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

The following is in response to the October 2019 request for input regarding the development of a new Actuarial Standard of Practice (ASOP) related to the preparation of property/casualty rate filings and selection of final rates.

This response is being submitted on behalf of the National Council on Compensation Insurance (NCCI), a rating bureau / rate advisory organization. NCCI annually prepares and submits workers compensation loss cost / rate filings in more than 35 states across the country. Therefore, a majority of our work is undertaken from the perspective of the filing actuary.

Question 1 – What are the existing or current actuarial responsibilities in determining the final proposed rates?

While other ASOPs go into detail regarding how to produce estimates for final rates, many other considerations are required during the proposed rate analysis process. The determination process often involves the use of actuarial judgement.

NCCI does not believe an additional ASOP would add significant value for rate filings, particularly in long-established lines of business such as workers compensation, but there may still be a benefit in the development of an additional ASOP with respect to identifying and aggregating potential considerations during the rate selection process. While the full list of considerations may not always be applicable, the existence of such a reference may be helpful when making rate selections. Below are some actuarial considerations that have historically been discussed in the course of our work:

- **The intended consumers and how they will use our filed rating values** [somewhat covered under ASOP 53]. For example,
 - Are the rating values advisory rates or loss costs? How much flexibility does the end-user have when making their final rates based on our advisory values?
 - If there are several reasonable choices of models that provide similar results, it might be beneficial to consider filing the less-complex model to promote clarity and understanding by the intended consumer.
- **The balance between the responsiveness and stability of rating values.** There is almost always a trade-off between the year-to-year responsiveness of selections and the stability of rating values over time.

- **The holistic view of actuarial selections.** When making selections in the filing process, it is possible that the cumulative effect of making multiple upper- or lower-bound selections can have unintended impacts on the final rates. For example, selecting the upper (lower) end of the range of reasonability for each individual component could result in indicated final rates that are unreasonably high (low). It may be beneficial, then, to consider the reasonableness of the component selections as well as the resulting final rates.

Question 2 – What are the existing or current actuarial responsibilities in the development of a rate filing?

NCCI considers a rate filing to be an actuarial report and, therefore, subject to ASOP 41. More specifically, ASOP 41 provides guidance on the communication of assumptions, methods, procedures, and other responsibilities in the development of a rate filing. Otherwise, no comment.

Question 3 – Are there aspects of rate filings that you consider actuarial in nature? What aspects do you consider not actuarial in nature?

We will limit our response to those aspects we believe ARE actuarial in nature:

- Actuarial Certification
- Statement of Purpose/Intended Usage and Audience
- Description of Scope
- Citation of Data Sources and Valuation Dates
- Disclosure of Methodology Changes
- Statements of Risk and Uncertainty
- All Relevant Filing Analyses Such As (and any relevant interdependencies):
 - Experience Period
 - On-levelling Adjustments
 - Development
 - Handling of Large Losses
 - Trend
 - Class Ratemaking Credibility
 - Legislative Changes
 - Impact of Assigned Risk Pricing programs
 - Expenses and Taxes
 - Profit and Contingency Provision

While the above are considered actuarial in nature, it is possible that the actuary relies on outside expertise (e.g., for the selection of an appropriate profit and contingency provision). In such cases, the responsibility of the actuary would be limited as described in ASOP 38.

Question 4 – What aspects of a rate filing frequently cause issues during regulatory review?

- a. Do these issues cover actuarial content that should adhere to ASOP guidance?*
- b. If so, what makes these issues actuarial content in your opinion?*
- c. If not considered as actuarial content, why not?*

Certain aspects of our filings tend to receive relatively more scrutiny, such as selections/methodologies that are more subjective in nature and/or have more of a material impact on the overall proposed rate level change. NCCI would not characterize this as indicative of the existence of an “issue.” Rather, the

regulator's enhanced level of scrutiny in these areas is expected and part of their due diligence review. Areas that generally receive increased focus during the regulator's review of a workers compensation rate filing include:

- Experience Period
- Development
- Trend
- Legislative Changes
- Profit and Contingency Provision
- The Residual Market

Question 5 – Given that many rate filings contain the results of large computer modeling, does the proposed ASOP on Modeling sufficiently address your concerns with regard to rate filings?

No comment.

Question 6 – What actuarial aspects need further guidance to actuaries in the rate determination process beyond the guidance already contained in existing ASOPs?

As mentioned in our response to Question 1, NCCI does not believe an additional ASOP would add significant value for lines such as workers compensation, although additional guidance on final rate selection considerations may provide additional value for the filing actuary.

Question 7 – What actuarial aspects need further guidance to actuaries in the rate filing process beyond the guidance already contained in existing ASOPs?

No comment.

Question 8 – Is guidance to actuaries needed for all rate filings?

- a. All lines of insurance?*
- b. All types of rate regulation laws (prior approval, file and use, use and file, etc.)?*
- c. If not needed for all filings, which specific filings either limited to specific lines of insurance, rate regulatory laws, or other conditions would trigger activation of the ASOP?*

No comment.

Question 9 – Should the scope of this standard be confined to filings that require an actuarial certification?

No comment.

Thank you for the opportunity to comment on the Request for Input.

Sincerely,



Donna Glenn