

Comment #6 – 12/11/13 – 3:47 p.m.

I agree with the comments suggesting that “catastrophe” is not very clearly defined. But beyond that:

1. I think this standard would lend undue credibility to the idea that these “models” are built on more than glorified WAG’s. In the first place, by definition these catastrophes are low frequency events. That means it is unlikely that any model can accurately predict when or where these events will occur (e.g., hurricane forecasts for the past few years have not been very good). Even if make some fairly specific assumptions about many aspects of one of these events, predicting the financial impact involves making many more assumptions which, in my view, would be mostly guesses. For instance, if we assume a recurrence of a flu strain as virulent as the 1918 pandemic and wanted to estimate the impact on life insurance companies, we would have to make a lot of assumptions about how rapidly it would spread, effectiveness of quarantine measures, timing and effectiveness of vaccines, the impact of current medical capabilities and capacity on reducing deaths, whether certain age and socioeconomic groups would be more severely affected, geographic variations, etc. I don’t think we know the answers to any of those. Certainly the experience from almost 100 years ago is not extremely useful. The guesses get even wilder when you start talking about supervolcanoes erupting, asteroid strikes or the range of possibilities of terrorist strikes.
2. In light of the manifold uncertainties with all of this, it is hard to see how anyone can really be called an “expert”, although certainly some people will have given the relevant factors much more thought than others. The definition of “expert” strikes me as pretty vague, as well—who decides whether a person has the requisite skill, experience, etc. and what, exactly, are the criteria?
3. If an actuary is to select such a “model” for some project, then Sections 3 of the proposed ASOP has some pretty stringent requirements, particularly if the model being considered is proprietary and not very subject to review by the actuary. It is hard for me to see how the actuary doesn’t have to be an expert in order to properly select the model and user input. Is that the intent?

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