework should prioritize the risks.</p>
<p>Section 3.4 should not have hard lines between qualitative and quantitative components of risk appetite. If authors desire to continue separating them, qualitative should come first and quantitative components should result from qualitative components.</p>	<p>In practice, risk appetite frameworks jump back and forth between qualitative and quantitative components. The core to the appetite is generally qualitative (e.g., “remaining solvent under severely adverse conditions”) which can then translate to a quantitative metric.</p>
<p>Combine the lists of 3.6 and 3.6.1 to form a single list of actionable items related to risk metrics.</p>	<p>Many of the items in 3.6 do not have enough context to warrant guidance to the actuary. Risk metrics are simply measures of risk – while I can interpret the overall sentiment of the section to be that risk metrics should be established to measure and manage risk in a way that supports the risk appetite and objectives of the organization, this is not what is written.</p>
<p>Remove section 3.8.3.</p>	<p>Section 3.8.3 does not seem applicable within the scope of the ASOP, which is performing actuarial services with respect to developing, maintaining, or reviewing an ERM framework. While the first paragraph appropriately points to a different ASOP that is more appropriate for the topic, it is out of place, nonetheless. The second paragraph is inappropriate within the current ASOP draft.</p>
<p>Remove items in 4.1 outside the scope of the ASOP.</p>	<p>Section 4.1, similar to other noted sections, seems to move outside of the scope of the ASOP. 4.1.f refers to results of internal capital assessments and 4.1.g refers to stress testing results, both of which are applications of the ERM framework and not necessarily the development of the framework itself.</p>

V. Signature:

<p>Commentator Signature</p>	<p>Date</p>
<p>Marjorie Carlson, Geoff Flaxbard, Jared Lavinder, David Ross, and Christine Bass</p>	<p>September 13, 2023</p>