

Comment #6 – 4/12/17 – 5:48 p.m.

MEMORANDUM

TO: ASB Comments
Actuarial Standards Board
1850 M Street NW, Suite 300
Washington, DC 20036
(via e-mail to comments@actuary.org)

FROM: Michael McKenney, Chair, Casualty Actuarial and Statistical (C) Task Force

DATE: April 9, 2017

RE: Comments on the ASB’s Third Exposure Draft of ASOP *Estimating Future Costs for Prospective Property/Casualty Risk Transfer and Risk Funding*

Thank you for the opportunity to comment on the Actuarial Standards Board’s (ASB) third exposure draft of the Actuarial Standard of Practice (ASOP) *Estimating Future Costs for Prospective Property/Casualty Risk Transfer and Risk Funding*.

As you know, the Casualty Actuarial and Statistical (C) Task Force exists under the National Association of Insurance Commissioners (NAIC) Property and Casualty Insurance (C) Committee. The Task Force’s mission is to identify, investigate and develop solutions to actuarial problems and statistical issues in the property/casualty (P/C) industry. Our members include the state insurance regulators tasked with reviewing P/C insurance rates in accordance with state laws, actuarial principles and ASOPs. As such, we have great interest in the ASB’s proposed ASOP.

We agree with the ASB’s assessment that there appears to be considerable differences in opinion within the actuarial profession regarding certain aspects of ratemaking and price setting. While the change in focus of the proposed ASOP to estimating future costs eliminates these concerns as they apply to the draft ASOP, these differences in opinion continue to persist, and we recommend they be addressed in a future ASOP.

In our review of the proposed ASOP, we first offer comments responsive to the ASB’s request that attention be given to six questions it poses for readers to consider. In response to questions 1 and 3 through 6, we offer that we believe the ASOP is sufficient, clear and appropriate. Regarding question 2 (which asks: Is it clear what is meant by “intended measure”?), we offer that while the examples provided in the second paragraph of Section 3.2 clearly convey the meaning of “intended measure,” we suggest “intended statistical measure” would be better terminology. The examples noted in Section 3.2 are all statistical in nature, and “intended measure” could be interpreted to have a non-statistical meaning.

In addition to the above comments specific to the questions for which the ASB asked readers to pay particular attention, we offer the following feedback on certain elements of the proposed ASOP:

- Section 2.4 defines “Model” using the words “a simplified presentation.” To the contrary, we find that models are often quite complex. However, for consistency, we recommend the use of the definition already provided in Section 2.2 *Model* of ASOP No. 38 *Using Models Outside the Actuary’s Area of Expertise (Property and Casualty)*:

“An information structure, such as a set of mathematical equations, logic, or algorithms, that is used to represent the behavior of specified phenomena.”

- The last paragraph of Section 3.3 addresses data granularity. We believe it to be appropriate to reference Section 3.5 *Homogeneity of Data* from ASOP No. 25 *Credibility Procedures* when speaking to the appropriate level of data granularity in Section 3.3 of the proposed ASOP. Specifically, we note the need to balance homogeneity with the size of the data set (as noted in Section 3.5 of ASOP No. 25) and believe one should not be mentioned without the other in Section 3.3 of the proposed ASOP.

- Section 3.8 addresses the use of historical data. We believe it would be appropriate to (again) reference ASOP No. 23 *Data Quality* in Section 3.8.
- Section 3.12 *Modeling* states that the actuary should reference “any ASOP on modeling that is adopted by the ASB.” We believe it would be appropriate to specifically include mention of existing ASOP No. 38 *Using Models Outside the Actuary’s Area of Expertise (Property and Casualty)* in Section 3.12.