

Comment #25 – 9/27/3 – 3:53 p.m.

I am responding on behalf of Insurance Services Office, Inc., a company which employs 75 fellows and associates of the Casualty Actuarial Society.

The ASOP on Modeling is overly broad, and is in need of significant redrafting. As currently drafted, it would apply to much of traditional actuarial work, including rate reviews, class plan reviews, and trend and loss development analyses, for which standards already exist. Therefore, there exists the possibility that it will prescribe practices that are at odds not only with generally accepted actuarial practices, but also other ASOPs.

In particular, the definition of “model” needs to be rewritten (as currently written, it seemingly applies to any calculation), as well as the definition of “model risk” (which should be rewritten in such a way as to be more consistent with ASOP 43).

In addition, the following are more detailed comments:

Section 2.3

The term “granularity” seems forced; is there a better alternative?

Section 2.9

This definition seems to apply to nearly any calculation based on data, including traditional loss cost reviews, chain ladder loss development calculations, class plan analyses using generalized linear models, and so on. We recommend that these be listed as examples of P&C models.

Section 2.11

The definition of “model risk” is inconsistent with ASOP 43, which defines:

- Model risk as "the risk that the methods are not appropriate to the circumstances or the models are not representative of the specified phenomenon."
- Parameter risk as "the risk that the parameters used in the methods or models are not representative of future outcomes."
- Process risk as "the risk associated with the projection of future contingencies that are inherently variable, even when the parameters are known with certainty."

As defined here, “model risk” seems to include ASOP 43’s definitions of “model risk” and “parameter risk”, as well as simple errors in the application of the model – such as errors in computer code written to implement. The definition of “model risk” should be narrowed to be consistent with that shown in ASOP 43.

Section 2.12

Is there a better term than “neutral”? Also, the definition is unclear.

Section 3.2.1

The word “causal” should be removed. Some statistical relationships are correlative, not causal, in nature.

Section 3.3

“Model risk” should be bolded, not just “model”.

Section 3.3.2

“Implementations and realizations” should just be “realizations”.

Section 3.4.4

Is the word “derivation” intended to be “deviation”?

--John Baldan