

Comment #2 – 2/28/19 – 11:12 p.m.

In Section 3.1.6b of the Modeling ASOP, 4th exposure draft, “margins” is not defined at all. In stark contrast, many much more common and much less ambiguous terms; like “output”, “parameter” and “assumption”; are explicitly and carefully defined in this ASOP, or at least in the markup notes. I recommend, in the strongest sense, that an explicit definition of “margins” be included.

Furthermore, I suspect the process of formulating such a definition of “margins” may even lead to reconsideration of 3.1.6b in general. The most common interpretations of “margins” would be “risk margins” (a.k.a. expected or targeted risk adjusted profit provisions) or “solvency buffers, conservative padding, etc.” These interpretations, which primarily relate to financial managerial judgments or decisions, would almost certainly be problematic, if not inappropriate, in the context of the intended purposes of the vast majority of models that actuaries are typically involved with. These models are typically intended to produce an accurate or predictive analysis (without “built in margins”) to inform management and/or other interested parties. Decisions about “margins” are typically made by management, often with actuarial analyses (assumed to be accurate or predictive) as an informational consideration.

Sincerely,

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