

Comment #25 – 2/28/15 – 11:35 a.m.

General Comments:

1. This ASOP seems overly broad if all uses of model results are included; for example, reading a publicly-filed rate table as part of a competitive analysis during rate-setting is a use of model results.
2. We recommend replacing “building” with “constructing” in all instances; this will provide consistency between Section 3.3.1.c and the rest of the document. If this suggestion is not adopted, we suggest replacing “construction” in Section 3.3.1.c with “implementation.”
3. The boundary between “parameters” and “assumptions” is unclear, and the distinction is unnecessary; parameters are one type of assumption. We recommend deleting the definition of “parameters” (Section 2.12) and replacing “assumptions and parameters” with “assumptions” throughout the ASOP.

Section 2

1. We recommend defining “Model Structure” as used in Section 3.2.5 in section 2. We debated the meaning but were unable to come to a consensus: does this refer to the model type (multiple scenarios vs one scenario); to the model aggregation level; to the presentation of model results (average versus median versus 99th percentile); to the choice of computing methodology (distributed database versus unitary system).
2. The definition of “assumptions” in Section 2.1, “data” in Section 2.2 and “inputs” in Section 2.5 are circular, making Section 3.3.1.c somewhat confusing. Adding “A type of” to the beginning of Section 2.1 and 2.2 (so section 2.1 would read “Assumptions – A type of input to a model that represents...”) would increase clarity.
3. Section 2.10, “model risk” is idiosyncratically defined as the risk of bad decisions due to bad model results. As model risk has other well-established meanings in the ERM context, we suggest replacing “Model Risk” with another term.

Section 3

1. Section 3.2.5.e is true for almost all situations and could be removed.

Requested Comments

1. Section 3.1.1 discusses situations when the actuary judges whether full guidance is or is not warranted. Is this section clear and appropriate? If not what changes would you suggest?

Section 3.1.1 is appropriate, but could be clearer. We suggest:

Full application of the guidance in this ASOP is appropriate when, in the actuary's professional judgment, the intended use of the results of the model is expected to have a material financial effect.

2. Section 3.1.3 discusses the actuary's responsibility when the actuary is part of a modeling team. Is this section clear and appropriate? If not what changes would you suggest?

Section 3.1.3 is unclear, and does not effectively address the (common) case where an actuary is a member of a team where the relevant model expertise is non-actuarial (and so is not governed by the ASOPs). We suggest:

When the actuary is part of a modeling team, the actuary should confirm that the applicable guidance from this ASOP has been followed, or may reasonably rely on others who have confirmed that the applicable guidance from this ASOP has been followed; this reliance should be disclosed."

3. Section 3.3.1(a)(2) describes the degree of checking as being dependent on a list of possible factors, and this list includes both the "intended application" and the "project objective," which apply in different stages of modeling, rather than just referring to the "intended purpose," which encompasses either. Is this separate mention of the two possible stages of purpose helpful? Would the guidance be clearer if only the term "intended purpose" was used?

The guidance would be clearer if only the term "intended purpose" was used, in all sections of the document. The guidance in Section 3.3.1(a)(2) would also be clearer if "the context and nature of the model" was deleted; context is implicit in "intended purpose."

4. Does the proposed standard provide sufficient guidance to actuaries working with models?

Yes, the standard provides sufficient guidance except as noted in specific comments above.

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