

**Comment #31 – 3/1/15 – 1:56 p.m.**

March 1, 2015

Modeling

Actuarial Standards Board

1850 M Street, NW, Third Floor

Washington, DC 20036

Re: Modeling (Second Exposure Draft)

I appreciate the effort the committee has put into this second exposure draft on modeling. I think it is vastly improved from the initial exposure draft. I think there are a couple additional areas that should be addressed if this ASOP is implemented.

Section 1.2

The third paragraph under scope appears to be out of place. Is the third paragraph even needed? I believe the third paragraph should be deleted. Section 4.2 of ASOP 41 clearly addresses the situation.

Section 3.2.3

I believe this section should be eliminated. I do not understand why “modifying” the model is any different from “designing, building, developing, reviewing or evaluating”. Section 1.2 includes “modifying” in defining the scope. However, section 3.2.3 then starts to distinguish modifying as a different aspect of modeling. All section 3.2.3 really says is follow sections 3.2.1 and 3.2.2 which would be assumed if section 3.2.3 did not exist. I believe a distinction is being made that is unnecessary and only adds confusion rather than clarity.

As to the specific task force request for 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?

I encourage the committee to listen to the last 15 minutes of the webinar on ASOP 41. Sheila Kalkunte discusses professional judgment, prescription and grey areas. One interpretation I had of her message is that examples in an ASOP may be unnecessary and counterproductive. From my perspective, the ASOP should rely on professional judgment. The inclusion of examples starts to modify the scope of the ASOP which I do not believe is the intention. Therefore, my suggestion is to delete the second sentence of the

first paragraph, delete the second paragraph in its entirety, delete the second sentence of the fourth paragraph and delete the fifth paragraph in its entirety.

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?

I believe Section 3.1.3 should be eliminated. The actuary needs to be accountable for their work product not the work product of others. The other actuaries on a modeling team have a role, but it is not to make sure every other actuary on the team does their job. It appears the committee is assuming an actuarial centric modeling approach. Modeling is more universal and often includes many disciplines. Individuals on a modeling team who are not actuaries do not need to follow the guidance. We should not be forcing actuaries to be watchdogs for all other professions; this is a management issue, not an actuarial one. I think this section and the introduction of "modeling team" does not provide clarity and should be eliminated.

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?

I do not have a strong opinion on this question. I prefer the separate references, but either approach is fine.

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

I am still not convinced that this standard of practice provides much value. Since "full application of the guidance in this ASOP may not be necessary or practical", why is the ASOP being considered? Are the concepts contained in the ASOP better approached through a practice note to improve the work quality of actuaries with respect to models and relying on other ASOPs such as 23 and 41 to better address the actuarial services being provided?

Similar to my comment in the first question above, I think every instance of "example" in the ASOP should be reviewed and possibly eliminated. This includes section 1.2, Section 3.1.1, and Section 3.2.7e.

I would like to thank the committee for the opportunity to comment on this second exposure draft.

Sincerely,

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