

Comment #15 – 2/27/15 – 12:34 p.m.

First, I would like to thank the Modeling Task Force for the extensive work that has been done in creating this draft ASOP. I also would like to thank the ASB, for providing me the opportunity to provide comments. While this draft seems much improved from the original draft, I still have several comments on the proposed draft. These range from very broad to very specific.

I do agree that an ASOP related to modeling is clearly needed, if only because I know of some actuaries who do not believe that any of the current ASOPs cover modeling work (which, in my opinion, is clearly not true). However, the scope of this ASOP seems overly broad to me. Given the proposed definition of a “model”, any actuarial work could be considered a model (and therefore subject to this ASOP). Unless the ASB believes that the current guidance provided in traditionally actuarial topics, such as ratemaking, reserving, and valuation, is inadequate, I believe those areas should be excluded from this ASOP. I would suggest that requiring an actuary who uses the expected loss ratio method of reserving, is using rates (which would be considered models) developed by another, but expecting that actuary to have the level of knowledge of those rates which would be required by section 3.1.2 seems absurd. If the only purpose of this ASOP is to make it clear that the other ASOPs do apply to modeling work, very little is needed other than Section 3.7. Most of the remainder of this ASOP seems to be directed at models which are not within the traditional scope of actuarial work. If so, models within these traditional areas could be excluded.

In addition, I believe that models outside of an actuary’s expertise should be excluded, as they are covered by ASOP 38. The guidance in section 3.1.2 for an actuary using models developed by others, seems to go well beyond what is currently expected of actuaries using models subject to ASOP 38, as well as what is required by the new draft version of ASOP 38.

I believe the three definitions of Intended Application, Intended Purpose, and Project Objective are still confusing. While I understand that the Project Objective for which a model is used may be different from the Intended Application by the model developer, I find the amalgamation of these two terms into the Intended Purpose confusing. I would suggest eliminating the term Intended Purpose from the ASOP, and instead replacing it with the phrase, “Intended Application or Project Objective”.

I believe the guidance provided by Section 3.1.1 regarding the applicability of the guidance is both clear and appropriate. While parts of this section seem redundant with the second paragraph of the scope, I don’t believe this will cause significant confusion.

However, the guidance provided in Section 3.1.3 does concern me. The applicability of this portion of the ASOP is not clear, since the term “modeling team” is not defined. Also, it seems inappropriate for an actuary to be able to rely on a non-actuary, who is also part of the team, to determine whether the guidance provided by the ASOP has been followed. Finally, it seems overly restrictive to require an actuary who is part of a

modeling team with other non-actuaries, to verify that the work done by those non-actuaries is in accordance with this ASOP. This is not currently required of actuaries who work with non-actuaries, whether in modeling or other more traditional actuarial pursuits. Instead, the actuary is only required to ensure that the portion of the work for which the actuary is responsible is in accordance with the ASOPs.

Section 3.3.1 also concerns me, partly because it is not clear what is meant by a “set of model runs”. In the case of a rate, which could be applied to thousands of policies every day, requiring that the actuary validate the rate for each of those policies is clearly excessive. It also feels that the degree of validation required for a “new” model, should be different from that required for a new run of an existing model, especially if the existing model has sufficient governance and controls to ensure that it hasn’t been modified without the actuary’s knowledge.

I am concerned with the requirements to disclose limitations of models, particularly to audiences which may not recognize that all models have limitations. While “actuarial reports” are not defined in this ASOP, I believe this term to be very broad. If I am trying to explain the need for a rate increase to an audience from marketing and underwriting, I do not believe it would be useful or necessary (or even appropriate) for me to explain this limitations of my method of calculating the indicated rate need. I would also be hesitant to disclose any inconsistencies in my assumptions or parameters, as per Section 4.1.2, to this type of audience.

Section 3.4 also seems to assume that model results will be presented. However, a formal presentation may not be practical or even desirable, particularly in the case of models which have limited financial impact. I would suggest language such as, “When practical and appropriate, an actuary’s presentation of the results of the model should explain...”

Finally, I wanted to suggest changes to a couple of the definitions in Section 2. A model run is defined in the ASOP as “The output of a model...”, but it is more common for this term to be used for the act of executing the model specification. As used in this ASOP, I believe it would improve clarity for this term to be replaced by “model output”. In fact, if this term was used, a definition might not even be necessary. Also, I would suggest that the definition of model be modified to exclude \neg model runs. I believe a model should still be considered a model, and subject to the scope of this ASOP, even if an output was never realized. I will also note that in the case where no output was derived from the model, it is unlikely that the model would be heavily relied on or have a material financial effect, so that full application of the ASOP might not be necessary anyway.

I appreciate the Task Force’s consideration of these comments, and look forward to seeing the final Actuarial Standard Of Practice.

Sincerely,
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