Comment #14 – 4/29/16 – 3:55 p.m.

First of all, I would like to thank the Actuarial Standards Board, the Casualty Committee, and the Ratemaking Task Force for their work in developing the proposed Actuarial Standard of Practice on Property/Casualty Ratemaking. Thank you also for allowing me the opportunity to comment.

I believe that the proposed standard adequately addresses all of the issues raised in the ASB's questions for readers. I do wish to make a few other suggestions regarding specific wording within the proposed standard.

Under section 3.7.1, the language for adjusting the premium data is stronger than what is provided in section 3.7.2 for losses. For example, 3.7.1 provides, “The actuary should adjust the historical exposure and premium to reflect a consistent rate and exposure level.” Contrast that with 3.7.2, the relevant sections suggest that the actuary “should consider adjusting”. I believe the actuary should consider the materiality and cost of adjustment when deciding on the need to adjust premium. I recommend that the first sentence of section 3.7.1 be rephrased to be consistent with 3.7.2, where the guidance provides that the actuary “should consider adjusting”.

The CAS Ratemaking Principles provide the foundation for the development of actuarial standards of practice in regard to Property/Casualty Ratemaking. The CAS released for comment proposed changes to the Ratemaking Principles in October of 2014. I do not know the status of those proposed changes. I believe the CAS Ratemaking Principles contain important fundamental concepts that are not covered in the proposed ASOP, and think that it is important to keep these two efforts in sync to avoid creating inadvertent gaps in the guidance provided to actuaries.

Finally, while the proposed draft ASOP on modeling has not been approved, I would like to point out that the definition of "model" within the second exposure draft of that proposed ASOP is quite different from the definition in section 2.5 of the draft ASOP on Property/Casualty Ratemaking. As modeling is becoming an increasingly important part of ratemaking (and of actuarial work in general), I believe the ASB should give some consideration to adopting a consistent definition of "model" which can be used in multiple ASOPs.

Thank you for your consideration of these comments.

Sincerely,
Randall Motchan-Spencer, FCAS