Comment #3 – 7/12/16 – 12:33 p.m.

I have additional comments on the proposed standard on ***Pricing of Life Insurance and Annuity Product.***

As I reviewed it again, it seems that, since it is a standard applied to "pricing", it ought to have a more substantive description of the pricing process than merely the relatively short definition included. And, I find the definition that is provided as very vague and, perhaps, descriptive of processes that might not rightfully be characterized as "pricing".

For example, the proposed standard defines "pricing" as "a process for setting charges for, and benefits provided by …" and, then, gives examples of charges and benefits. But, "pricing" is more refined than simply the setting of charges and benefits. There is a purpose – to satisfy profit objectives. So, it seems that "pricing" ought to be defined in terms of choosing or setting variable elements in the product design such that profit targets are reasonably likely to be realized (the assumption being that profitability is always an objective). In addition, it would seem that "pricing" also involves an analysis of pricing risk (what may be meant by "cost of risk").

As I believe I have already noted, it seems to me that "design" may be a factor in the context of how the design affects risk and the emergence of profitability over time.

Also, the standard seems to include no consideration that the "pricing" of a life or annuity insurance product may involve a variety of underwriting classes each with distinct assumption sets. That is, the 3.4.3 mentions assumption setting should reflect the entire time horizon but makes no mention of underwriting class. It seems that underwriting class needs, at least, to be mentioned. Perhaps this is all deeply implied in the definitions of Model Framework and Model Point. A more complete description of the pricing process utilizing references to Model Framework and Model Points might clear up this vagueness.

And, one more comment on Profitability Metrics. Actuaries when pricing typically reference more than one metric but give one greater emphasis. For example, IRR greater than or equal to x% but not less than y% of premium might be an overall profitability metric. It would seem that some discussion or standard on how profitability metrics are applied would be relevant to the proposed standard. That is, individual pricing cells (or Model Points) are unlikely to all satisfy the established profitability metric exactly. So, Model Point or pricing cell weighting is an assumption that ought to also be discussed. But, even with weighting, Model Point profitability may be a separate consideration and risk characteristic to consider.

In general, I find the proposed standard to be overly vague in terms of what "pricing" is to the point of being, potentially, useless as a standard. While, in keeping with ASOP #1, it does not need to be overly detailed, it ought to, at least, recognize all of the steps in a pricing process.

Thanks

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