

Comment #14 – 1/16/12 – 6:51 p.m.

Exposure Draft – Proposed Revision of ASOP #38 – Commentary/Feedback

Please view this response document as a general commentary from multiple actuaries from Allstate’s property and casualty group. Thank you for the opportunity to provide input.

Guidance regarding the actuary’s consideration of the appropriateness of the model for the intended use:

Feedback: Yes - the wording is general enough to encompass the appropriate factors to consider in whether to make use of a specific model or not (for example, choosing to rely on a company’s actual severe storm loss history rather than modeled losses), choosing from multiple models (one of several vended models or an in-house model, or multiple models chosen), or where a change in model is pursued.

Guidance regarding the review of the model:

Feedback: 3.4 provides for an actuary relying on another actuary who has conducted some or all of the review of the particular model. It is worth noting that reliance on an actuary employed by a vendor who has developed the model would be inappropriate.

Is it sufficiently clear that the actuary is not required to use the latest version of a model if the previous version is appropriate for its intended use?

Feedback: Yes - 3.2.2 allows for use of either revised or prior models in the actuarial work product, as long as appropriateness is considered. It is the ‘appropriateness’ wording that is of concern. 3.3.2 calls for the actuary to be aware of how accepted practices in the fields of expertise critical to the model are evolving as one decides to keep or update an existing model. 3.2.3 also calls for the actuary to know if there are significant developments in relevant fields of knowledge underlying the model. This may be difficult to ensure given the relevant fields of knowledge are outside the actuary’s expertise. Also, resource constraints may not easily allow for frequent research into these relevant fields, or the adoption of every new version of a model. Adding in ‘as practical’ phraseology may be appropriate.

Is the documentation language appropriate in light of the adoption of revised ASOP #41?

Feedback: Yes – it is not overly prescriptive as to negate ASOP #41 content.

Is it clear that it is the user of the model itself who is subject to this proposed revision and not an actuary who uses the work product prepared by another actuary or other expert who used the model?

Feedback: This is not clear...a distinction between ‘use of the model’ versus ‘use of the work product that uses model output’, as it applies to this standard, is

needed. Also, the reference to ‘other expert’ doesn’t show up in the ASOP exposure draft. If an expert other than an actuary is subject to this proposed revision, such that actuaries can rely upon this person’s review, this should be made clearer in the text.

Is this broadly appropriate for all models used outside the actuary’s expertise as they relate to p/c insurance coverages and products?

Feedback: Yes.

Specific verbiage commentary:

3.2.1 – The actuary should consider the following: a) the data, assumptions, parameters, or subjective judgments that affect the output of the model...there should not be an expectation of the specific numerical values, but of the general level of data, the kinds of assumptions made, the types of parameters, etc. The verbiage could be interpreted to require specific knowledge that may be viewed as proprietary by the model developer, or is beyond the actuary’s expertise.

3.3.3 – Review and Testing by Experts...the actuary should consider factors such as the following: b) whether there are non-actuarial professional standards that apply... Because the concepts are outside the actuaries’ area of expertise, there will be a high likelihood that actuaries are not familiar with the standards of other professional groups. A qualifier...non-actuarial professional standards, as a non-expert would be expected to know...would make this more helpful.

3.3.5 – Model Output – The actuary should review the model output for reasonableness, considering factors such as the following...it is recommended that this be phrased as ‘considering factors that may include’. There is a concern about an interpretation of the list as other models of the same type must be pursued and that multiple models, if available, should be used. There are practical reasons for this not being workable for many entities.

--Bonnie Gill