

Comment #9 – 1/16/12 – 11:45 a.m.

**Comments on Proposed Revision of Actuarial Standard of Practice No. 38
(approved for exposure September 2011)**

1. This exposure draft does not require the actuary to use the latest version of a model if the previous version is appropriate for its intended use. Is this sufficiently clear?

Yes.

2. This exposure draft maintains similar language as the existing standard regarding documentation (see section 3.7). Is this appropriate in light of the adoption of revised ASOP No. 41, *Actuarial Communications*?

Yes.

3. Is section 1.2, Scope, clear in identifying that it is a user of the model itself that is subject to this proposed revision and not an actuary who uses the work product prepared by another actuary or other expert who used the model?

It is clear, but problematic. This could lead to a gap in responsibility. The following scenario is not uncommon:

Actuary (A1) needs certain model output for a rate filing and requests it from his/her company's modeling area or reinsurance broker.

Analyst (A2) is not an actuary, works for A1's company as a modeler or for the broker. A2 is not subject to ASOPs.

A2 provides information related to the model and its output that seems appropriate and/or that was specifically requested by A1.

A1 does not know enough about the model to request needed but critical information (for example, does the hurricane model include tropical storms? Storm surge? Tree fall?)

A2 does not know enough about what A1 will do with the information and how it will fit with other parts of A1's assignment to offer the information or even to mention potential issues.

The result is that there is a potential for some major errors being made, even though both parties are doing what they are required to do.

I don't interpret the current ASOP as being this limited and think this limit in scope should most emphatically not be included.

4. Since June 2000, when this standard was originally adopted, property and casualty actuaries have made use of a wider variety of models. Is this proposed revision still appropriate for all models used outside the actuary's expertise that are related to property and casualty insurance coverages and products?

Yes.

Additional comments

These comments relate to catastrophe models. I believe that the comments related to understanding model output could be applicable to all models. The comment related to uncertainty may be less general, but is no less important.

In practice, I have seen a distressing number of people, actuaries included, use model results without a clear understanding of what the metrics mean. The numbers, as well as virtually all of their derivation, contain quite specific information, which can vary depending on assumptions, model settings, etc. In addition, the output is a sophisticated estimate that provides a response to given questions and can easily change meaning (or become functionally meaningless) when taken out of context. As estimates, there is a certain amount of uncertainty inherent in many of these output metrics.

I suggest the actuary be required to understand model output definitions and related information, with an emphasis on uncertainty. This is well within the skill sets of members of the profession, and there is very little that is proprietary or that requires a background in other fields.

You may wish to consider referring to or even requiring documentation of the uncertainty, as mentioned in 3.4.1 of ASOP No. 41, *Actuarial Communications*.

The Task Force is to be commended for a thoughtful, meaningful, and useful revision to an ASOP that is challenging both in revision and in practice.

--Kay Cleary