

**Title of Exposure Draft: ASOP No. 38 – Catastrophe Modeling (for all practice areas)**

**Comment Deadline: January 15, 2021**

**I. Identification:**

Name of Commentator / Company
Gennady Stolyarov II, FSA, ACAS, MAAA, CPCU, ARe, ARC, API, AIS, AIE, AIAF / Lead Actuary, Nevada Division of Insurance

**II. ASB Questions (If Any). Responses to any transmittal memorandum questions should be entered below.**

Question No.	Commentator Response
N/A	N/A

**III. Specific Recommendations:**

Section # (e.g. 3.2.a)	Commentator Recommendation (Please provide recommended wording for any suggested changes)	Commentator Rationale (Support for the recommendation)
1.2 – Scope	<p>Either remove “review or evaluation” or clarify that the standard does not apply to an actuary performing a regulatory review.</p> <p><b>Option 1: Remove “review or evaluation”.</b></p> <p>“1.2 – <u>Scope</u> This ASOP applies to actuaries in any practice area when performing actuarial services with respect to selecting or using catastrophe models to assess risk, including but not limited to models of hurricanes, earthquakes, severe convective storms, terrorist acts, and pandemics. This standard applies to the selection or use of catastrophe models, whether or not they are proprietary in nature.”</p> <p><b>Option 2: Add sentence to clarify non-applicability to a regulatory review.</b></p> <p>“1.2 – <u>Scope</u> This ASOP applies to actuaries in any practice area when performing actuarial services with respect to selecting, using, reviewing, or evaluating catastrophe models to assess risk, including but not limited to models of hurricanes, earthquakes, severe convective storms, terrorist acts, and pandemics. This standard applies to the selection, use, review, or evaluation of catastrophe models, whether or not they are proprietary in nature. This standard does not apply to an actuary performing a regulatory review subject to the applicable statutes, regulations, and precedents of the jurisdiction in which the review is being performed, as well as to the professional judgment of the reviewing regulatory actuary.”</p>	<p>The same reasons apply to both suggested changes.</p> <ol style="list-style-type: none"> <li>1. Regulatory review of catastrophe models is subject to the criteria of applicable state law. When a regulator seeks to ascertain whether criteria pursuant to state law have been satisfied, this either already presupposes that the substantive actions described in this ASOP would be taken as part of the basic review process (rendering the ASOP redundant and a needless amplifier of documentation) or else may entail specific steps or criteria not mentioned in the ASOP (in which case the state-required steps or criteria would supersede the ASOP in any event).</li> <li>2. ASOPs pertaining to model reviews should apply to those actuarial practitioners in the private sector who might <i>only</i> have the ASOP to provide guidance to them. Binding a regulatory reviewer to an ASOP creates the risk of a situation where an industry practitioner who is submitting a predictive model may argue that the requirements of the ASOP have been satisfied and that the regulator is therefore obligated to accept the model on that basis, even if the regulator has remaining questions or concerns. While regulators have legitimate counterarguments to provide in such a situation, the time occupied by the back-and-forth exchanges (industry arguments and regulator counterarguments) can be saved if industry representatives are unable to use the ASOP to pressure a regulator to accept a model that the industry representatives believe to comply with the ASOP.</li> <li>3. Another concern is that, if this standard applied to regulatory actuaries, then a regulatory actuary who is <i>always</i> required to follow applicable law would always need to include the additional disclosures described in Section 4.2 for every model review. This would appear to result in a needless proliferation of “boilerplate”</li> </ol>

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<p>3.1 - Preface</p>	<p>Either remove “reviewing or evaluating” or clarify that the standard does not apply to an actuary performing a regulatory review.</p> <p><b>Option 1: Remove “reviewing or evaluating”.</b></p> <p>“3.1 <u>Introduction</u>—In performing actuarial services, an actuary may find it appropriate to select or use catastrophe models. When selecting or using a catastrophe model, the actuary should do the following:”</p> <p><b>Option 2: Clarify non-applicability to a regulatory review.</b></p> <p>“3.1 <u>Introduction</u>—In performing actuarial services, an actuary may find it appropriate to select, use, review, or evaluate catastrophe models. When selecting, using, reviewing, or evaluating a catastrophe model, the actuary should do the following – unless the actuary is performing a regulatory review of the catastrophe model subject to the applicable statutes, regulations, and precedents of the jurisdiction in which the review is being performed, as well as to the professional judgment of the reviewing regulatory actuary:”</p>	<p>disclosures that are time-consuming for the regulator and could slow down the pace of model reviews – an outcome that would satisfy no one. Everyone is aware that regulators will apply the criteria of applicable law where the provisions thereof prescribe certain assumptions, methods, or approaches. It is understandable for an industry actuary to be required to disclose a difference between that actuary’s professional judgment and the applicable law, but this will not occur for a regulatory actuary conducting a model review, since the applicable law is what establishes the default criteria for that review.</p> <p>4. The NAIC has already developed extensive guidance for regulators for reviewing predictive models. The NAIC CASTF White Paper on Regulatory Review of Predictive Models provides various principles and informational elements that could be relevant in the review of a catastrophe model (if that catastrophe model is based on generalized linear modeling techniques and is applied to personal automobile or home insurance). Moreover, the aforementioned White Paper is more detailed in the guidance it provides than ASOP No. 38. While the two documents do not inherently conflict in their substance in my view, there is a concern that subjecting regulatory actuaries to both sets of guidance could lead to unnecessary confusion and questions about which document’s guidance should take priority (since, unlike applicable law, the NAIC White Paper does not have legally binding status). Therefore, it is preferable for regulatory actuaries not to be bound by ASOP No. 38 and instead to refer to the guidance in the NAIC White Paper when encountering a catastrophe model that is within the White Paper’s scope (or to which enough principles from the White Paper could be applied because of essential similarities to models within the paper’s scope).</p>
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**IV. General Recommendations (If Any):**

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
N/A	N/A

**V. Signature:**

Commentator Signature	Date
	January 14, 2021