

Title of Exposure Draft: Proposed Revision of Actuarial Standard of Practice (ASOP) No. 38

Comment Deadline: January 15, 2021

Instructions: Please review the exposure draft, and give the ASB the benefit of your recommendations by completing this comment template. Please fill out the tables within the section below, adding rows as necessary. Sample for completing the template provided at the following link: <http://www.actuarialstandardsboard.org/email/2020/ASB-Comment-Template-Sample.docx>

Each completed comment template received by the comment deadline will receive consideration by the drafting committee and the ASB. The ASB accepts comments by email. Please send to comments@actuary.org and include the phrase 'ASB COMMENTS' in the subject line. Please note: Any email not containing this exact phrase in the subject line will be deleted by our system's spam filter.

The ASB posts all signed comments received to its website to encourage transparency and dialogue. Comments received after the deadline may not be considered. Anonymous comments will not be considered by the ASB nor posted to the website. Comments will be posted in the order that they are received. The ASB disclaims any responsibility for the content of the comments, which are solely the responsibility of those who submit them.

I. Identification:

Name of Commentator / Company
Listed below and in section V. all are employees of Milliman, Inc. Eric J. Xu, FCAS, MAAA Nancy P. Watkins, FCAS, MAAA Peggy Brinkmann, FCAS, CSPA, MAAA Paul D. Anderson, FCAS, CSPA, MAAA Joy A. Schwartzman, FCAS, MAAA Susan L. Klein, FCAS, MAAA Max Mindel, FCAS, MAAA Greg Dietzen, FCAS, MAAA

II. ASB Questions (If Any). Responses to any transmittal memorandum questions should be entered below.

Question No.	Commentator Response

III. Specific Recommendations:

Section # (e.g. 3.2.a)	Commentator Recommendation (Please provide recommended wording for any suggested changes)	Commentator Rationale (Support for the recommendation)
2.2	"A catastrophe model is any model that is based upon occurrences of large-scale, low-frequency, high-severity events. Catastrophe models may be used to explain a system, to study effects of different components, or to derive estimates such as for claims."	As written, the definition of a catastrophe model in section 2.2 may be read such that the "catastrophe model" definition requires that three criteria be satisfied. One might argue that if a model cannot be used for all 3, then it is not a CAT model and therefore the provisions ASOP 56 would apply and cannot be overridden by ASOP 38. We recommend adding a definition of "Model" consistent with what is in ASOP 56. With that definition in place, we then suggest the recommended wording.

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		The recommended wording is provided with the assumption that the ASOP 38 not intend to require a catastrophe model to be defined according to the 3 criteria as written.
3.7	"The actuary may rely on another actuary who has selected, used, reviewed, or evaluated the catastrophe model under the standards of ASOP 38 and/or ASOP 56."	<p>Section 1.2 notes "This standard also does not apply when the actuary is only designing, developing, or modifying a catastrophe model (or a portion of a catastrophe model)."</p> <p>Should this reliance noted in section 3.7 only be permitted if the other actuary has selected, used, reviewed, or evaluated the catastrophe model subject to the requirements of ASOP 38? Or ASOP 56 if the actuary followed that instead? Or other applicable actuarial or regulatory standards?</p> <p>The recommended wording is provided with the assumption that the other actuary can be relied upon so long as they also followed ASOP 38 and/or 56.</p>

IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
Section 1.2 Scope: We recommend a clearer definition of what is covered under and excluded from the scope of ASOP 38.	Section 1.2 excludes from scope any models of "operational risks", or "economic risks that deal with instances of extreme events such as hyper-inflation or to a stock market collapse." Catastrophe models can be used to infer economic impacts beyond direct claims. Models for novel catastrophic perils may fall into a gray area in which ASOP 38 may or may not apply.
Section 1.2 Scope: We recommend clearer guidance on what constitutes a conflict between ASOP 38 and ASOP 56.	<p>There are many overlapping instances of ASOP 56 and ASOP 38 Draft.</p> <p>One such example is ASOP 38 Draft Section 3.2 "Appropriate reliance on Experts" and ASOP 56 Section 3.5 "Reliance on Experts". Subparts a., b., and c., are very similar, but ASOP 56 requires an additional part "d." as well as a disclosure related to the extent of reliance on an expert.</p> <p>As drafted, Section 1.2 appears to read that ASOP 56 also applies, unless there's a conflict. In such a case where ASOP 56 has more requirements than ASOP 38, is this a conflict, or is this a situation in which both standards must be followed?</p>

V. Signature:

Commentator Signature	Date
Eric J. Xu, FCAS, MAAA Nancy P. Watkins, FCAS, MAAA	1/13/2021

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