

Comment #21 - January 30, 2015 – 3:45 p.m.

Property/Casualty Ratemaking
Actuarial Standards Board
Comments@actuary.org

Re: Exposure Draft of Proposed
Actuarial Standard of Practice: Property/Casualty Ratemaking

Thank you for the opportunity to provide comments on Actuarial Standards Board’s exposure draft of the proposed *Actuarial Standard of Practice: Property/Casualty Ratemaking*. Included in this response are comments and suggested changes for questions specified in the exposure draft.

1. Are there any conflicts between the proposed ASOP and existing practice?

There are no conflicts between this proposed ASOP and existing practices.

2. Is it sufficiently clear in section 1.2, Scope, that this proposed ASOP will apply to all activities regarding the estimation of future costs for property/casualty insurance, applications of self-insurance, risk-funding or retention mechanisms, or other risk transfer mechanisms for policies not yet written?

We support that this proposed ASOP provides guidance specifically on the actuary’s role in the estimation of future costs. However, we do not feel the scope is sufficiently clear. The following revision is recommended:

- Remove “or changing” when referencing rate activities addressed by this ASOP. This language could be misinterpreted as referring to a revision in the price charged to a policyholder – which the scope has made clear is not addressed by this ASOP. Changes to *rates* are sufficiently covered by the term “developing”.

3. Are there any considerations from the current Statement of Principles Regarding Property/Casualty Ratemaking that are not sufficiently covered in this proposed ASOP? Are there any other issues not mentioned that need to be addressed in this proposed ASOP?

The existing *Statement of Principles Regarding Property and Casualty Insurance Ratemaking* contains a section for the consideration of actuarial judgment that is not specifically addressed within this proposed ASOP. While references to professional judgment exist in some sections, such as section 3.5, actuarial judgment exists throughout the ratemaking process. We feel that an introductory reference to its use throughout the process, and corresponding removal of targeted references within specific sections, would provide more adequate guidance.

The consideration of policy provisions in ratemaking currently exists in the *Statement of Principles Regarding Property and Casualty Insurance Ratemaking*, but is not sufficiently covered in this proposed ASOP. Section

3.7.3.c lists policy contract changes as a consideration for additional adjustments to historical data; however, even when not changing, the effect of policy provisions should be considered in the ratemaking process.

Section 3.7.2 – It is suggested that “intended application” (such as overall rate level analyses vs. risk classification analyses) is added to the considerations used to determine the appropriate methods or models.

Section 3.7.3.d – It is suggested that “claim practice changes” should be “claim practice or reserving changes”.

Section 3.10 – The considerations listed here are also applicable to ratemaking where limited data is available. It is recommended that this be noted in section 3.10 to the extent that section 3.11 (Credibility) and its reference to ASOP no. 25 does not provide enough guidance.

Section 3.12 – The guidance on considerations of models used for ratemaking will not be clear in the event that a gap of time exists between the adoption of this ratemaking ASOP and the adoption of the proposed modeling ASOP.

4. This proposed ASOP references other ASOPs. This does not mean that other ASOPs not specifically mentioned do not apply; it means that the specific ASOPs cited were incorporated to provide a complete set of issues and recommended practice for ratemaking without repeating extensive guidance that already exists in other ASOPs. Is this appropriate and sufficiently clear?

It is appropriate and clear that the purpose for the cross references was to avoid repetitive guidance; however, inconsistencies exist in the recommendations throughout the exposure draft. For example, Section 4.2 identifies specific sections within ASOP No. 41, *Actuarial Communications* that are applicable to Property and Casualty Ratemaking. Does this mean other sections within ASOP No. 41 are not applicable?

Additionally, while some of the existing cross-referenced ASOPs provide guidance specifically for Property/Casualty Insurance, others are more broadly used. It is cautioned that any revisions to a cross-referenced ASOP should generate a review of ASOP: *Property/Casualty Ratemaking* to ensure items specific to Property/Casualty Insurance ratemaking are retained as appropriate. This review process could be noted in Section 1.3.

Section 3.13 – While ASOP No. 39, *Treatment of Catastrophe Losses in Property/Casualty* should always be used as guidance for catastrophe provisions, ASOP No. 38, *Using Models Outside the Actuary’s Area of Expertise (Property and Casualty)* is only referenced as applicable. Therefore, it is recommended that the reference to ASOP No. 39 within this section appear before the reference to ASOP No. 38, and “as applicable” be added to describe the need to reference ASOP No. 38.

5. Do you think that this proposed ASOP provides adequate guidance for actuaries performing property/casualty ratemaking services? If not, what changes would you suggest?

With regards to ‘estimation of future costs’ this ASOP provides adequate guidance for actuaries.

6. In section 3.2, Organization of Data, the proposed ASOP refers to several methods for the aggregation of data (Accident Period, Calendar Period, Report Period, and Policy Period). These methods are presumed to be well understood and are not defined. Are these methods sufficiently understood or do you think these methods need to be defined?

These methods are well understood and do not need to be defined.

7. Section 4, Communications and Disclosures, of this proposed standard does not require disclosures beyond those required by ASOP No. 41. Do you think any additional disclosures are needed?

As mentioned previously, it seems unnecessary to identify specific sections of ASOP No. 41 within Section 4.2 of this ASOP. All sections of ASOP No. 41 should be referenced for guidance with regards to actuarial communications and disclosure.

Additionally, the existing *Statement of Principles Regarding Property and Casualty Insurance Ratemaking* contains a section for the consideration of actuarial judgment throughout the ratemaking process and includes guidance that such judgments “should be documented and available for disclosure”. This guidance is not included in this proposed ASOP, nor do we feel it is sufficiently covered within ASOP No. 41. As recommended previously, a general section regarding actuarial judgment, with this guidance incorporated within it, seems appropriate to retain.

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