

Comment #3 – 3/11/19 – 4:35 p.m.

I thank the Committee for its continued work in the ultimate finalization of an Actuarial Standard of Practice (“ASOP”) regarding “Modeling” and, with respect to the Fourth Exposure Draft of the “Modeling” ASOP, offer the following for your consideration:

Section 2.6 (“Intended User”): I suggest the Committee consider replacing "actuarial findings" with "model's output" (which is defined in this ASOP while “findings” are not). I assume the intent of this section is to address reliance on outputs and do not believe that all outputs should be characterized as "findings", which I interpret as "facts" versus outputs that are projections or estimates.

Section 2.8 (“Model Risk”): I suggest for clarity that this definition of "Model Risk" state something specific to the effect that the use of the term “Model Risk” by this ASOP is not intended to include the likelihood that actual results of most all Models will often differ, perhaps materially, from that produced by the Model's output.

In this regard, I suggest that at least the following sentence from the second paragraph (if not, the entire paragraph) in the “Background” section of this ASOP (which is not part of the ASOP) be made an integral part of the ASOP:

“Even a model that is prudently developed and carefully used does not eliminate inherent uncertainty and variability, and actual experience may differ, sometimes significantly, from the estimates derived from the model results.”

Ideally, the risk described by this sentence would be included in this Section 2.8 for the definition of “Model Risk” by recognizing the risk as reality. But if desired for some reason, this Section 2.8 could note that the ASOP does not include this risk in the definition of “Model Risk”.

As an alternative, the ASOP could define “Model Risk” as defined by this Section 2.8 and using the second sentence in the “Background” section by adding an additional definition for what could be called “Model Outcome Risk”.

In my opinion, this disclaimer is critical to protect actuaries using models and should also be included for at least the actuary’s consideration in either Section 4.1 or 4.2 with respect to either “Required” or “Additional” Disclosures, respectively.

Section 3.1.6 (“Assumptions and Parameters Use As Input”): The opening sentence for this Section starts with “For models that use assumptions and parameters as input . . .” I suggest an example be given of a model that does not use assumptions or parameters as input because I have trouble thinking of one - but I am sure the Reviewers have something in mind.

Thank you for the opportunity to present the above suggestions.

Jim

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