

VIA E-MAIL

Comment #8 - January 13, 2012

ASOP 38 Revisions
Actuarial Standards Board
1850 M Street, Suite 300
Washington, DC 20036

To the Casualty Committee:

RE: Proposed revisions to Actuarial Standard of Practice 38

We respectfully submit these comments on the proposed changes to ASOP 38. The opinions expressed herein are our own and do not reflect the opinion of our employers.

Some comments provided in respect of the proposed revisions to ASOP 38 could equally apply to the existing ASOP 38 enacted in June 2000.

Comments:

1. The proposed changes create a very high standard of care that in some cases may even be unreasonable, and which could render ASOP 38 impractical in practice.

Section 3.3.5 essentially requires that the actuary perform at least five separate tests of model output; an obligation which may be impossible or impractical. The existing standards on Model Output have similarly objectionable language, however the proposal creates a more burdensome requirement by eliminating “if applicable” language and expanding the list of requirements.

The committee should consider the difficulty of anticipating the characteristics of the models to which this ASOP applies. It is likely that some actuaries, using otherwise appropriate models, may be unable to fulfill the requirements of section 3.3.5. For example, testing the sensitivity of the model to variations in inputs could be an intractable problem due to runtimes and the number of possible permutations of inputs. An actuary in such a circumstance may be forced to abandon use of the model.

2. Sections of the proposed ASOP 38 require that the actuary possess a level of understanding so high that many may equate it with “expertise” and could be interpreted as removing the ability of the actuary to rely upon a non-actuarial expert.

Sections 3.2 and 3.3 require:

- Familiarity with model revisions and the appropriateness thereof;

- Knowledge of significant developments in the relevant field/subject matter;
- Familiarity with model components;
- An understanding of the subject matter expertise necessary to develop the model; and
- Familiarity with the level of expert review of the model, including differences of opinion among subject matter experts on the modeling methodology and applicable non-actuarial professional standards.

We agree with another reviewer who noted that an actuary with this knowledge and familiarity of the model may be considered by many to be an “expert”, producing a seeming internal contradiction in the ASOP.

3. Section 3.4 could be interpreted as restricting an actuary to rely on another review only if performed by another actuary. This may not be the intent, but in either case the passage should be clarified so that an appropriate expert review can be relied upon. For example:
 - if an economic scenario generator is being used, an econometrician may be an appropriate expert;
 - If a predictive model is being used, a Doctor of Statistics may be an appropriate expert;
 - If a model projecting default rates is being used, a credit analyst may be an appropriate expert;
 - If an epidemiological model is being used, a certain medical professionals may be appropriate experts.

Note that many of these models can be used in working with Life, Health, or P&C insurance, which brings us to the last point.

4. Since ASOP 38 addresses an issue that can be common to all actuaries, restricting its application to casualty actuaries is problematic.

The proliferation of modeling for various purposes is increasingly crossing over the boundary between life and property/casualty actuaries. Economic capital models, economic scenario generators, epidemiological models, credit default models, and predictive models can be used by actuaries of all areas of practice, and non-actuaries. Thus the ASOP as written creates a situation where the actuaries using identical models will be held to different standards of care based on their area of practice. The ASOP should not be adopted unless it is revised to apply equally to all practitioners who may find themselves in a similar situation.

We note that the Committee requested a response to four specific questions provided with the exposure draft. However, the issues we have commented on above seem broad enough to

supersede the fairly narrow questions in the ED; as a result we are not offering any comments on the requested questions.

All of the undersigned are responding only in their role as members of the American Academy of Actuaries.

Respectfully,

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