



THE PETER J. TOBIN  
COLLEGE OF BUSINESS

January 24, 2015

Actuarial Standards Board  
1850 M Street, NW, Suite 300  
Washington, DC 20036

Re: Ratemaking Exposure Draft

To the ASB and the Ratemaking Task Force,

Thank you for the opportunity to comment on the exposure draft of the proposed ASOP, *Property/Casualty Ratemaking*. My compliments to the Task Force and the ASB for the excellent work done so far in creating an ASOP to provide much needed guidance to Property/Casualty actuaries.

I have reviewed the excellent comments from others that have been submitted to date and will avoid reiterating those points. I have a few additional general and editorial comments which I present below.

### **General Comments**

1)

There is a helpful discussion in the Transmittal Letter and the Background on the fact that the CAS and the ASB have attempted to coordinate the issuance of a revised "*CAS Statement of Principles Regarding Property and Casualty Ratemaking*" and a new ASOP on *Property/Casualty Ratemaking*.

I would highly recommend that the ASB work with the CAS to see that both documents contain a short, *identical* paragraph which explains the roles, purposes and distinctions between *Principles* and *Standards*. It has been my experience that a high degree of confusion exists within the profession regarding the purposes of these documents and this would be an excellent opportunity to formally clarify what is intended. Regarding the ASOP, I would suggest that this is of such value (guidance) that it should be placed in both the Transmittal Letter and in the Background section to make it easily accessible to the readers of the new standard.

## Comments on the Exposure Draft of “Property/Casualty Ratemaking”

2)

*2.8 Rate — An estimate of the expected value of all future costs associated with an individual risk transfer.*

As has already been mentioned by others, it is possible that a rate (as defined in this ASOP) may not be merely an expected value (the mean of a distribution) but could be based on a confidence level related to a distribution of possible outcomes. The ASB has done an excellent job of recognizing this issue previously (e.g. ASOP 36 and ASOP 43). I would suggest that this could be remedied here by rewording:

*2.8 Rate — An estimate of future costs associated with an individual risk transfer.*

This modification would be consistent with the next definition:

*2.9 Ratemaking— The process of estimating future costs associated with the transfer of risk in insurance or other risk-transfer mechanisms.*

It should be noted that if this change were to be made, there is also a reference to “*the expected value of future costs*” in Definition 2.1.

3)

Section 3 begins with:

*3.1 Introduction— The actuary should identify and consider the costs associated with the components that make up the **rate**. Such components should include loss and loss adjustment expenses, operational and administrative expenses, profit and contingency provisions, and the cost of capital.*

I think this is a complete and concise statement. However it does differ from a similar statement in the proposed "CAS Statement of Principles Regarding Property and Casualty Ratemaking". I believe it would be much more professional and very helpful to actuaries if these statements could be coordinated.

### **Editorial Comments**

1)

In Section 2 there is the following definition:

*2.7 Policyholder—Individuals or entities that pay a premium for an insurance policy or share in the funding of the costs of self-insurance, risk-funding or retention mechanisms, or any other risk-transfer mechanism for policies not yet written.*

I would suggest:

*2.7 Policyholder—An individual or entity that pays a premium for an insurance policy or share in the funding of the costs of self-insurance, risk-funding or retention mechanisms, or any other risk-transfer mechanism for policies not yet written.*

Comments on the Exposure Draft of “Property/Casualty Ratemaking”

2)

The draft contains the following:

*3.4 Methods, Models, and Assumptions—The actuary should select appropriate **methods** and **models** for estimating **the expected cost** of the components that make up the **rate**.*

*3.7.2 Use of Historical Loss and Loss Adjustment Expenses—The actuary should determine the extent to which historical loss and loss adjustment expenses are available and applicable as a basis for estimating **expected future cost**.*

*3.10 Ratemaking for New Coverages or Exposures—If the actuary is estimating **the expected future cost** for a **coverage** or risk and the historical loss and loss adjustment expenses are either unavailable or not fully representative of the risk, the actuary should consider the following:*

I believe these are the only occurrences of the phrases “*expected cost*”, “*future cost*” or “*expected future cost*”. I would suggest that 3.4 be changed to read “*the future cost*” for i) consistency and ii) to remove any implication of expected value. In each case the phrase is preceded by the term “*estimating*”, removing the need for the adjective “*expected*”.

---

Thank you again for the opportunity to comment on this excellent effort by the Task Force and the ASB.



Albert J. Beer FCAS, MAAA

Michael J. Kevaney/ XL Chair  
Professor of Risk Management, Insurance and Actuarial Science  
Peter J. Tobin College of Business  
The School of Risk Management  
St. John’s University  
101 Astor Place  
New York, New York 10003