

Comment #9 – 4/28/16 – 8:52 a.m.

Comments on the second exposure draft for the proposed Actuarial Standard of Practice, Property / Casualty Ratemaking

Thank you for the opportunity to comment. Below are my responses to the questions:

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

The proposed ASOP is consistent with practice. In particular, the considerations contained in the CAS Ratemaking Principles have been addressed. I assume the CAS will proceed with the plan to remove the considerations section from the Statement of Principles. The four principles are often referred to in rate regulatory matters and even in some regulations, so it is very important that the Principles be retained in their current form. Otherwise, there will be a gap between the regulations and the actuarial guidance.

2. This standard is proposed to be effective for work “performed on or after” four months following the adoption of the standard. Does this language appear to create any undue burden?

No, this does not appear to create an undue burden.

3. Is it clear that this ASOP does not provide any guidance on the use of what is generally referred to as “price optimization,” which relates to the company’s decisions in determining price?

Yes, but the language could be interpreted to only apply to actuaries at insurance companies. There are many actuaries that are performing actuarial services that are not from insurance companies. The main point is that the ASOP does not apply to pricing decisions – only the estimation of future cost. Adjusting this to remove the word “company” would make this clearer.

4. The task force eliminated the reference to “expected” value of all future costs to eliminate the possible confusion that the only appropriate estimate of all future costs was a mean value without any consideration of potential variability. Is this change appropriate? Does this change lead to confusion about what is being estimated?

This change is appropriate, and does not lead to any confusion.

5. Is it clear within the definition of ratemaking, section 2.8, that the ASOP provides guidance regarding the estimation of future costs at more refined levels than the aggregate?

Yes, this is clear.

6. Is it clear that this ASOP applies to elements of the rate, such as loss costs developed by advisory organizations such as ISO, NCCI, and AAIS?

Yes, this is clear.

Sincerely,

Meghan Goldfarb, FCAS, MAAA, CPCU, MBA
Research Manager
State Farm Insurance Companies