

Comment #8 – 11/18/14 – 2:24 p.m.

Comments on ASB Exposure Draft: Proposed Actuarial *Standard of Practice Property / Casualty Ratemaking* dated September 2014 (the Draft)

Section 2

2.8 – A rate is defined as an estimate of the expected value of all future costs associated with an individual risk transfer. This definition does not appear to acknowledge the uncertainty underlying the ratemaking estimations. Language similar to ASOP 43, Section 3.6.8 could be incorporated into this draft ASOP. In addition, perhaps terms analogous to “actuarial central estimate” and “range of reasonable estimates” could be incorporated, borrowing from ASOP 43, Section 2.1 and ASOP 36, Section 3.7, respectively.

Sections 2.3 and 2.10 – Two rate modification techniques are noted (experience and schedule rating). Retrospective rating is not mentioned in the definitions. While experience and schedule rating are applied when a policy is issued, and retrospective rating is applied later, does the Draft mean to imply that an actuary developing the algorithm and parameters of a retrospective rating plan (which need to be determined before the policy is issued, even if they are applied later) is not engaged in a “ratemaking activity”?

Section 2.10 – Reference is made to “allocated loss adjustment expense.” Consider dropping the “allocated” or revising to more current NAIC language.

Section 3

Section 3.2 – In the second paragraph, line 7, consider changing “or” to “and/or” since it may be appropriate to use more than one type of aggregation.

Section 3.2 – In the second paragraph, lines 8 and 9, consider changing “premium collected” to “premium written and collected” and “losses” to “losses and expenses” since the timing of certain expenses may vary from losses, and may be related to written premium as opposed to collected premium.

Section 3.7.2 – In the first paragraph, Line 6, add a comma after “in the actuary’s professional judgment.”

Section 3.7.2 – In the second paragraph, Line 3, it is unclear why “developed” is included.

Section 3.10 – The title of the section refers to “New Coverages or Exposures.” However, the rest of the section refers to “new coverages or risks.” Consider changing “Exposures” in the title to “Risks.”

Other items that could be considered for inclusion in Sections 2, 3 and 4 are:

- Principal (similar to ASOP 43, Section 2.9)
- Constraints (similar to ASOP 43, Section 3.2)
- Types of measures (similar to ASOP 43, Section 3.3.a.1)
- Documentation (similar to ASOP 43, Section 3.8)

Additional disclosures (similar to ASOP 43, Section 4.2.a)