Appendix 2

Comments on the Exposure Draft and Responses

The exposure draft of this ASOP, *Trending Procedures in Property/Casualty Insurance*, was issued in January 2008 with a comment deadline of May 1, 2008. Thirteen comment letters were received, some of which were submitted on behalf of multiple commentators, such as by firms or committees. For purposes of this appendix, the term “commentator” may refer to more than one person associated with a particular comment letter. The Subcommittee on Ratemaking carefully considered all comments received, and the Casualty Committee and ASB reviewed (and modified, where appropriate) the proposed changes.

Summarized below are the significant issues and questions contained in the comment letters and the responses.

The term “reviewers” in appendix 2 includes the subcommittee, the Casualty Committee, and the ASB. Unless otherwise noted, the section numbers and titles used in appendix 2 refer to those in the exposure draft.

<table>
<thead>
<tr>
<th>GENERAL COMMENTS</th>
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<td><strong>Comment</strong></td>
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<td><strong>Response</strong></td>
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One commentator stated there are many individual assumptions in actuarial work—the most obvious example being loss development factors—that are not the subject of a separate standard. The commentator also stated he didn’t feel “trend” was important enough to warrant its own standard and that consideration should be given to greatly broadening the standard (or combining it with another one) to create one standard encompassing all, for example, “Selection of Actuarial Assumptions in Estimation of Ultimate Losses for Casualty Projections.”

Response

The reviewers believe that trend is important enough to warrant its own standard, and note that ASOP Nos. 12, 25, 29, 30, 38, and 39, in addition to 13, address many different aspects of ratemaking.

Several commentators requested specific guidance on the many problems facing actuaries when trending, such as selecting regression models, extrapolation, statistical methods, etc.

Response

The reviewers believe it is not the purpose of the standard to provide specific procedures and that it is too difficult to keep a standard up to date with specific procedures.

### Section 2. Definitions

#### Section 2.2, Experience Period

One commentator suggested changing “to” to “from” and “pertains” to “was obtained” in the definition stating he sees the experience period as being the source of data for the forecast period.

Response

The reviewers believe revising the language would make it less clear and did not make the change.

#### Section 2.5, Trending Period

One commentator suggested that ASOP No. 13 give a more fundamental definition of the trending period and that the description of the simple calculation of the trending period be moved to section 3.5, Criteria for Determining Trending Period. In addition, the commentator suggested the definition of “trending period” be rewritten to, “the time over which trend is applied in projecting from the experience period to the forecast period.”

Response

The reviewers modified the definition to reflect the suggested language, but did not agree with the suggestion to move the simple calculation to section 3.5 Criteria for Determining Trending Period.

#### Section 2.6, Trending Procedure

One commentator stated that in the definition of “trending procedures,” reference is made to “response rates” and “conversion/issue rates,” and suggested that these terms be separately defined as they have meaning that may not be readily apparent.

Response

The reviewers agreed that these terms may have meaning that is not readily apparent and removed them from the definition as they were meant to be illustrative of items that might be the subject of trend analysis. These examples were replaced by the example of marketing/solicitation response rates.

One commentator suggested modifying the definition to “a process by which the actuary evaluates how changes over time may affect items such as….”

Response

The reviewers disagreed with adding the word “may” and left the definition unchanged.
### SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES

#### Section 3.1. Purpose or Use of Trending Procedures

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<tr>
<td>One commentator stated that mention should be made (for example, in section 3.4, Selection of Trending Procedures) of specific situations that may require stochastic trending procedures or, at the very least, consideration of multiple scenarios. In addition, the commentator stated it would not be wise to evaluate reinvestment risk based on a single projection of future interest rates noting that interest rates are an economic index for purposes of section 2.6, Trending Procedures, and thus projection of future interest rates would be subject to this standard. If such was not intended, then the phrase “economic index” should be clarified so as to restrict its meaning.</td>
<td>The reviewers added a new paragraph in section 3.1 to recognize that a range or probability distribution of trend estimates may be appropriate.</td>
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<td>One commentator was concerned whether a marketing analysis conducted by an actuary is truly an actuarial work product.</td>
<td>The reviewers believe if an actuary is applying trending methodologies to marketing, then the standard should apply. This is one of the reasons the standard is being expanded beyond ratemaking.</td>
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#### Section 3.2. Historical Insurance and Non-Insurance Data

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<td>One commentator believed it would be appropriate to add language such as, “In situations where non-insurance data is being used, the actuary should determine and document the causal relationship between the non-insurance data being used and the event or value being forecasted” to clarify this section.</td>
<td>The reviewers disagreed and did not change the language because establishing a causal relationship is not a requirement for use of non-insurance data.</td>
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<td>One commentator suggested modifying this section to read, “The actuary should select available data appropriate for the trends being analyzed. The data can consist of historical insurance or non-insurance information. Considerations should include….“</td>
<td>The reviewers did not add the word “available” to the language but did remove the word “other” per the commentator’s suggestion.</td>
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<td>One commentator suggested that the proposed revised ASOP suffers from the complete absence of any mention of “operational influences,” stating that trends in observed values as a result of operational changes are very common in marketing and reserving, for example, and suggested language to its effect be added.</td>
<td>The reviewers considered operational influences, as reflected in the examples given in this section 3.2 and added “claim practices.”</td>
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<td>One commentator stated that section 3.2(c) was unclear in stating what actuaries are expected to consider. The commentator also stated that he didn’t see how the difference between “explanatory value” and “predictive value” of the data might lead to any change in trending procedure and recommended either removing this section or else providing additional clarification as to its intent.</td>
<td>The reviewers modified the language in section 3.2(c) to clarify the intent.</td>
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## Section 3.2, Relationship with Items Being Trended

**Comment**
One commentator suggested including a section 3.2(e), which would state the following:

- b. the data that is used for trending and the data that it is being applied to.

The reviewers did not add a 3.2(e) but modified the existing 3.2(c) to read as follows:

- c. relationship with items being trended; and

**Response**

The reviewers did not add a 3.2(e) but modified the existing 3.2(c) to read as follows:

- c. relationship with items being trended; and

## Section 3.3, Economic and Social Influences

**Comment**
One commentator stated that the first paragraph of this section uses the adjective “historical” to modify “insurance and non-insurance data,” which can be interpreted as implicitly prohibiting procedures that blend historic data with projections acquired from external parties and recommend that “historical” be removed.

**Response**
The reviewers did not agree and therefore did not modify the language.

## Section 3.7, Reliance on Data or Other Information Supplied by Others

**Comment**
One commentator questioned whether sections 3.7, Reliance on Data or Other Information Supplied by Others; 3.8, Documentation; 4.1, Actuarial Communication; and 4.2, Additional Disclosures provided sufficient guidance.

**Response**
The reviewers believe these sections provide sufficient guidance and made no modifications.

## Section 4. Communications and Disclosures

### Section 4.1, Actuarial Communication

**Comment**
One commentator believed generic commentary about disclosures, communication, appropriateness, judgment, etc. is not unique to trending, and with rewording could be applied to just about any important actuarial assumption. The commentator stated this implies that the standard could be broadened to encompass a variety of assumptions or that these generic guidances could be restricted to a generic ASOP such as ASOP Nos. 23 and 41 (eliminating the need to repeat them in this section).

**Response**
The reviewers did not believe that there was any redundancy in that the introduction of this section is reinforcing that the actuary in making an actuarial communication should first and foremost be guided by ASOP Nos. 23 and 41. The additional material that follows in this section is guidance that is particularly relevant when offering an actuarial communication relating to trending procedures.
### Section 4.1, Actuarial Communications

**Comment**
One commentator felt that the guidance in section 4.1 was insufficient, stating that reference to ASOP No. 41, *Actuarial Communications*, is an inadequate substitute for the professional expectations established in ASOP No. 9, *Documentation and Disclosure in Property and Casualty Insurance Ratemaking, Loss Reserving, and Valuations*.

**Response**
The ASB has determined that ASOP No. 9 will be repealed when a revised ASOP No. 41 is adopted. The reviewers believe that all relevant guidance that was included in ASOP No. 9 is to be covered in the revised ASOP No. 41.

**Comment**
One commentator believed section 4.1(b) placed an undue burden on the actuary stating the actuary is required not only to assess whether or not there were significant limitations in the data, but also to speculate on what a more in-depth analysis (using data that, presumably, isn’t available) might produce.

**Response**
The reviewers agreed and modified the language in section 4.1(b) to address the commentator’s concern.

**Comment**
One commentator believed the current wording in section 4.1(c) could potentially require documentation of risks and uncertainties that are not likely to result in a large deviation from the trend estimate and recommended that this paragraph be revised to read as follows: “specific significant risks and uncertainties that might cause the actual trend to vary materially from the trend estimate, if any.”

**Response**
The reviewers deleted section 4.1(c) because the language was overly broad, and the requirement to disclose all significant assumptions provided the user of the analysis a sufficient basis to evaluate the actuary’s work.

**Comment**
One commentator suggested because ASOP No. 23, *Data Quality*, and ASOP No. 41, are referenced in the first sentence of this section, that sections 4.1(b) and 4.1(c) are not necessary, stating that section 4.1, particularly subsection (g), of ASOP No. 23 adequately addresses this guidance and in a way that is more understandable.

**Response**
The reviewers deleted 4.1(c) and revised 4.1(b).

### Section 4.2, Additional Disclosures

**Comment**
One commentator felt the guidance in section 4.2 was insufficient while another commentator recommended section 4.2(b) be revised to state, “The actuary should disclose changes to assumptions, procedures, methods or models that the actuary believes might materially affect the latest trend estimate from any prior estimates. The actuary should also retain documentation concerning the potential magnitude of the impact of those material changes if those impacts can be reasonably determined.” The commentator believed this modification would help limit varying interpretations of the term “update” in the section’s lead-in sentence.

**Response**
The reviewers agreed and modified the language.

**Comment**
One commentator recommended that section 4.2(b) be removed from the standard stating that the trigger language seems unclear, particularly the meaning of “update of the previous estimate.” The commentator also believed this paragraph to be superfluous since the requirement to document assumptions, procedures, methods or models, or changes to such, already exists.

**Response**
The reviewers revised the language in section 4.2(b) in response to another comment and believe the revision has addressed these concerns.
### APPENDIX

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<tbody>
<tr>
<td>One commentator suggested changing “property casualty” to “property/casualty” to be consistent with other references to the practice area.</td>
<td>The reviewers agreed and made the change.</td>
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<tr>
<td>One commentator suggested changing “Proceedings” to “Variance” in the Background section to make it a more generalized term.</td>
<td>The reviewers agreed and made the change.</td>
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