

To: Actuarial Standards Board

From: John R. Pedrick, FCAS, MAAA

Subject: ASB COMMENTS: Property/Casualty Rate Filing Request for Input

Date: February 28, 2020

Thank you for the opportunity to provide input regarding the development of an ASOP regarding Property/Casualty Rate Filings. This memo is based on my own experience and opinion and does not necessarily represent the opinions of my employer.

I have held several different roles involving P/C rate filings over my career, and currently work as a consultant to insurance regulators, work that includes the review of this type of filing. More details regarding my background can be found at the end of this memorandum.

I am in favor of having an ASOP that directly addresses rate filings for the following reasons:

- Existing ASOPs address filings and regulatory compliance for other areas of actuarial practice, such as ASOPs 8 and 26, setting precedent for an ASOP for property and casualty rate filings.
- Insurance customers in general do not have the background and technical qualifications to determine whether the rates underlying their insurance policies are appropriate. Actuaries are uniquely qualified to make a determination regarding the underlying actuarial aspects. Having an ASOP for property and casualty rate filings would enhance the actuarial profession's performance in meeting its duty to the public, as is mentioned in Precept 1 of the Code of Professional Conduct.
- The ASOP should be carefully crafted to help actuaries and the public separate actuarial responsibilities from other responsibilities. Underwriters, corporate leaders, and insurance commissioners rely on the professionalism of the actuaries involved in developing, submitting, and reviewing rate filings. These individuals may need to incorporate non-actuarial considerations in their roles, but must still rely upon sound actuarial advice regarding the rate systems filed with insurance regulators.
- Regulatory actuaries would benefit from an ASOP that supports their role in reviewing rate filings. Their input in the regulatory review of filings is perhaps the most important element in meeting the duty to the public because insurance commissioners, as the statutory insurance regulator, need to rely upon sound actuarial advice when reaching a determination regarding an insurer's rate structure.

The items below address the numbered items in the Request for Input.

1. Actuarial responsibilities in the determination of final rates vary across lines of business, companies. The responsibilities are shared, in differing distributions of duties, among actuaries, underwriters, and compliance and filing staff. For large personal lines carriers, actuaries tend to have a prominent role in the final determination of proposed rates, often in the lead position and incorporating input from underwriting and compliance. For smaller personal lines carriers and most commercial lines carriers (for admitted

companies), underwriters tend to take the lead, relying on support from actuaries. The extent of reliance tends to be correlated with the size of the carrier.

2. For carriers that have actuaries, the actuarial role in the development of a rate filing tends to be a bit more universal for those carriers that have sufficient actuarial staff.
3. The aspects of rate filings that are actuarial include: rate level indications (loss development, trend, incorporating prospective expenses and profit into the indicated rate level, etc.), incorporating statutory or regulatory requirements pertaining to the calculations, responding to questions from regulatory reviewers, providing input to the company decision process that precedes the submission. The non-actuarial aspects include: assembling and transmitting the filing, creating manual pages, communicating the results to production staff, management, and to agents and brokers.
4. Issues that commonly arise (certainly not a complete list):

Issue	Is it Actuarial? ASOPs?
Disagreement regarding expense provisions and the provision for underwriting profit and contingencies, including the after tax rate of return used	Yes, this is a core actuarial set of calculations. ASOPs 29, 30
Premium and loss trend calculations that could be biased toward higher rates	Yes, this is a core actuarial set of calculations ASOP 13
Compliance with specific state requirements such as not changing personal auto rates due to a first not-at-fault accident, discounts for defensive driving courses, cancellation provisions, etc.	Yes, in part, since actuarial calculations can produce rate differentials for risk characteristics that state laws may prohibit ASOP 41 requires disclosure of methods prescribed by state law.
Compliance with standards other than “Rates shall not be excessive, inadequate, or unfairly discriminatory,” such as in a disparate impact analysis.	Generally, this is not an actuarial responsibility, but actuaries can provide analytical input. Disparate impact is a legal determination, and the existing ASOPs address any actuarial analysis that may be used. Actuaries may be called upon to explain differences between this and statutory standards for rates.

5. ASOP 56, Section 3.5.c, provides considerations for a model regarding regulatory standards applicable to the model, testing, validation, and whether it has been certified as meeting those standards. Section 4.2.a, requires the disclosure in ASOP 41, Section 4.2, if any material assumption or method was prescribed by law. Neither of these provisions requires the actuary to state whether, to the best of the actuary’s knowledge, the model

complies with statutory requirements that prohibit use of certain risk characteristics. This is an opportunity for the actuarial profession to provide valuable input in the regulatory process, particularly when regulators may not have the technical knowledge or resources to independently make that determination.

6. The many ASOPs address the need to comply with applicable laws for the specific topic addressed in each ASOP. Rate determination, as opposed to rate filing, is an internal actuarial process for an insurer which is generally addressed in the existing and pending ASOPs. This internal process should consider the needs to address rate filings when they are made.
7. Rate filings result from a wide variety of actuarial analyses and pull their results together into a cohesive rating system. When a rate structure is filed by an actuary, that individual is in the best position to state whether the rates and rating rules were developed in compliance with actuarial standards and that, to the best of the actuary's knowledge, they comply with state law.

When an actuary provides analysis and input in the development of a rating system but is not the individual responsible for final decisions, the actuary should advise the decision maker regarding compliance with state law and be prepared to communicate that message to regulators if called upon to do so.

When an actuary reviews a rate filing, the actuary should determine whether there is a lack of compliance with ASOPs, keeping in mind that applicable state law may result in variance from standard practice. This determination should be documented, and communicated as appropriate. This is a separate matter from the determination and communication of approval or disapproval as an official state regulatory action.

8. a., b., c.: Guidance should apply to all lines of insurance and in all types of filing laws. Actuarial professionalism is not a part-time endeavor, whether the actuary is the key individual who develops and files a rating system, provides support in the development of the system, or reviews the filed system for compliance with state law.
9. The standard should apply in all circumstances.

My background includes the following experiences:

- Five years as a consultant, working solely for insurance regulators, including the regular review of rate filings on behalf several state insurance regulators – my current position,
- Four years in leadership roles for two rating bureaus, responsible for product, loss cost and rate filings in all major P/C lines, including workers compensation,
- Twelve years as an insurance regulator, with the last 4 of those years as Assistant Director for Product Regulation and Actuarial Services, responsible for all rate, rule, and form filings from P/C, health, and life insurers,
- Seven years as a pricing actuary in personal lines of insurance, responsible for submitting and supporting rate filings in multiple states, and
- Four years as chief actuary for a monopolistic state workers compensation system.