
Comment #9 – 12/20/13 – 12:35 p.m.

To: Catastrophe Modeling
Actuarial Standards Board
1850 M Street, NW, Third Floor
Washington, DC 20036

Sent via email: comments@actuary.org

From: Richard Piazza, Chair
Casualty Actuarial and Statistical (C) Task Force
National Association of Insurance Commissioners

Re: Actuarial Standard of Practice No. 38

Date: December 15, 2013

Thank you for the opportunity to comment on the exposure draft of the proposed Actuarial Standard of Practice (ASOP) No. 38, *Catastrophe Models*. The following are comments adopted by the NAIC's Casualty Actuarial and Statistical (C) Task Force.

The exposure draft rightly notes (in the Background section) that models are used for ratemaking and for providing results through financial statements. Because models have had an increasing role in establishing property insurance rates for many years and will soon become part of the risk-based capital calculation, an actuary's responsibility to the regulator should be a formal part of this ASOP. Professional services performed by actuaries include those performed on behalf of regulators. Therefore, the ASOP should include a specific obligation to be responsive to the regulatory body that receives rate or product filings, and to a regulatory official who needs more information in evaluating a filing or financial statement. We believe there needs to be specificity in this regard within this ASOP and do not believe it is sufficient to only have that requirement in another actuarial standard or in the *Code of Professional Conduct*.

The following provides comments for individual paragraphs of the ASOP:

2.1 Assumptions:

- "...based on professional judgment" is a low standard for selecting inputs. We suggest something like "based on professional judgment supported by and documented with readily available (publicly available) data."
- Judgment alone leaves too much to individual preference, which can be influenced by a desired outcome. Specific supporting information must be a part of assumption selection. A selected assumption should also be supported by narrative comment on why the selection is appropriate and why alternative selections are inappropriate.

2.2 Catastrophe Model:

- Suggest including in the "such as" list more of the events identified in the first paragraph of the "Current Practices" section. This would help to address the intention of question 6.

2.7 Project's Objective:

- Can the principal be the actuary or other individual who is working on a research project? It is suggested that the principal can not be the actuary performing the model work.

- Can the objective be to improve the accuracy, documentation, and usability of the model in a research context?

3.3.2 User Input

- The actuary should be familiar with all possible model input that could influence model output and be prepared to discuss the difference between model output that could have been produced using all possible model input with the model output produced given the model input actually used.

3.5 Validation:

- It does not seem clear that validation must be adequately documented.
- If model results differ “materially” from historical results, documentation should be supplied explaining the differences.
- It should be possible for a third party or regulator to reproduce results with specific inputs.

4.2 Documentation:

- Suggest including “The documentation should specifically demonstrate in a separate section or chapter how the actuary has met the requirements of each and every aspect of sections 3.1 – 3.7.

4.3 Proprietary Information:

- Proprietary information is a topic that should be addressed in this ASOP. However, this section currently provides a loophole for an actuary to assert proprietary aspects without requiring any justification that the model is appropriate. When addressing a regulator, an actuary should be required to describe why the model should be allowed to be used.

We appreciate the opportunity to comment on the proposed Actuarial Standard of Practice. Should you have any questions, please contact me at (225-342-4690), or Kris DeFrain (NAIC) at (816) 783-8229.

Sincerely,

Richard Piazza, ACAS, MAAA
Chair, NAIC Casualty Actuarial and Statistical (C) Task Force

Cc: Shawna Ackerman (AAA); Kris DeFrain (NAIC)