

Comment #1 – 12/13/14 – 1:17 p.m.

Dear Sir/Madam:

The following are select comments respecting the Second Exposure Draft on Modeling.

Particular Questions

1. Section 3.1.1 Delete paragraphs four and five in their entirety—paragraph three adequately addresses the need for professional judgment. Paragraph six is possibly redundant given ASOP No. 41 precedence (ED sections 3.7 and 4.2).
2. Section 3.1.3 It is inappropriate for an actuary to rely on confirmations by non-actuaries as to compliance with actuarial standards of practice. The actuary should only have responsibility for those aspects of the model over which the actuary exercises control.
3. Section 3.3.1(a)(2) Guidance would be clearer if only “intended purpose” used.

Other Items of Note

Section 3.2 uses the word “confirm” when reviewing or evaluating a model. It might be possible (though difficult in the case of a complex model) to confirm a model; however, with respect to intended purpose, it could be impossible if “confirm” is defined as “to tell someone that something has definitely happened or is going to happen”. Appendix 1 eloquently states “[a] model is only an approximation of reality, not the reality itself”, however, Appendix 1 is not part of the standard. In a litigation setting, more restrictive definitions of “confirm” than contemplated will likely be advanced. Perhaps it would be better to “confirm the reasonableness of the **model** to meet the **intended purpose**.”

The ED could benefit from editing, both for internal consistency and consistency with existing standards. For instance, section 3.3.1(a)(1) requires “a reconciliation of...**input** (defined to include **data**) values to actual **data**”. Bolding of defined terms is appreciated; nevertheless, when a word is used in its ordinary sense not as a defined term, it is not appropriate to bold the occurrence. Further, section 3.7 lacks clarity. Presumably, this section will be amended and its intent become clear once new ASOP No. 38 is complete.

Thank you for your efforts.

David A. Royce, ACAS, MAAA, FCA
Director – Actuarial Practice
Insurance Buyers’ Council, Inc.