

ASOP No. 13—June 2009

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.

GENERAL COMMENTS	
Comment	One commentator stated that the concept of trending is applicable to all actuaries and any ASOP that’s created should serve as a single source of professional guidance. The commentator therefore suggested the ASOP title be changed to “Trending Procedures” and that the document be reviewed to make sure it covers all actuarial practice areas (rather than develop separate ASOPs for each area).
Response	The reviewers believe the uses of “trend” can vary among practice areas and that this ASOP is specific to situations that impact property/casualty insurance. The approach taken in other areas has been to incorporate trending as needed in task specific ASOPs.
Comment	Several commentators expressed concern that this standard unintentionally covered reserving practices already subject to ASOP No. 43, <i>Property/Casualty Unpaid Claim Estimates</i> . The concern was the inclusion of reserving practices commonly known as “loss development.”
Response	The reviewers agreed that there was a need to carve out “loss development.” However, the reviewers wanted to ensure that other uses of trend in a reserving context (examples include Cape Cod, Bornhuetter Ferguson, and frequency/severity methods) were included in this standard. The reviewers added language to section 1.2, Scope and section 2.6, Trending Procedure to achieve the goal of carving out “development,” but not the other uses of trend in reserving. In other words, changes between exposure periods are included under this standard but not changes within an exposure period. The term “development” is used rather than “loss development” to recognize that development triangles are also applied to premiums and other components.

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Comment	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.
Comment	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	
Comment	One commentator suggested changing "to" to "from" and "pertain" 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	
Comment	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	
Comment	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.
Comment	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.

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SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES	
Section 3.1, Purpose or Use of Trending Procedures	
Comment	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.
Response	The reviewers added a new paragraph in section 3.1 to recognize that a range or probability distribution of trend estimates may be appropriate.
Comment	One commentator was concerned whether a marketing analysis conducted by an actuary is truly an actuarial work product.
Response	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.
Section 3.2, Historical Insurance and Non-Insurance Data	
Comment	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.
Response	The reviewers disagreed and did not change the language because establishing a causal relationship is not a requirement for use of non-insurance data.
Comment	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....”
Response	The reviewers did not add the word “available” to the language but did remove the word “other” per the commentator’s suggestion.
Comment	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.
Response	The reviewers considered operational influences, as reflected in the examples given in this section 3.2 and added “claim practices.”
Comment	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.
Response	The reviewers modified the language in section 3.2(c) to clarify the intent.

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Comment	One commentator suggested including a section 3.2(e), which would state the following:
Response	<p align="center">b. the data that is used for trending and the data that it is being applied to.</p> <p>The reviewers did not add a 3.2 (e) but modified the existing 3.2 (c) to read as follows:</p> <p align="center">c. relationship with items being trended; and</p>
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 3.3, Economic and Social Influences	
Comment	One commentator stated that the sentence, “It is inappropriate to analyze only those factors that have an impact on trend in one direction,” be revised to read, “It is inappropriate to consider for analysis only those factors that have an impact on trend in one direction,” stating that certain factors do not lend themselves to rigorous analysis, and the remaining factors could potentially impact the trend only in one direction.
Response	The reviewers agreed and deleted the sentence instead.
Comment	One commentator believed the comment about “avoidance of bias” is oddly placed and believes if such a comment is needed, it should be promoted to a more prominent, generally applicable place so as to indicate that biases should be avoided wherever they are found, not just in the consideration of economic factors.
Response	The reviewers agreed, believing that this is a very broad consideration, which is covered elsewhere such as by aspects of the Code of Professional Conduct, and thus deleted the sentence.
Section 3.7, Reliance on Data or Other Information Supplied by Others	
Comment	One commentator questioned whether sections 3.7, <i>Reliance on Data or Other Information Supplied by Others</i> ; 3.8, <i>Documentation</i> ; 4.1, <i>Actuarial Communication</i> ; and 4.2, <i>Additional Disclosures</i> 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.

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

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

