

Comment #19 – 9/24/13 – 12:17 p.m.

Again, thank you for your work on this.

Two comments.

First, no standard should be released unless it gives at least some kind of guidance and does not simply “wave at the problem”. The proposed standard contains, with respect to Models prepared by another party certainly a lack of guidance and perhaps negative guidance. This section presents nothing really constructive. It is extremely vague. The actuary has to take at least certain minimum steps to make sure that what he is using is not pure “smoke and mirrors”. The wording falls far short of that. This, I now believe, is the fatal flaw in the proposed standard.

Second, in general, one may question whether this is really a standard. It really does not tell us what to do. My reading of it is that it gives a wide range of possible practices and things that the actuary should probably consider. Now this is very helpful material. I have heard it suggested that this is good material for Practice Note. True. The publishing of a Practice Note does not solve the problem. We do need a standard.

If not for the first item, I would think the standard as it is proposed is better than no standard at all. In any event, considering just the matter of whether the standard as a whole is too vague, I believe a serious effort is worthwhile to lean the standard more toward the normative, prescriptive type of thing or at least point the actuary in the right direction. There may be hesitancy to use words like “must” and “should”. But sometimes at least the second one should be used. For example, lists of things the actuary should consider I would think are very appropriate. To sum up, I believe the standard would be improved by making it less broad and vague and giving more guidance as to what the actuary should be doing.

Overall, except for the first point raised above, the standard as it is is better than no standard at all. However, in view of the first point, I am quite concerned that the standard could do more harm than good because it could very easily lead the practicing actuary to simply accept any model prepared by others. We have had disasters in the past because of this practice. The standard as it is could cloak such activity with legitimacy. This would be an unfortunate result.

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