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TO: Actuarial Standards Board (ASB)

FROM: Insurance Services Office

SUBJECT: Proposed Actuarial Standard of Practice (ASOP) on Modeling

I am responding on behalf of Insurance Services Office, Inc., a company which employs 62 members of the American Academy of Actuaries.

Generally, it is our opinion that the scope of this ASOP is too broad, making it more cumbersome than useful for practicing actuaries. Actuaries doing predictive modeling will be hamstrung by the amount of effort required to interpret whether they are correctly following the ASOP's guidance. Standards for modeling would be better handled by ASOPs for each model application rather than attempting to develop a one-size-fits-all ASOP.

Here are our more detailed comments by section:

- Section 2.8 - The definition of "Model" is too broad. This definition seems to apply to nearly any calculation based on data, including traditional loss cost reviews, chain ladder loss development calculations, class plan analyses using generalized linear models, and so on.
- Section 3.1.1 - It should not be left to the actuary to decide whether the ASOP as a whole is inapplicable. This is a dangerous precedent.
- Section 3.1.3 – It is unreasonable and impractical for an actuary to confirm that others on a team are wholly adhering to this ASOP. The extent of the actuary's responsibility for work of others on his or her team should be limited to the level of responsibility described in "Models Developed by Others" (Section 3.1.2). This section as written would render actuaries undesirable modeling team participants.
- Section 3.2.7.b - Requiring actuaries to investigate adding margins to assumptions is unwarranted in many modeling applications. This section is not necessary.
- Section 3.3.1 - Model validation should require holdout testing or cross-validation techniques, which are not explicitly mentioned.

Sincerely,

David Cummings