

Comment #2 – 3/10/17 – 5:59 p.m.

Dear Actuarial Standards Board,

I am submitting comments regarding the third exposure draft of the proposed ASOP, *Estimating Future Costs for Prospective Property/Casualty Risk Transfer and Risk Funding* (formerly *Property/Casualty Ratemaking*). These comments are being submitted on my own behalf, not as a representative of my employer or any other organization.

My comments:

- **The ASOP, as written, does not address estimating future costs for low frequency/high severity lines like Umbrella, especially in the case of policies with high limits.** In Umbrella pricing, for example, actuaries often separately estimate future loss costs for each million-dollar “layer” of coverage. In the lower layers, one might use data and approaches that are reflective of actual loss experience. In the higher layers, there is such a low frequency of losses that other methodologies are more appropriate. I looked at the other ASOPs referenced in the proposed new ASOP (e.g. ASOPs 23, 25, 38, 39), but none of them specifically discuss how to estimate future costs for high-limit policies. I recommend this new ASOP at least mention that different methodologies might be used for estimating future costs in higher layers of coverage than would be used to estimate lower layers of coverage.
- In question 2 of the “Request for Comments” section on page vi, the ASB asks if it is clear what is meant by “intended measure.” My answer to that question is “No.” **I suggest that the term “Intended Measure” should be defined in the “Definitions” listed in Section 2 of the proposed ASOP.**
- In question 4 of that same “Request for Comments” section, the ASB asks if it is clear that the proposed ASOP provides guidance only for the estimation of future costs of risk transfer and risk funding, and that the scope does not include regulation and business objectives like price optimization. My answer to that question is “Not completely.” Page 9 of the proposed ASB includes a relevant paragraph in the Appendix that addresses this question, stating, “Throughout our history as a profession, actuarial future cost estimates have not always been the sole basis for rates and prices...other influences may include regulatory requirements and business objectives..[which may] complete with actuarial future cost estimates in deciding upon final rates and prices.” **I suggest that paragraph about these “other influences,” should be moved out of the Appendix and placed in the “Scope” Section 1.2 of the main body of the ASOP.** This distinction is important enough that it should be covered in the ASOP itself, not just in the Appendix.

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