

Comment #17 – 5/15/19 – 12:40 p.m.

To Whom It May Concern

I am writing in response to the fourth exposure draft of the [Proposed Actuarial Standard of Practice \(ASOP\) on Modeling](#).

I object to 3.1.6b:

If appropriate, the actuary may consider adjusting an assumption or parameter to include margins. If the actuary considers inclusion of margins within a model, the actuary should consider the potential impact to the model output to ensure it has the intended impact in the aggregate. If the actuary does decide to use margins to adjust an assumption or parameter, the actuary should select margins that are reasonable in light of relevant, available experience, given the model's intended purpose

I am particularly troubled that the proposed standard does not discuss the need to disclose the use of "margins", ***which is an undefined term***, or their impact on model results. As written, this proposed ASOP seems to allow an actuary to use any assumption that will achieve the desired model result, so long as a rationalization can be constructed (but maybe not documented). This is very dangerous; do we really want the ASB to promulgate a standard that says an actuary can use an assumption or parameter that is not supported by the data without also requiring that this decision be documented, communicated to users, and defended?

I think I understand what the authors of the proposed standard are trying to do here, but I strongly feel it is best to introduce "margins" outside of the model - that is, by adjusting the model results and clearly documenting how and why this is being done - and disclosing this to the users of any work product that incorporates model results. This is much more transparent, and adds to the perceived validity of actuarial work product in the eyes of its users - especially non-technical decision makers. Allowing the introduction of margins during the determination of assumptions and parameters - without requiring disclosure and rationale - enhances the risk of misuse or misunderstanding of model results, and leaves the actuary exposed to charges of forcing the model to produce predetermined results (and damages the credibility of the actuary and the profession).

Regards,

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