

Comment #33 – 3/1/15 – 6:30 p.m.

Pinnacle Actuarial Resources, Inc. is pleased to have the opportunity to provide the following comments in regards to the Second Exposure Draft of the proposed modeling actuarial standard of practice.

Response to the specific questions posted

- 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?**

This section relies heavily on actuarial judgment as to the materiality and application of the guidance. It is sufficiently vague such that an actuary can apply judgment, but does not apply any suggestion as to documentation when the actuary judges the reliance to be immaterial. A suggestion would be for the actuary to state that using professional judgment, he/she deems the reliance of the results is such that the standards and guidance do not apply.

- 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?**

This section is clear and appropriate.

- 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 use of both terms versus one term does not materially change the intended meaning of the section.

- 4. In those instances where some guidance described in this ASOP is not appropriate or practical and the deviations from guidance are "not material," the actuary does not need to disclose these deviations. Is this clear and appropriate?**

Yes, this is clear but disclosure of not material may be appropriate.

- 5. Does the proposed standard provide sufficient guidance to actuaries working with models?**

The ASOP is still a general guidance rather than a specific guidance but this may be due to the nature of modeling relative to ratemaking or reserving. It does seem to cover the basic standards that apply to actuarial work.

Comments Regarding Section 1.2 Scope

Changing the applicability of this standard to apply to actuarial services confuses the issue even more. The previous definition of professional services was at least clearer – even if it was unnecessarily broad. As defined in ASOP 41, actuarial services are:

Actuarial Services—Professional services provided to a principal by an individual acting in the capacity of an actuary. Such services include the rendering of advice, recommendations, findings, or opinions based upon actuarial considerations.

The key is defining what constitutes an individual acting in the capacity of any actuary. Does the fact that an individual is an actuary mean that everything that individual does is defined as acting in the capacity of an actuary? If an actuary is building a claims fraud model, would that be covered? Is an individual acting in the capacity of an actuary, relying on actuarial considerations to determine fraud? What about building sports statistics models? Is that covered? The real question that needs to be answered is whether actuarial services extend beyond what actuaries have traditionally done (insurance generally, and rates and reserves more specifically) or is it expanded now that more actuaries are working in broader areas? Defining actuarial services by using the term actuary and actuarial considerations is not helpful.

The comments above are the collected comments of the consultants employed or affiliated with Pinnacle Actuarial Resources, Inc. If you have any questions regarding the above, please contact Laura Maxwell at lmaxwell@pinnacleactuaries.com.

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