

**Comment #30 – 2/28/15 – 10:57 p.m.**

My sincerest appreciation to the Modeling Task Force for the time and effort put in thus far in developing this Modeling ASOP. I also appreciate the opportunity to provide comments on the second exposure draft. The following highlights my concerns with the exposure draft as currently written:

- My understanding of the intent of this ASOP is to address statistical/predictive models now prevalent in many modern rating plans and financial/budget planning. As written using the current definition of model I feel this ASOP is too broad and overlaps with existing ASOPs addressing more traditional ratemaking practices. For example, by eliminating some of the “or” options in the definition, a model is, “A representation of relationships among variables...using...mathematical...concepts and equations.” This appears to be far too broad and would include any formula produced by an actuary in standard spreadsheet software. While the second paragraph of Section 1.2 identifies, “there may be situations where the model results either are not heavily relied upon or do not have a material financial effect,” I would argue that very simple estimates produced in spreadsheets may still be heavily relied upon and have a material financial effect. In general, I feel the scope of this ASOP is too broad and should be narrowed to only include modern statistical/predictive models.
- Section 3.1.1, I feel that the complexity of the model should also be a consideration of the application of this ASOP. One recommended alternative to the first sentence is, “Full application of the guidance in this ASOP is appropriate when, in the actuary’s professional judgment, the complexity of the model is beyond standard actuarial techniques, the intended users of the model rely heavily on the results, and the use of the results of the model has a material financial effect.”
- Section 3.1.3, I worry about the unintended consequences of this section and the confusion it may cause on modeling teams with very few actuaries. What steps should the actuary take in order to ensure applicable guidance from this ASOP? For example, in situations where there is only a single actuary on a larger modeling team, it seems unfair to require that actuary is accountable for ensuring application of the ASOP on the broader team. Additionally, this may ultimately reduce the demand for actuaries on modeling teams that currently do not have one.
- I would like to see the Modeling Task Force take closer look at the use of “should” throughout the ASOP and consider whether or not “could” would be a more appropriate word choice. Many areas of Section 3.2 seem too prescriptive. For example, in paragraph 3.2.1, the final paragraph can be softened to be less prescriptive to say, “In this confirmation, examples of items that the actuary could consider...”
- Section 3.2.7.b, if the use of “margin” in this section continues I would recommend defining margin in Section 2. Alternatively the use of “contingency” instead of “margin” may also be appropriate. I would also recommend revising the first paragraph to read, “The actuary could consider whether adjusting the assumption or parameter to include a margin would be appropriate.” To be consistent with a., c., d., and e. the term used in b. should be underlined.

- Section 3.4.1.b, I recommend revising to read “any other known material limitations...”
- Section 3.4.4 does not appear to add value given both conservatism and optimism are relative terms and what may be conservative to one person or group may be optimistic to another. Recommend refining or removing.

In summary, my biggest issue with this ASOP is the broad scope given the current definition of model.

Thank you for the opportunity to provide my opinion.

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