



Deadline: 31 March 2016

Please use this template to comment on the [Exposure Draft of ISAP 1 A](#) Governance of Models, and the proposed revisions to the [Glossary for ISAP 1A](#).

The IAA invites comments on this Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

- (a) Comment on the questions as stated;
- (b) Indicate the specific paragraph or group of paragraphs to which they relate;
- (c) Contain a clear rationale; and
- (d) Include any alternative that the IAA should consider, if applicable within the scope of the Statement of Intent for ISAP 1A.

Identification and instructions		
Name of Individual:	Please indicate if your comments are personal, or represent your organization:	Ralph Blanchard, on behalf of the Casualty Actuarial Society – IAA Response Committee
Name of organization		Casualty Actuarial Society
Disclosure of comments:	Please indicate if your comments should be treated as confidential, and if so why:	Okay to make public
Instructions for filling in and sending the template	<p>Please follow the following instructions for filling in the template:</p> <ul style="list-style-type: none"> ⇒ Do not write in the yellow shaded cells ⇒ Write in the white cells ⇒ When commenting on a specific paragraph: <ul style="list-style-type: none"> ○ Please use a separate row for each paragraph, sub paragraph, or bullet. ○ Please include the full reference in the first column such as “Introduction 3rd paragraph 2nd bullet” or “2.6.1.b.ii” ○ Please insert/append extra rows as needed. <p>Please send the completed template, renamed with the organization’s or individual’s name, attached in <u>Word Format</u>, to</p> <p>ISAPIA.comments@actuaries.org</p>	



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	Specific Questions asked by the ASC	Response
Q1.	Is the guidance clear and unambiguous? If not, how should it be changed?	Yes
Q2.	Is the guidance sufficient and appropriate? If not, how should it be changed?	<p>The guidance appears to envision only those models built and maintained by a single actuary. It does not sufficiently address situations where:</p> <ul style="list-style-type: none"> • the actuary uses proprietary vendor models, • the actuary is part of a multi-disciplinary team building a model, • the actuary works for a firm where many actuaries use a model but the maintenance and controls on the model are centralized. (For larger property/casualty companies this is frequently the case for catastrophe models and for the profit model used in rate filings with regulators. If a rate filing leads to a legal hearing, it is common for separate actuaries to testify with regard to the profit load or cat model versus the non-cat loss cost estimates.) <p>Suggestions for how to address this are provided in the detailed comments below.</p>
Q3.	Is it clear how the guidance in the proposed ISAP relates to the guidance in ISAP 1? If not, how should it be changed?	No, it is not clear. There is no reference to ISAP 1 in either Sections 2 or 3. It is not clear whether it does relate to ISAP 1.
Q4.	Is the guidance at the right level of detail? If not, what text should be omitted because it is too detailed? In what areas do actuaries need more detailed guidance?	Yes, it appears to be at the right level of detail.



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Q5.	Are there other matters that should be included in this standard on governance of models? Are there some included here that should not be?	See the response to Q2. There needs to be some mention of when an actuary may rely on others in determining when and how to use a model, and the requirements for the actuary when relying on others.
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General Comments on the ISAP 1A Exposure Draft

Comments on specific paragraphs of the ISAP 1A Exposure Draft		
Full paragraph reference	Change proposed to the paragraph (markup preferred)	Reason the change is needed (can be kept very brief or left blank if obvious from the change)
3 rd paragraph in the preface, starting with "If an actuarial standard setting body"	If an actuarial standard setting body wishes to adopt or endorse this ISAP, it is essential to ensure that existing standards are substantially consistent with ISAP 1 as this ISAP relies upon ISAP 1 in many respects. Likewise, Any customization of this ISAP, or modification of existing standards to obtain substantial consistency with this ISAP, should recognize the important fact that this ISAP relies upon <u>ISAP 1</u> in many respects. <u>To the extent that existing standards are not substantially consistent with ISAP 1 then adoption or endorsement of this ISAP may not by itself result in substantial consistency with this ISAP.</u>	It is likely that substantial consistency with ISAP 1 is not "essential" to achieve substantial consistency with this ISAP. It is helpful, but unlikely that a variance from ISAP in any respect would prevent substantial consistency with this ISAP. In short, the exposure draft wording overstates the situation.
5 th paragraph in the preface, starting with	This ISAP is binding upon an actuary only if so directed by the actuary's standard setting body or if the actuary states that some or all of the work has	Should be deleted to be consistent with recent decisions to avoid mention of ISAPs applying to



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"This ISAP is binding upon an actuary ..."	been performed in compliance with this ISAP (e.g., if the actuary is directed by the principal to comply with this ISAP).	individual actuaries.
1.3	Delete the following sentence: "Any actuary who asserts compliance with this ISAP (as a model standard) must also comply with ISAP 1."	Inconsistent with the recent discussions/decisions of the ASC with regard to mentioning individual actuaries asserting compliance.
2.2.3	<u>To the extent possible, be satisfied that there is adequate documentation of the model construction, including scope, purpose of the model, methodology and algorithms, statistical quality, and calibration. To the extent not possible (such as in the use of the 3rd party vendor's model with proprietary algorithms), the actuary should provide appropriate disclosure.</u>	The wording in the exposure draft may not be possible to achieve for 3 rd party vendor models with proprietary algorithms, such as a catastrophe model, or for a non-expert having to rely on outside experts (such as a small company actuary relying on a reinsurance broker's model).
2.2.4	<u>To the extent possible, be satisfied that the model has been appropriately reviewed and validated by a person/team not involved in developing the model, or otherwise arrange such review and validation. This validation should include an assessment that the model reasonably delivers its intended purpose and that the results of the model can be appropriately reproduced. To the extent not possible (such as in the use of certain 3rd party vendor models), the actuary should provide appropriate disclosure.</u>	The wording in the exposure draft may prove difficult to achieve for some catastrophe models, both due to the proprietary nature of some of these models and the fact that model validation for one geographic area does not necessarily indicate that the model makes reasonable estimates for other geographic areas.
2.4	Something needs to be added for the situation where the actuary is a member of a team that is building a new model, including situations where the team includes non-actuaries (such as geologists and meteorologists in the case of catastrophe models).	There are many models being built with regard to natural disasters that involve multiple disciplines and many non-actuarial team members. This includes windstorm models, flood models and earthquake models. The actuary does not control and is not involved in all the processes involved in building such models, hence the requirements set out in the paragraph are not always realistic expectations for actuaries.
2.5	<i>Add a new paragraph similar to the following that deals with situations where the</i>	The actuary may be using a model controlled by a



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	<p><i>actuary relies on others to perform this work.</i></p> <p><u>2.5.6 It may not always be feasible or appropriate for the actuary to do this individually, as opposed to relying on others these controls. Where the actuary relies on others for such controls, this should be disclosed.</u></p>	<p>centralized unit at their firm, with the intent at that firm for multiple actuaries to rely on the controls provided by that centralited unit. It doesn't seem appropriate to require every actuary do an evaluation of the paragraph 2.5 controls in that situation. They should instead be able to reliance on those in charge of the model at their firm.</p>
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Comments on specific definitions in the Exposure Draft of the updated Glossary

Note that only the proposed revisions are open for comment

Defined Term	Change proposed to the definition (markup preferred)	Reason the change is needed (can be kept very brief or left blank if obvious from the change)