

## QUESTION 15 & SENSITIVITY DISCLOSURES

As a very retired non-practicing actuary I would like to make two suggestions:

### 1. Back-testing

My view is that wherever possible (there must be some aspects that cannot be back tested) the principles of the Actuarial Risk Cycle seem to impose back-testing in order that learning can take place.

But there has to be a limit on back-testing's usefulness because we have at last learned that "actuaries cannot give instructions to the driver merely by looking out the back window".

But if there is back-testing, and the back-tested model is not felt to be useful for the future the reasons for the change are clearly extremely important for the decision-makers to ponder, understand and weigh up when making their decisions.

### 2. Disclosure of Sensitivities

Not all outcomes are "heavily exposed" to a single assumption, but when outcomes are heavily geared to any single or combination of a few inter-related assumptions I consider that it would be irresponsible for this sensitivity not to be modelled and the resulting outcomes explained to the relevant decision-makers.

I guess the Equitable saga gives an example of how interest rates can prove critical (& external decision-makers).

With current market volatility it seems natural to think the unthinkable ... e.g. what happens to a final salary pension fund or life company if market values fall by 35%? Anyone who has been indulging this sort of fanciful thinking in the not too distant past has had the considerable advantage of understanding at least some of the implications.

Should "asking the unaskable questions" not always be part of modelling the future?

Thank you for reading so far

Reg Munro  
Cape Town