



## ACTUARIAL STANDARDS BOARD

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### • SECOND EXPOSURE DRAFT •

**Proposed  
Actuarial Standard  
of Practice**

**Property/Casualty Ratemaking**

**Comment Deadline:  
April 30, 2016**

**Developed by the  
Ratemaking Task Force of the  
Casualty Committee of the  
Actuarial Standards Board**

**Approved for Exposure by the  
Actuarial Standards Board  
December 2015**

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**TO:** Members of Actuarial Organizations Governed by the Standards of Practice of the Actuarial Standards Board and Other Persons Interested in Property/Casualty Ratemaking

**FROM:** Actuarial Standards Board (ASB)

**SUBJ:** Proposed Actuarial Standard of Practice (ASOP), *Property/Casualty Ratemaking*

This document contains the second exposure draft of proposed ASOP, *Property/Casualty Ratemaking*. Please review this second exposure draft and give the ASB the benefit of your comments and suggestions. Each written response and each response sent by e-mail to the address below will be acknowledged, and all responses will receive appropriate consideration by the drafting committee in preparing the final document for approval by the ASB.

The ASB accepts comments by either electronic or conventional mail. The preferred form is e-mail, as it eases the task of grouping comments by section. However, please feel free to use either form. If you wish to use e-mail, please send a message to **comments@actuary.org**. You may include your comments either in the body of the message or as an attachment prepared in any commonly used word processing format. **Please do not password protect any attachments. If the attachment is in the form of a PDF, please do not “copy protect” the PDF.** Include the phrase “ASB COMMENTS” in the subject line of your message, as any message not containing this exact phrase in the subject line will be deleted by our system’s spam filter. Also please indicate in the body of the e-mail if your comments are being submitted on your own behalf or on behalf of a company or organization.

If you wish to use conventional mail, please send comments to the following address:

Ratemaking (Second Exposure)  
Actuarial Standards Board  
1850 M Street, NW, Suite 300  
Washington, DC 20036

The ASB posts all signed comments received to its website to encourage transparency and dialogue. Unsigned or anonymous comments will not be considered by the ASB nor posted to the website. The comments will not be edited, amended, or truncated in any way. Comments will be posted in the order that they are received. Comments will be removed when final action on a proposed standard is taken. The ASB website is a public website, and all comments will be available to the general public. The ASB disclaims any responsibility for the content of the comments, which are solely the responsibility of those who submit them.

Deadline for receipt of responses in the ASB office: **April 30, 2016**

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### Background

Ratemaking has been a fundamental part of actuarial practice since the beginning of the profession. Establishing rates based on sound actuarial practice is essential to the integrity of the insurance system and is a key to fulfilling the promise embodied in the insurance contract. The Board of Directors of the Casualty Actuarial Society (CAS) adopted the Statement of Principles Regarding Property and Casualty Ratemaking in May 1988 (before the ASB was established). This document featured four fundamental principles of ratemaking and discussed additional considerations. The CAS requested that the ASB develop an encompassing actuarial standard of practice in the area of property/casualty rate development (ratemaking). In its request to the ASB, the CAS further noted that the Statement of Principles contained considerations that might be expanded to become the basis of an ASOP.

In developing the proposed ASOP, the task force sought to develop an encompassing standard of practice. This draft ASOP addresses items in the Considerations section of the Statement of Principles Regarding Property/Casualty Ratemaking, as well as ratemaking items not currently addressed in existing ASOPs. To provide a complete standard on ratemaking, this second exposure draft references existing ASOPs that include relevant considerations.

### First Exposure Draft

In September 2014, the ASB approved a first exposure draft with a comment deadline of January 31, 2015. Twenty-two comment letters were received and considered in making changes that are reflected in this second exposure draft. For a summary of issues contained in these comment letters, please see appendix 2.

Changes made to the second exposure draft in response to comment letters received include the following:

1. revising the scope of the ASOP to clarify the practice areas for which it is applicable and the actuarial activities to which it is applicable;
2. revising the reference to estimating “expected value of all future costs” to refer to “estimating all future costs”; and
3. revising the guidance provided in this proposed ASOP regarding the estimating of future costs in total as well as by underlying levels that comprise the estimate of future cost.

### Key Issues

In redrafting the proposed standard, the reviewers focused on the following key issues:

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1. reaffirming that the proposed ASOP is limited to the estimation of future costs. While the actuary may play a key role in the company’s decisions in determining the price after taking into account other considerations, such as marketing goals, competition, and legal restrictions, this standard does not address those other considerations;
2. clarifying that the proposed ASOP applies broadly to all activities related to the estimation of future costs associated with the transfer of risk in insurance or other risk-transfer mechanism;
3. clarifying that the proposed ASOP would apply to actuaries when performing professional services that may relate to the total rate as well as to a subset of the elements of the rate; and
4. confirming that this proposed ASOP provides guidance for the estimation of future costs for insurance, reinsurance, self-insurance, risk-funding or retention mechanisms, loss portfolio transfers, or any other risk-transfer mechanism, and not just for instances where there is a regulatory requirement to file rates determined by the ratemaking activity.

### Request for Comments

The ASB appreciates comments on all areas of this proposed ASOP and would like to draw the reader’s attention to the following questions:

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

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The ASB voted in December 2015 to approve this second exposure draft.

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*The Actuarial Standards Board (ASB) sets standards for appropriate actuarial practice in the United States through the development and promulgation of Actuarial Standards of Practice (ASOPs). These ASOPs describe the procedures an actuary should follow when performing actuarial services and identify what the actuary should disclose when communicating the results of those services.*



**PROPOSED ACTUARIAL STANDARD OF PRACTICE**

**PROPERTY/CASUALTY RATEMAKING**

**STANDARD OF PRACTICE**

Section 1. Purpose, Scope, Cross References, and Effective Date

- 1.1 Purpose—This actuarial standard of practice (ASOP) provides guidance to actuaries when performing professional services with respect to property/casualty **ratemaking**.
- 1.2 Scope—This standard applies to all actuaries when performing professional services with respect to developing or reviewing property/casualty insurance **rates**, or elements thereof. If the actuary’s role relates to a subset of the elements of the **rate**, the guidance in this standard applies only to the professional services related to that subset. If the actuary’s role involves reviewing **rates** developed by another party, the actuary should use the guidance in section 3 as is practicable.

The scope includes the evaluation of future costs for insurance, reinsurance, self-insurance, risk-funding or retention mechanisms, loss portfolio transfers, or any other risk-transfer mechanism. Such professional services may consist of expert testimony, regulatory activities, legislative activities, or statements concerning public policy to the extent these activities involve providing an opinion on property/casualty insurance **rates**.

This standard is limited to the estimation of future costs. While the actuary may play a key role in the company’s decisions in determining the price charged after taking into account other considerations, such as marketing goals, competition, and legal restrictions, this standard does not address the other considerations.

If the actuary departs from the guidance set forth in this standard in order to comply with applicable law (statutes, regulations, and other legally binding authority), or for any other reason the actuary deems appropriate, the actuary should refer to section 4.

- 1.3 Cross References—When this standard refers to the provisions of other documents, the reference includes the referenced documents as they may be amended or restated in the future, and any successor to them, by whatever name called. If any amended or restated document differs materially from the originally referenced document, the actuary should consider the guidance in the referenced standard as amended or restated to the extent it is applicable and appropriate.
- 1.4 Effective Date—This standard is effective for work performed on or after four months following adoption by the Actuarial Standards Board.

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### Section 2. Definitions

The terms below are defined for use in this standard.

- 2.1 Coverage—The terms and conditions of a plan or contract, or the requirements of applicable law, that create an obligation for claim payment associated with contingent events.
- 2.2 Experience Rating—A **rate** modification technique that involves evaluating the individual or entity's actual experience relative to the average experience of similarly classified entities to derive a **rate** unique to that individual or entity.
- 2.3 Exposure Base—The basic unit that is used to measure the future risk-transfer cost.
- 2.4 Method—A systematic procedure for developing, reviewing, or changing **rates** or elements thereof.
- 2.5 Model—A mathematical or empirical representation of a specified phenomenon.
- 2.6 Premium—The final price charged for the transfer of risk.
- 2.7 Rate—An estimate of all future costs per exposure unit associated with an individual risk transfer.
- 2.8 Ratemaking—The process of estimating future costs associated with the transfer of risk in insurance or other risk-transfer mechanisms. This includes estimation of future costs in total as well as by the underlying levels that comprise the estimate of future cost.
- 2.9 Retrospective Rating—A rating technique that adjusts the insured's **premium** for a policy period based on the insured's loss experience during that same period.
- 2.10 Schedule Rating—A **rate** modification technique that considers the individual risk characteristics that are expected to affect the future loss and expense experience but are not otherwise reflected in the rating process.

### Section 3. Analysis of Issues and Recommended Practices

- 3.1 Introduction—The actuary should identify and consider the costs associated with the elements that make up the **rate**. Such elements should include, but are not limited to, loss and loss adjustment expenses, operational and administrative expenses, and the cost of capital.
- 3.2 Organization of Data—The actuary should determine how data will be organized to estimate the **rate** or portion of the **rate**.

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There are several acceptable aggregation **methods** including, but not limited to, aggregating by accident period, calendar period, policy period, and report period. The nature of the insurance **coverage** and the type of **ratemaking** analysis will influence the selection of the data aggregation **method**. For each element, the actuary should select the type of aggregation that is appropriate for the type of **ratemaking** analysis being performed.

The actuary also should consider the level of granularity of data needed for the type of **ratemaking** analysis being performed. For example, one level of aggregated data may be appropriate for estimating the overall **rate**, whereas more refined data may be appropriate for estimating the underlying levels that comprise the overall **rate** within a risk classification system.

- 3.3 Data Quality—The actuary should refer to ASOP No. 23, *Data Quality*, for guidance in the consideration of the choice and use of data for **ratemaking**.
- 3.4 Methods, Models, and Assumptions—The actuary should select appropriate **methods** and **models** for estimating the **rate** or portion of the **rate**. The actuary should use reasonable assumptions (including parameters) appropriate to each **method** and **model**. Assumptions may be implicit or explicit and may involve interpreting past data or projecting future trends. The actuary should use **methods**, **models**, and assumptions that, in the actuary's professional judgment, have no known significant bias to underestimation or overestimation and are not internally inconsistent.
- 3.5 Exposure Base—If selecting a new **exposure base** or changing the existing **exposure base**, the actuary should take into account various practical requirements, such that the **exposure base** bears a strong relationship to the risk-transfer cost, as well as being objectively measurable and easily verifiable. To the extent these criteria are in conflict, the actuary should use professional judgment to select an appropriate **exposure base** for the **ratemaking** exercise.

Some complex risks have multiple **exposure bases** for each aspect of **coverage** provided (for example, sales revenue for general liability, property value for commercial property). In undertaking **ratemaking** analyses for these risks, it may be appropriate to designate one **exposure base**, referred to as the composite **exposure base**, to act as a proxy for the more refined **coverage-by-coverage exposure bases**.

- 3.6 Risk Classification System—Risk classification systems are an integral part of the development of **rates**. The actuary should refer to ASOP No. 12, *Risk Classification (for All Practice Areas)*, for guidance in the design, review, or change of the classification plan for **ratemaking**.
- 3.7 Use of Historical Data—The actuary should determine the extent to which historical data are available and applicable for estimating future costs. For example, the data should be consistent with insurance policy provisions or risk-management provisions of the applicable self-insurance, risk-funding or retention mechanisms, or any other risk-transfer

mechanism.

- 3.7.1 Use of Historical Exposure and Premium Data—The actuary should adjust the historical exposure and **premium** data to reflect a consistent **rate** and exposure level. This adjustment should consider exposure changes and the effective dates of the various **rate** changes during and after the historical period. The actuary should consider any modifications applied to **rate** changes that affect the **premium** charged. The adjustment can be completed at an aggregate level (for example, on-level factors) or at an individual risk level (for example, extension of exposure). The **method** of adjustment is often dictated by the nature of the data collected and the purpose of the analysis.
- 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 future costs. In determining the future costs related to loss and loss adjustment expenses, the actuary should consider adjusting historical data using **methods** or **models** that, in the actuary's professional judgment, reflect the potential for future development of loss and loss adjustment expense, the **coverage** being evaluated, the intended application (such as overall **rate** level analysis or risk classification analysis), the historical period and conditions in which the claims occurred, and the underlying claims adjustment process.

The actuary should consider whether the analysis of loss data requires different **methods** or **models** than the analysis of loss adjustment expense data. Additionally, different **coverages** within a line of business may require different **methods** or **models**.

- 3.7.3 Additional Adjustments to Historical Data—The actuary should consider additional adjustments to the historical data needed to reflect the environment expected to exist in the future period when the **rates** will be in effect. These adjustments include, but are not limited to, the following:
- a. judicial, legislative, or regulatory changes;
  - b. mix of business changes;
  - c. policy contract changes;
  - d. claim practice or reserving changes;
  - e. operational changes that impact expenses;
  - f. accounting changes; and
  - g. reinsurance changes.

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- 3.7.4 Trends—The actuary should consider past and prospective changes in claim costs, claim frequencies, exposures, and **premiums**. The actuary should refer to ASOP No. 13, *Trending Procedures in Property/Casualty Insurance*, for guidance in the selection of trends for estimating future values of costs associated with the components that make up the **rate**.
- 3.8 Expense Provisions—The actuary should refer to ASOP No. 29, *Expense Provisions in Property/Casualty Insurance Ratemaking*, and ASOP No. 13 for guidance in the consideration of the expense provisions for **ratemaking**.
- 3.9 Ratemaking for New Coverages or Exposures—If the actuary is estimating the future cost for a **coverage** or exposure and the historical loss and loss adjustment expenses are either unavailable, limited, or not fully representative of the **coverage** or exposure, the actuary should consider the following:
- a. data from **coverages** or exposures that are similar to the new **coverage** or exposure;
  - b. data on the phenomenon or events that are contemplated by the new **coverage** or exposure;
  - c. differences between **coverages** or exposures with available relevant data and the new **coverage** or exposure; and
  - d. appropriate adjustments to the available relevant data to reflect expected differences identified in section 3.9(c).
- 3.10 Credibility—The actuary should refer to ASOP No. 25, *Credibility Procedures*, for guidance in considering the credibility given to a particular set of data for **ratemaking**.
- 3.11 Modeling—The actuary should refer to [proposed ASOP on modeling,] for guidance in the consideration of **models** used for **ratemaking**. (Note: May need revision depending on final version of proposed modeling ASOP.)
- 3.12 Catastrophe Provisions—The actuary should refer to ASOP No. 38, *Using Models Outside the Actuary's Area of Expertise (Property and Casualty)* [Note: revision pending] and ASOP No. 39, *Treatment of Catastrophe Losses in Property/Casualty Insurance Ratemaking*, for guidance in the consideration of the catastrophe provisions for **ratemaking**.
- 3.13 Treatment of Unusual Events—The actuary should refer to ASOP No. 23 and ASOP No. 39 for guidance in the consideration of other unusual events, such as large individual losses.

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- 3.14 Reinsurance Provisions—When reinsurance provisions are reflected in **ratemaking**, the actuary should select appropriate **methods** or **models** for estimating the cost associated with reinsurance arrangements expected to exist during the future period when the **rates** will be in effect. If the cost of reinsurance is treated as an expense, the actuary should refer to ASOP No. 29 for additional guidance.
- 3.15 Profit and Contingency Provisions and the Cost of Capital—The actuary should refer to ASOP No. 30, *Treatment of Profit and Contingency Provisions and the Cost of Capital in Property/Casualty Insurance*, for guidance in the consideration of the profit and contingency provisions and the cost of capital for **ratemaking**.
- 3.16 Additional Funding Sources—In some risk-transfer systems, income may come from other sources, such as assessments to policyholders or other parties including insurers, a larger group of insurance purchasers, or taxpayers. The actuary should take into account additional sources of funding and their allocation and timing when establishing **rates**.
- 3.17 Impact of Individual Risk Rating—An individual or entity may have sufficiently credible experience so that its historical experience or risk characteristics can be used in whole or in part to derive a **rate** unique to that individual or entity, using techniques such as **experience rating**, **retrospective rating**, or **schedule rating**. The actuary should reflect the impact of individual risk-rating plans on the overall **rate** level.

### Section 4. Communications and Disclosures

- 4.1 Actuarial Communications—When issuing actuarial communications under this standard, the actuary should refer to ASOP No. 41, *Actuarial Communications*.
- 4.2 Disclosures—The actuary should also include the following, as applicable, in an actuarial communication:
- a. the disclosure in ASOP No. 41, section 4.2, if any material assumption or **method** was prescribed by applicable law;
  - b. the disclosure in ASOP No. 41, section 4.3, if the actuary states reliance on other sources and thereby disclaims responsibility for any material assumption or **method** selected by a party other than the actuary; and
  - c. the disclosure in ASOP No. 41, section 4.4, if, in the actuary's professional judgment, the actuary has otherwise deviated materially from the guidance of this ASOP.

## **Appendix 1**

### **Background and Current Practices**

*Note:* This appendix is provided for informational purposes and is not part of the standard of practice.

#### Background

Ratemaking has been a fundamental part of actuarial practice since the beginning of the profession. Ratemaking principles and standards of practice are important to protect the soundness of the system, permit economic incentives to operate, and thereby encourage widespread availability of coverage.

The Board of Directors of the Casualty Actuarial Society (CAS) adopted the *Statement of Principles Regarding Property and Casualty Ratemaking* in May 1988. The *Statement of Principles* has served as a source of information regarding ratemaking, providing both principles and considerations. Several actuarial standards of practice (ASOPs) issued by the Actuarial Standards Board also pertain to ratemaking, including the following:

- ASOP No. 12, *Risk Classification (for All Practice Areas)*;
- ASOP No. 13, *Trending Procedures in Property/Casualty Insurance*;
- ASOP No. 23, *Data Quality*;
- ASOP No. 25, *Credibility Procedures*;
- ASOP No. 29, *Expense Provisions in Property/Casualty Insurance Ratemaking*;
- ASOP No. 30, *Treatment of Profit and Contingency Provisions and the Cost of Capital in Property/Casualty Insurance Ratemaking*;
- ASOP No. 38, *Using Models Outside the Actuary's Area of Expertise (Property and Casualty)* (Note: Revision pending);
- ASOP No. 39, *Treatment of Catastrophe Losses in Property/Casualty Insurance Ratemaking*;
- ASOP No. 41, *Actuarial Communications*; and
- ASOP No. XX, *Modeling* (Note: Pending final approval).

#### Current Practices

Over the years, a multitude of ratemaking methods and models have been designed, put into use, and modified as a result of experience. Materials and publications of the CAS such as the *Syllabus of Basic Education* (formerly the *Syllabus of Examinations*), *Variance*, *Proceedings* (discontinued in 2014), *Foundations of Casualty Actuarial Science*, *Ratemaking and Ratemaking/Product Management Seminar* archives, and others provide discussions of current ratemaking practices. While these may provide useful educational guidance to practicing actuaries, none is an actuarial standard of practice.

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Each of the 50 states and the District of Columbia has executive departments established to regulate the business of insurance, including insurance rates. Each of the 50 states and the District of Columbia also has statutory and regulatory requirements for property/casualty rates. Contested rate cases have resulted in a large number of judicial and regulatory decisions. Actuarial principles and standards of practice have been very helpful to actuaries, legislators, regulators, and the courts when disputes about rates occur.

Advances in availability of data, technology, tools, techniques, and learnings from other disciplines have resulted in continued evolution of ratemaking methods and models. Innovation and use of new data and technologies will continue.



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### Appendix 2

#### Comments on the Exposure Draft and Responses

The exposure draft of this proposed ASOP, *Property/Casualty Ratemaking*, was issued in September 2014 with a comment deadline of January 31, 2015. Twenty-two comment letters were received, some of which were submitted on behalf of multiple commentators, such as by firms or committees. For purposes of this appendix, the term “commentator” may refer to more than one person associated with a particular comment letter. The Ratemaking Task Force carefully considered all comments received, reviewed the exposure draft, and proposed changes. The Casualty Committee and the ASB reviewed the proposed changes and made modifications where appropriate.

Summarized below are the significant issues and questions contained in the comment letters and responses.

The term “reviewers” in appendix 2 includes the Ratemaking Task Force, the Casualty Committee, and the ASB. Also, unless otherwise noted, the section numbers and titles used in appendix 2 refer to those in the exposure draft.

GENERAL COMMENTS	
Comment	Several commentators noted that there was no specific mention of income taxes or investment income/time value of money.
Response	The reviewers believe that the guidance provided in ASOP No. 30, <i>Treatment of Profit and Contingency Provisions and the Cost of Capital in Property/Casualty Insurance Ratemaking</i> , referenced in section 3.15 of this ASOP, is sufficient to address this issue.
Comment	Two commentators said that this ASOP should apply to loss costs, as some actuaries and organizations (for example, ISO, NCCI, AAIS) develop loss costs and not rates. One commentator said that a definition was needed and that various sections need to address the application of the ASOP to loss costs.
Response	The reviewers agree and clarified the scope to include the actuary’s role when it relates only to a subset of the elements of the rate, such as services provided by ISO, NCCI, and AAIS.
Comment	Several commentators suggested adding language that limited the applicability of the ASOP to regulatory filings.
Response	The reviewers note that the intended scope of this ASOP is the broad topic of ratemaking and not specifically regulatory filings, and therefore made no change.
Comment	One commentator noted that ASOP No. 8, <i>Regulatory Filings for Health Benefits, Accident and Health Insurance, and Entities Providing Health Benefits</i> , includes a distinction between the role of a filing actuary and the role of a reviewing actuary with respect to rate filings. This is a valuable distinction and should also apply to actuarial services for ratemaking for property/casualty coverage.
Response	The reviewers note that the scope of the ASOP is ratemaking and not rate filings, however, to clarify the role of the reviewing actuary the following sentence was added: “If the actuary’s role involves reviewing rates developed by another party, the actuary should use the guidance in section 3 as is practicable.”

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Comment	One commentator suggested that the concept of an intended measure should be used instead of expected value in the ASOP.
Response	The reviewers have eliminated any reference to expected value and believe that using the phrase “estimation of future costs” provides sufficient guidance in the context of ratemaking.
<b>TRANSMITTAL MEMORANDUM QUESTIONS</b>	
<b>Question 1: Are there any conflicts between the proposed ASOP and existing practice?</b>	
Comment	Three commentators did not find any conflict. One commentator said that section 4.2(b) may be in conflict with the newer ASB convention of stating “made use of” in lieu of “relied upon” in Statements of Actuarial Opinion.
Response	The reviewers note that many ASOPs use “relied upon,” and therefore made no change.
<b>Question 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?</b>	
Comment	One commentator noted that the proposed ASOP refers to “policies not yet written,” which does not necessarily apply to situations involving risk-funding or retention mechanisms or other risk-transfer mechanisms. The commentator suggested that the task force consider replacing “policies not yet written” with a phrase that more generally speaks to future exposure.
Response	The reviewers removed “policies not yet written,” as the scope of the ASOP was broadened to include loss portfolio transfers.
Comment	One commentator suggested removing “or changing” when referencing rate activities addressed by this ASOP, as this language could be misinterpreted as referring to a revision in the price charged to a policyholder, which the scope makes clear is not addressed by this ASOP.
Response	The reviewers agree and replaced “changing” with “developing or reviewing.”
<b>Question 3: Are there any considerations from the current <i>Statement of Principles Regarding Property/Casualty Ratemaking</i> 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?</b>	
Comment	Two commentators said that the use of actuarial judgment throughout the ratemaking process should be highlighted more.
Response	The reviewers believe that the use of the phrase “professional judgment” in the context used in the ASOP is sufficiently broad to encompass the extent of actuarial judgment used in ratemaking, and therefore made no change.
<b>Question 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?</b>	
Comment	Most commentators said it was appropriate and clear. One commentator noted that while some of the existing cross-referenced ASOPs provide guidance specifically for property/casualty insurance, others are broader. This commentator suggested that any revisions to a cross-referenced ASOP should generate a review of this ASOP to ensure items specific to property/casualty insurance ratemaking are retained as appropriate and that this review process could be noted in section 1.3.
Response	In view of the comments received, the reviewers believe that the treatment of cross-referenced ASOPs in section 1.3 is appropriate and, therefore, made no change.

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Comment	One commentator said it was appropriate and clear that the purpose for the cross references was to avoid repetitive guidance but that inconsistencies exist in the recommendations throughout the exposure draft. For example, section 4.2 identifies specific sections within ASOP No. 41, <i>Actuarial Communications</i> , that are applicable to property/casualty ratemaking. The commentator asked whether this means that other sections within ASOP No. 41 are not applicable.
Response	The reviewers note that the language in section 4.2 is standard in all ASOPs and that ASOP No. 41 applies to all actuarial communications, and made no change in response to this comment.
<b>Question 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?</b>	
Comment	One commentator noted that although the ASOP states that it includes the evaluation of future costs for other risk retention/transfer mechanisms, it is written as if it pertains only to ratemaking for property/casualty insurance companies (i.e., the use of terms such as policy, policyholder, premium, coverage, contract, etc.).
Response	The reviewers agree, removed the definition of policyholder, and included self-insurance, risk-funding or retention mechanisms, loss portfolio transfers, or any other risk-transfer mechanism in the scope.
Comment	One commentator noted that since the ASOP is limited to the estimation of future costs, it inherently may not provide guidance for all property/casualty ratemaking services.
Response	The reviewers note that, as stated in the scope, this standard is intended to be limited to the estimation of future costs and does not address other considerations that may affect the price charged, such as marketing goals, competition, and legal restrictions. Therefore, the reviewers made no change in response to this comment.
<b>Question 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?</b>	
Comment	Most commentators agreed that the definitions are well understood within the industry. One commentator noted, however, that actuaries are not the only users/beneficiaries of ASOPs and that if definitions of those aggregations of data are not yet defined in an existing ASOP, it would be valuable to include definitions in this ASOP.
Response	In line with the majority of responses, the reviewers believe that these concepts are basic insurance terminology and that their definitions can be found in generic sources for insurance definitions. Therefore, the reviewers did not add these definitions.
Comment	One commentator noted that data may be aggregated in other ways to estimate rate components, such as by geography, gross vs. net, size of claim, etc.
Response	The reviewers added language to convey the fact that aggregation of data by calendar period, accident period, report period, or policy period are not the only methods of aggregation. The section notes that the level of granularity is also a consideration in the organization of the data.

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<b>Question 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?</b>	
Comment	Several commentators thought the disclosures required by ASOP No. 41 were sufficient. One commentator noted that 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 judgment “should be documented and available for disclosure.” The commentator noted that this guidance is not included in this proposed ASOP, nor is it sufficiently covered within ASOP No. 41. The commentator recommended a general section regarding actuarial judgment, with this guidance incorporated in it.
Response	The reviewers believe that ASOP No. 41 provides sufficient guidance to the actuary regarding actuarial communications. ASOP No. 41 states “... <i>the actuary should state the actuarial findings, and identify the methods, procedures, assumptions, and data used by the actuary with sufficient clarity that another actuary qualified in the same practice area could make an objective appraisal of the reasonableness of the actuary’s work....</i> ” Therefore, no change was made.
<b>SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECTIVE DATE</b>	
<b>Section 1.1, Purpose</b>	
Comment	In sections 1.1 and 1.2, one commentator was concerned about the term “professional services related to P/C ratemaking” and the reference to “services with respect to developing, reviewing, or changing P/C insurance rates,” suspecting that the term “ratemaking services” referred solely to the projection of costs, even though the “ratemaking” is not defined until section 2.9 (now 2.8). The commentator thought that some users of the ASOP may attempt to expand the definition of ratemaking services to include every consideration by an insurer when it establishes its insurance prices. In other words, they will attempt to extend actuarial principles and standards of practice to the insurers’ pricing manager.
Response	The reviewers note that terms defined in the ASOP are bolded and that the definitions contained in the ASOP apply throughout. Therefore, no change was made.
<b>Section 1.2, Scope</b>	
Comment	One commentator suggested making it clear that the purpose and scope of this ASOP is to provide guidance to actuaries when providing an actuarial opinion regarding the consistency of the rates with actuarial and statutory rate standards.
Response	To the extent that the term “rates” in the comment is consistent with how it is defined in this ASOP, the reviewers agree and added the sentence, “If the actuary’s role involves reviewing rates developed by another party, the actuary should use the guidance in section 3 as is practicable,” to more clearly define the scope.

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<p>Comment</p>	<p>Two commentators said it was not clear how this ASOP would apply to regulatory actuaries in their review of rate filings. The standard “applies to all actuaries when performing professional services with respect to . . . reviewing . . . property/casualty insurance rates. . . . Such professional services may include . . . regulatory activities . . .” On the other hand, “This standard is limited to the estimation of future costs and does not address other considerations that may affect the price charged to the policyholder, such as marketing goals, competition, and legal restrictions.” The rate filings that regulators review are almost always affected by marketing goals, competition, and legal restrictions. The commentator asked whether the ASOP applies to rate filing reviews, and if so, whether it applies only to the review of rate filing components that pertain to the estimation of future costs.</p>
<p>Response</p>	<p>The reviewers note that this standard applies to all actuaries, including regulatory actuaries, when performing professional services with respect to developing or reviewing property/casualty insurance rates. This standard is limited to the estimation of future costs and does not address other considerations that may affect the price charged to the policyholder, such as marketing goals, competition, and legal restrictions, which are outside the scope of this ASOP. For additional clarity, the following sentence was added: “If the actuary’s role involves reviewing rates developed by another party, the actuary should use the guidance in section 3 as is practicable.”</p>
<p>Comment</p>	<p>Two commentators said that the statement “This standard is limited to the estimation of future costs...” could be interpreted to limit application of the standard to the overall rate indication and not all the base rates, factors, discounts, etc.</p>
<p>Response</p>	<p>The reviewers agree and clarified the definition of ratemaking to include the estimation of future costs in total as well as by the underlying levels that comprise the estimate of future cost.</p>
<p>Comment</p>	<p>Several commentators said that “for policies not yet written” suggests the standard applies only to pure new business and should be removed. In addition, “policies not yet written” implies that retrospective rating would not be covered.</p>
<p>Response</p>	<p>The reviewers agree and removed the phrase “policies not yet written” from the ASOP.</p>
<p>Comment</p>	<p>One commentator asked whether price optimization was considered out of scope, and if not, what judgment this standard makes about price optimization in light of the discrepancy between price optimization and setting rates to be the expected value of future costs. The commentator also asked about non-expected value pricing (for example, setting rates as the VaR at some percentile).</p>
<p>Response</p>	<p>The reviewers note that price optimization is outside the scope of this ASOP, as the ASOP provides guidance regarding the estimation of future costs. The reviewers have eliminated any reference to expected value and believe that using the phrase “estimation of future costs” provides sufficient guidance in the selection of the intended measure for ratemaking.</p>
<p>Comment</p>	<p>One commentator noted that in the last sentence of the first paragraph, the ASOP is limited to the estimation of future costs and does not address other considerations that may affect the price charged to the policyholder, such as marketing goals, competition, and legal restrictions, and therefore would allow the unfettered use of price optimization and other models that would move the prices away from the cost/risk-based levels toward whatever the market will bear. The commentator opposed including the above language in the scope, but said that if it was included, the ASOP should require disclosure of any actions taken to move a price away from being cost/risk-based.</p>
<p>Response</p>	<p>The reviewers note that the ASOP provides guidance on the estimation of future costs, not the price charged, and therefore made no change in response to this comment.</p>

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Comment	One commentator said that it was unclear whether “other considerations” are considered “actuarial services,” but from the definition in ASOP No. 1, <i>Introductory Actuarial Standard of Practice</i> , it would seem that these (marketing goals, competition, and legal restrictions) are not “actuarial considerations” and, therefore, lie outside the definition of “actuarial services” to which any ASOP would apply. ASOP No. 1 states, “ASOPs are binding on members of the U.S.-based actuarial organizations when rendering actuarial services in the U.S.” As such, it is unclear why this paragraph is needed to limit the scope of the proposed ASOP to exclude something that is not an “actuarial service.”
Response	The reviewers agree but felt it appropriate to state the scope of the standard explicitly. Therefore, no change was made in response to this comment.
Comment	One commentator said that, as presently written, the ASOP does not sufficiently address or give adequate guidance for the many other types of insurance and alternative risk-transfer mechanisms to which it would apply, and suggested changes to sections 1.2, 2.7, and 2.9 of the exposure draft.
Response	The reviewers believe that the guidance adequately addresses these other types of insurance and risk-transfer mechanisms and, therefore, made no change in response to this comment.
Comment	Another commentator said that actuarial involvement in pricing activities can be more complex and involve considerations other than purely actuarial, and recommended that the ASOP be limited to ratemaking.
Response	The reviewers note that the ASOP provides guidance on the estimation of future costs as it pertains to ratemaking. This standard is limited to the estimation of future costs and does not address other considerations that may affect the price charged, such as marketing goals, competition, and legal restrictions. Therefore, no change was made.
Comment	Two commentators said that the ASOP lacks an explicit statement that, when the ASOP’s guidance conflicts with the law, the law must prevail, and recommended adding such a statement. Another commentator said that the concept of “legal restrictions” should be given in any actuary’s ratemaking work and recognized from the start.
Response	The reviewers note that section 3.15 of ASOP No. 1 states, “Where the requirements of law conflict with the guidance of an ASOP, the requirements of law shall govern.” The reviewers therefore made no change.
<b>SECTION 2. DEFINITIONS</b>	
<b>Section 2.1, Composite Rating</b>	
Comment	Several commentators suggested deleting section 2.1, Composite Rating, because the term was not used in the ASOP.
Response	The reviewers agree and deleted the section.
<b>Section 2.3, Experience Rating (now section 2.2)</b>	
Comment	One commentator noted that retrospective rating plans were not mentioned in the ASOP and questioned if an actuary working on a retrospective plan is engaged in a ratemaking activity.
Response	The reviewers agree and have added a definition of retrospective rating and added references to retrospective rating in the ASOP.
Comment	One commentator suggested broadening the definition of “experience rating” to include additional items such as merit rating, no claims bonus, and adjustments to deductible amounts based on experience.
Response	The reviewers believe that broadening the definition of experience rating is not appropriate within the context of how experience rating is considered in the ASOP.

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<b>Section 2.4, Exposure Base (now section 2.3)</b>	
Comment	One commentator suggested that the definition of “exposure base” be made more consistent with the language used in section 3.5 of the ASOP.
Response	The reviewers believe that the definition is appropriate, and therefore made no change in response to this comment.
Comment	One commentator suggested that the definition of “exposure base” be revised to reference the estimating of future risk-transfer costs.
Response	The reviewers agree and have revised the definition accordingly.
<b>Section 2.5, Method (now section 2.4)</b>	
Comment	One commentator suggested the following definition for “method”: A systematic procedure for estimating, computing, compiling, adjusting, or reviewing data or quantitative values.
Response	The reviewers believe that the definition is sufficiently descriptive for defining “method” in the context of this ASOP, and therefore did not make this change.
<b>Section 2.6, Model (now section 2.5)</b>	
Comment	One commentator suggested using the definition for “model” that appears in ASOP No. 38, <i>Using Models Outside the Actuary’s Area of Expertise (Property and Casualty)</i> .
Response	The reviewers believe that the definition is sufficiently descriptive for defining “model” in the context of this ASOP, and therefore did not make this change.
<b>Section 2.7, Policyholder (now deleted)</b>	
Comment	Several commentators offered additional editorial clarifications on the definition of policyholder.
Response	After further review, the reviewers decided that a generic definition of policyholder added more confusion than clarity, and therefore removed the definition of policyholder and most references to policyholder within the ASOP.
<b>Section 2.8, Rate (now section 2.7)</b>	
Comment	One commentator suggested replacing “risk transfer” with “policyholder coverage,” as self-insurance does not involve risk transfer and the existing definitions of “policyholder” and “coverage” can combine to produce a more inclusive definition of what is intended.
Response	The reviewers believe that “risk transfer” is appropriate and, therefore, made no change.
Comment	One commentator said that the definition of “rate” did not acknowledge the uncertainty underlying the ratemaking estimations and suggested adding language similar to that in ASOP No. 43, <i>Property/Casualty Unpaid Claim Estimates</i> , section 3.6.8. The commentator also suggested incorporating terms analogous to “actuarial central estimate” and “range of reasonable estimates,” borrowing from ASOP No. 43, section 2.1, and ASOP No. 36, <i>Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves</i> , section 3.7, respectively.
Response	The reviewers disagree, as the ASOP does not preclude the actuary from offering a range of outcomes as part of the work product. Therefore, the reviewers made no change.
Comment	One commentator wrote that the definition of “rate” should be expressed on a per-exposure basis.
Response	The reviewers agree and added the phrase “per exposure” to the definition as suggested.

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Comment	Several commentators suggested deleting “the expected value.” One suggested adding “risk-transfer costs” and “intended measure.”
Response	The reviewers deleted “expected value” as suggested. The reviewers believe the revised definition is clear with respect to “risk-transfer costs” and the inclusion of “intended measure” in this definition is not necessary.
<b>Section 2.9, Ratemaking (now 2.8)</b>	
Comment	One commentator suggested adding “or policyholder coverage” prior to “mechanisms” to provide a more inclusive definition of what is intended.
Response	The reviewers believe that the definition is appropriate, and therefore did not make this change.
Comment	One commentator suggested the following definition for “ratemaking”: The process of developing rates or rating modifications based on estimates of future risk-transfer costs associated with insurance or other risk-transfer mechanisms.
Response	The reviewers believe that the existing definition is appropriate for the intended scope of the ASOP, and therefore did not make this change.
<b>Section 2.10, Schedule Rating</b>	
Comment	One commentator suggested adding “classification” before the last word of the definition.
Response	The reviewers believe that the addition of the word “classification” as suggested would be confusing, and therefore did not make this change.
Comment	One commentator noted that retrospective rating is not mentioned in the definitions and asked whether the draft means to imply that an actuary developing the algorithm and parameters of a retrospective rating plan is engaged in a “ratemaking activity.”
Response	The reviewers added a definition of “retrospective rating” and included retrospective rating in section 3.17, Impact of Individual Risk Rating.
Comment	Several commentators addressed the issue of expenses to be considered in a schedule rating plan. Of those, two commentators suggested broadening the definition of Schedule Rating, noting that individual risk characteristics can relate to future expenses, not only to future loss and loss adjustment expense experience. One commentator suggested deleting “allocated” in “allocated loss adjustment expense” or revising to more current NAIC language.
Response	The reviewers agree that the expenses considered in schedule rating plans may be broader than allocated loss adjustment expense and therefore replaced the phrase “allocated loss adjustment expense” with “expense” in the definition.
Comment	Several commentators noted that schedule rating should exclude not only what’s reflected in the experience rating process but also what’s already reflected anywhere else in the rating plan.
Response	The reviewers agree and replaced the wording “not yet reflected in the experience rating process” with “not otherwise reflected in the rating process.”
<b>SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES</b>	
<b>Section 3.1, Introduction</b>	
Comment	One commentator said “profit and contingency provisions” was redundant with “cost of capital.” Another commentator said that the term “profit and contingencies” is adequately described in ASOP No. 30 and should not be further explained in this ASOP. This commentator recommended eliminating the reference to this term in the ASOP and including the cost of capital in the list of costs to consider in ratemaking. A third commentator noted



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Response	that the language in section 3.1 differed from a similar statement in the CAS Statement of Principles Regarding Property and Casualty Insurance Ratemaking draft and that it would be helpful if the two were coordinated.  The reviewers eliminated reference to profit and contingency provision.
Comment	One commentator said that there is enough difference between a policyholder dividend and an administrative expense to warrant a separate listing of policyholder dividends. A separate listing would be consistent with how policyholder dividends are treated in the Ratemaking Principles.
Response	The reviewers believe that the treatment of policyholders' dividends as a cost is addressed in ASOP No. 29, <i>Expense Provisions in Property/Casualty Insurance Ratemaking</i> , and did not make a change in response to this comment.
<b>Section 3.2, Organization of Data</b>	
Comment	One commentator said there were very few situations in which calendar year loss data is appropriate for ratemaking and recommended excluding that as an option, allowing actuaries to explain why they departed from the standard in situations in which it is appropriate.
Response	The reviewers believe that the approach to organizing data will be dictated by the specific facts and circumstances of the work, and therefore made no change.
Comment	One commentator suggested 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.
Response	The reviewers removed the example that included this language.
Comment	One commentator noted that there are more aggregation methods, such as underwriting year and treaty year, than are listed in this section and suggested adding "but not limited to" prior to the listed examples.
Response	The reviewers agree and added language to make it clear that there are other options for aggregating data.
<b>Section 3.4 Method, Models, and Assumptions</b>	
Comment	One commentator noted that the end of the last sentence states "are not internally inconsistent" and suggested "are internally consistent" instead.
Response	The reviewers note that the language "not internally inconsistent" is also in ASOP No. 43, <i>Property/Casualty Unpaid Claim Estimates</i> , section 3.6.2. The reviewers believe it is best to keep the language consistent across the ASOPs when appropriate, and therefore made no change.
Comment	One commentator suggested that "the expected cost" be changed to "the future cost" i) for consistency with other sections and ii) to remove any implication of expected value. The phrase is preceded by the term "estimating," removing the need for the adjective "expected."
Response	The reviewers agree and made this change throughout the ASOP for consistency and to remove any confusion regarding the use of the term "expected value."
Comment	One commentator suggested adding the phrase, "consistent with the intended measure" after the word "components" in the first sentence, noting that the CAS Principles Task Force is considering adding this language to each of the Principles. The commentator also suggested considering adding this language to the definition of "rate" and "ratemaking."
Response	While this language is used in ASOP No. 43, the reviewers do not believe a section similar to 3.3(a) in ASOP No. 43 is needed for ratemaking, and therefore made no change.

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Comment	One commentator suggested adding the sentence, “The actuary should consider that prior history may or may not be predictive of future losses, rates, or trends and should modify models accordingly.”
Response	The reviewers believe this comment better pertains to section 3.7. The first sentence of section 3.7 reads, “The actuary should determine the extent to which historical data are available and applicable ....” The reviewers believe the language in section 3.7 provides guidance for the actuary in using historical data. Therefore, the reviewers made no change.
<b>Section 3.5, Exposure Base</b>	
Comment	Several commentators suggested changing “it is often appropriate” to “it may be appropriate” or “it is sometimes appropriate.”
Response	The reviewers agree and changed the language to “may be appropriate.”
Comment	One commentator suggested adding language that often, or in many cases, the exposure base is the result of usual and customary practices, making an alternate selection unnecessary or impractical.
Response	The reviewers agree and revised this section so that it applies only when selecting a new exposure base or changing the existing exposure base.
Comment	One commentator recommended including the terms apply, modify, or adjust in addition to select, when discussing the use of professional judgment to select the most appropriate exposure base.
Response	The reviewers believe that the language in this section encompasses these additional terms. Therefore, the reviewers made no change.
Comment	Several commentators suggested deleting the term “proportional,” saying it was too restrictive.
Response	The reviewers agree that the term “proportional” is too restrictive and that “a strong relationship” is a better description, and made the change.
Comment	Two commentators suggested deleting the second paragraph. One commentator noted that the first paragraph says that the actuary should use judgment in selecting the exposure base, and that more detail is unnecessary. The other commentator suggested deleting the second paragraph and adding exposure examples in the definitions section.
Response	The reviewers note that other items in section 3 provide more detail and examples for the issue or practice discussed and therefore made no change in response to these comments.
<b>Section 3.6, Risk Classification System</b>	
Comment	One commentator said that it was unclear whether the proposed ASOP would apply to overall rate levels, or also to rating factors as applied to an individual insured, and suggested it should be clearer whether the risk classification factors (as opposed to the actual risk classifications) should be governed by this ASOP; ASOP No. 12, <i>Risk Classification (for All Practice Areas)</i> ; or both.
Response	The reviewers agree and expanded the definition of ratemaking in section 2.9 (now 2.8) to reflect that suggestion.
<b>Section 3.7.1, Use of Historical Exposure and Premium Data</b>	
Comment	One commentator suggested defining “extension of exposure” and “on-level factors.”
Response	The reviewers believe these terms are well known and made no change.

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Comment	One commentator suggested using the word “trend” in this section.
Response	The reviewers point out that trend is covered in section 3.9 (now covered in section 3.7.4) and, therefore, did not make this change.
Comment	Several commentators noted that the use of “either” “or” seems to imply there are only two ways to adjust premium and exposure data.
Response	The reviewers made revisions to better incorporate additional methods.
Comment	Two commentators wrote that, in today’s ratemaking environment, section 3.7.1 is oversimplified. Insurers frequently use rate stability rules (i.e. transition rules or premium-capping rules) with the result that the effects of a rate change on a particular date are essentially spread out over a period of years. In adjusting premiums to a consistent level, it is essential to account for the remaining effects of previous rate changes to which rate stability rules were applied.
Response	The reviewers agree and added language stating that the actuary should consider any modifications applied to rate changes that affect the premium charged.
Comment	Two commentators noted that this section focuses on adjusting data for past rate changes, but that premium also can be subject to development. The commentators also noted that section 3.7.2, which addresses development, does so for losses and loss adjustment expenses only, and that more insurers are “capping” rate changes to minimize premium dislocation. The commentators suggested that premium development and the capping of rate changes be identified as a consideration in adjusting premium.
Response	The reviewers agree and added language regarding changes in exposure level.
<b>Section 3.7.2, Use of Historical Loss and Loss Adjustment Expenses</b>	
Comment	One commentator wrote that it is unclear why “developed” is included in line three of the second paragraph.
Response	The reviewers agree and deleted the word “developed.”
Comment	One commentator suggested deleting the word “expected” before “future costs” in lines four and five.
Response	The reviewers agree and deleted “expected.”
Comment	One commentator said that this section reads as though losses and loss adjustment expenses need to be considered together and suggested adding a sentence that states that losses and loss adjustment expenses (particularly unallocated loss adjustment expenses) may require different methods.
Response	The reviewers agree and changed the language to clarify that loss and loss adjustment expenses may be considered separately.
Comment	One commentator suggested replacing “consider adjusting historical data using” in the fifth line by “consider addressing changes in circumstances using.”
Response	The reviewers believe the original language is appropriate and did not make that change.
Comment	One commentator suggested that “intended application” (such as overall rate level analyses vs. risk classification analyses) be added to the considerations used to determine the appropriate methods or models.
Response	The reviewers agree and added “intended application.”

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<b>Section 3.7.3, Additional Adjustments to Historical Data</b>	
Comment	Two commentators noted that, while section 3.7.3 includes the words “not limited to,” underwriting and marketing changes are omitted from the list. The commentators suggested mentioning these items, since these types of changes may affect the mix of business.
Response	A third commentator wrote that, while they understood that the listing of adjustments to historical data is not intended to be exhaustive, they recommend adding operational changes to the list, as this is specifically included in the “Considerations” section of the current CAS Statement of Principles. The commentator recommended adding the following to the list: “operational changes, including how the coverages are marketed, distributed, underwritten, and managed.”  The reviewers believe that the items listed sufficiently address the types of additional adjustments and that specific examples such as underwriting and marketing are not necessary. Therefore, the reviewers did not make this change. The reviewers agree with the third commentator about including operational changes and added “operational changes impacting expenses.”
Comment	One commentator recommended providing an example of “accounting changes,” as one does not immediately come to mind.
Response	The reviewers disagree that adding an example would be appropriate and believe that, for consistency with the rest of the section, it is better not to add an example in this one area and therefore made no change. However, the reviewers note that a potential example would be when a statutory accounting change was made from “Allocated Loss Adjustment Expense” and “Unallocated Loss Adjustment Expense” to “Defense and Cost Containment Expense” and “Adjusting and Other Expense.”
Comment	One commentator suggested adding “g. economic changes.”
Response	The reviewers believe economic changes are covered in section 3.9 (now section 3.7.4), Trends, and therefore did not make this change.
Comment	One commentator suggested replacing “adjustments to historical data” with “changes in circumstances,” noting that addressing such changes in circumstances might well be done by appropriate modelling rather than making physical adjustments to the historical data.
Response	The reviewers believe the original language is appropriate and, therefore, made no change.
Comment	One commentator suggested adding underwriting practice, underwriting cycle, distribution system, data processing, infrastructure, climate, economy, and social conditions to the list of examples.
Response	The reviewers note that the list is not meant to be exhaustive but added “operational expense changes.”
Comment	One commentator noted that that 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. The commentator said that section 3.7.3(c) lists policy contract changes as a consideration for additional adjustments to historical data, but that, even when not changing, the effect of policy provisions should be considered in the ratemaking process.
Response	The reviewers believe that the consideration of policy provisions is already recognized in section 3.7, where “the actuary should determine the extent to which historical data are available and applicable for estimating future costs. For, example the data should be consistent with policy provisions or risk-management provisions of the applicable self-insurance, risk-funding or retention mechanisms, or any other risk-transfer mechanism.”

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Comment	One commentator suggested that “claim practice changes” should be “claim practice or reserving changes.”
Response	The reviewers agree and made the change.
<b>Section 3.9, Trends (now section 3.7.4)</b>	
Comment	One commentator found the statement confusing and asked whether it refers to a type of “additional” trend not contemplated in section 3.7.1.
Response	The reviewers note that the adjustments mentioned in section 3.7.1 refer to the need to adjust the premium and exposure data for each year to a consistent level. Section 3.9 (now section 3.7.4) contemplates any additional adjustments for changes from that consistent level to the level anticipated to prevail in the future period. Therefore, the reviewers made no change.
<b>Section 3.10, Ratemaking for New Coverages or Exposures (now section 3.9)</b>	
Comment	One commentator said that the title of the section refers to “New Coverages or Exposures,” but the rest of the section refers to “new coverages or risks.” The commentator suggested changing “Exposures” in the title to “Risks.”
Response	The reviewers agree that the wording should be consistent and changed “risk” to “exposure” throughout the section.
Comment	One commentator noted that there is no explicit mention of referencing other company rates in developing rates for a new program, and asked whether that should be added. The commentator noted that some insurance departments frequently ask for other company rates when a new program is being introduced without hard data.
Response	The reviewers agree that other company published rates may be a valid consideration and clarified the language in sections 3.9 (a) and (b) to reflect this as a possible data source.
Comment	Several commentators suggested deleting the word “expected” before “future costs” wherever it appears.
Response	The reviewers agree and made that change throughout the document.
Comment	One commentator noted that considerations listed here are also applicable to ratemaking where limited data is available and recommended that this be noted in section 3.10 (now section 3.9) to the extent that section 3.11 (now section 3.10), Credibility, and its reference to ASOP No. 25, <i>Credibility Procedures</i> , does not provide enough guidance.
Response	The reviewers agree that credibility applies to new coverages or exposures but believe that section 3.11 (now 3.10) already applies to all data being considered for ratemaking, and therefore made no change in response to this comment.
<b>Section 3.13, Catastrophe Provisions (now 3.12)</b>	
Comment	One commentator noted that while ASOP No. 39 should always be used as guidance for catastrophe provisions, ASOP No. 38 is only referenced as applicable. Therefore, the commentator 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.
Response	The reviewers believe it is appropriate that the ASOP direct the actuary to both ASOP No. 38 and ASOP No. 39 when considering a catastrophe provision in ratemaking. Only by considering the full range of issues can the actuary determine whether ASOP No. 38 is applicable.

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Comment	One commentator said that this section and ASOP No. 39 adequately address catastrophic events, but that they do not seem to adequately cover other unusual events, such as large individual losses. The commentator asked whether the task force finds that such events are addressed under 3.1(b) of ASOP No. 39 or under 3.5(b) of ASOP No. 23, <i>Data Quality</i> .
Response	The reviewers agree and added section 3.13, Treatment of Unusual Events, to address the concern.
<b>Section 3.14, Reinsurance Provisions</b>	
Comment	One commentator said that many actuaries determine total rate needs without considering reinsurance costs, by just determining the total cost of insurance, say, in primary business. In many cases, consideration of reinsurance is separate from the primary rate. The commentator asked whether the ASOP means that reinsurance costs must be included in the rate and whether is this raising the bar as far as current practice is concerned.
Response	To clarify the intent of this section, the reviewers added language directing the actuary to refer to ASOP No. 29, which in section 3.7 states, “The actuary may elect whether to include the cost of reinsurance as an expense provision.”
Comment	One commentator wrote that the wording should make clear that that the present value of the expected net cost (ceded premium minus ceded losses minus ceding commissions) should be estimated. Many people consider the ceded premium to be the “cost” of reinsurance.
Response	The reviewers added language directing the actuary to refer to ASOP No. 29, which provides guidance in this area.
Comment	One commentator suggested adding a sentence that addresses the fact that some states do not allow inclusion of reinsurance provisions in ratemaking.
Response	The reviewers disagree. There are many such regulatory requirements, and it is not the intent of the ASOPs to alert the actuary to specific regulatory requirements.
<b>Section 3.16, Additional Funding Sources</b>	
Comment	One commentator recommended adding “premium” before “income” and changing “come” to “be derived.”
Response	The reviewers believe that it is inappropriate to include the word “premium” before income in this case. The ASOP states that “income may come from other sources, such as assessments to policyholders or other parties including insurers, a larger group of insurance purchasers, or taxpayers.”
<b>Section 3.17, Impact of Individual Risk Rating</b>	
Comment	One commentator suggested adding retrospective rating.
Response	The reviewers agree and added the term.
<b>SECTION 4. COMMUNICATIONS AND DISCLOSURES</b>	
Comment	One commentator suggested renaming section 4 “Communications, Disclosures, and Deviations from Estimation of Future Cost.”
Response	The reviewers note that the section titles are standard across ASOPs, and therefore did not make this change.

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<b>Section 4.2, Disclosures</b>	
Comment	One commentator suggested that actuarial communications be clear with respect to which parts of the communication are subject to the scope of this ASOP versus those that are outside the scope, such as marketing goals.
Response	The reviewers note that the scope of this ASOP is the estimation of future costs and that the disclosures specified pertain only to the scope of this ASOP.