

February 28, 2020

Actuarial Standards Board (ASB)
1850 M Street NW, Suite 300
Washington, DC 20036

Sent via email: comments@actuary.org

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

Pinnacle Actuarial Resources, Inc. (Pinnacle) is pleased to have the opportunity to provide the following comments in regards to the request for input on a Property/Casualty Rate Filing ASOP. Pinnacle’s actuaries provide rate filing support to insurance companies as well as review rate filings for Insurance Departments.

Below are responses to your questions from consultants preparing rate filings for insurance companies.

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

Pinnacle’s actuaries prepare rate indications and work with Company management to determine proposed rates. Current actuarial responsibilities in determining the rate include working with Company management to develop rates that are:

- consistent with the Statement of Principles Regarding Property and Casualty Insurance Ratemaking (SoP);
- consistent with all applicable ASOPs;
- consistent with the business needs of the principal; and
- in compliance with all applicable laws and regulations in the jurisdiction.

The development of the final rates generally start with overall rate indications and may include additional actuarial responsibilities including class plan analysis, new coverage/product development, competitive analysis and customer response modeling.

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

Generally, actuaries are involved in determining and then certifying that rates are actuarially sound, that is not inadequate, excessive or unfairly discriminatory. This is an essential role for actuaries in the rate filing process. Actuaries are often involved in preparing requisite filing documents that fulfill all applicable regulatory requirements in the jurisdiction, appropriately accounting for limitations required by the principal to the extent they do not conflict with law or regulation (e.g. company trade secret information). Actuaries must also be prepared to respond to regulator questions on the submitted filing.

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

The support for the actuarial soundness is clearly actuarial in nature. As it relates to rates, even elements that are only “quasi-actuarial,” discussing the impact of reinsurance, the quality of the company being used as a benchmark, or reflecting unique regulatory requirements, all benefit from actuarial involvement.

As for the rate filing itself, communicating the final proposed rates in compliance with ASOP 41 through the specific forms required by the applicable regulations in the jurisdiction is actuarial in nature. Providing manual pages and some required filing forms may not be actuarial in nature.

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?*

The following aspects of a rate filing frequently cause issues during regulatory review:

- Use of an alternate or novel method, judgment or assumption that the reviewer is unfamiliar with
- Materiality of certain rate filing items
- Profit provisions
- Benchmarks of all kinds
- New coverage costing
- Pricing decisions that deviate from the results from indications and/or historical experience.

If it relates to ratemaking, it is fundamentally actuarial. These issues cover actuarial content that should adhere to ASOP guidance because they

- pertain to actuarial methods, judgments, or assumptions.
- relate to a reasonable materiality standard. The SoP advises “**material** assumptions should be documented and available for disclosure”. ASOP 1 defines materiality; however oftentimes certain reviewing actuaries seem to focus on any method, judgment, or assumption, whether material or not.

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?*

ASOP No. 56, *Modeling* does not sufficiently address our concerns with regards to rate filings.

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

Guidance on how filing actuaries and reviewing actuaries should interact and handle common filing issues, such as materiality, would be beneficial. Some of this guidance would be similar to what has been provided for actuaries involved in auditing situations in ASOP 21.

It would be advantageous to have the concept of actuarial soundness contained in the Statement of Principles. It is absolutely of value to any actuary who has ever done expert testimony related to rates/premiums.

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

Further guidance is needed on situations when rate elements are mandated by regulation/law but are not appropriate for rate indication being developed. The rate filing process could be improved with more guidance to filing and reviewing actuaries on how rate filings should be documented.

Filing actuaries would benefit from guidance on how properly document rate filings when company decisions deviate from what is indicated and how to document deviations more consistently across various state requirements.

8. *Is guidance to actuaries needed for all rate filings?*

- All lines of insurance?*
- 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?*

Some parts of the ASOP could be generic enough to apply to all rate filings (i.e. how filing actuaries and reviewing actuaries interact). As prior approval is the most prescriptive rate regulation law, some different guidance may be needed compared to “file and use” and “use and file” filings. Except for exceptions, such as materiality, there is no line of business or type of regulatory situation where an actuary’s work should not be held to an ASOP that pertains to their work product.

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

No, because actuaries may contribute to preparing or reviewing filings that do not explicitly require such certification, and the actuaries’ responsibilities should not change based on whether or not a certification is required. An actuarial certification may be something that should be considered in an ASOP but if the ASOP is too specific it may result in an ASOP so voluminous and detailed that it would be unwieldy and likely out of date shortly after publication.

Below are responses to your questions from consultants reviewing rate filings for regulators.

1. *What are the existing or current actuarial responsibilities in determining the final proposed rates?*

Pinnacle’s reviews or rate filings generally consist of the reasonability of the overall rate indication and review of the actuarial support of proposed changes. See *consultants preparing rate filings for insurance companies* above for the current actuarial responsibilities.

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

See *consultants preparing rate filings for insurance companies* above for the current actuarial responsibilities.

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

Any memos or exhibits that support the indicated rate provided along with a filing could be considered actuarial in nature. This would call for appropriate documentation and supporting information for exhibits provided to the reviewing actuary. Supporting documentation should comply with ASOP 41 and other relevant ASOPs. Providing manual pages and some required filing forms may not be actuarial in nature.

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?*

See *consultants preparing rate filings for insurance companies* above for causes of frequent issues during regulatory review.

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?*

Section 3.1.2 appears to be the only guidance to regulators. Regulators need to review more than that the model reasonably meets the intended purpose.

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

See *consultants preparing rate filings for insurance companies* above for aspects needing further guidance.

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

Reviewing actuaries would benefit from guidance on how a filing actuary should communicate recommendations based on their findings when they deviate from what the company has filed or if they differ from what they believe a regulator will approve. Additional items needing further guidance are provided in Item numbers 5 and 6 above and Item number 7 in *consultants preparing rate filings insurance companies*.

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?*

There are many rate filings we see/review for regulators where the actuary clearly needs more guidance. This should apply to all lines of insurance, especially the more complex commercial lines,

warranty and premiums for captive insurance companies. This ASOP should apply for all rate filings, in fact some nuances, e.g. what is required documentation compliant with ASOP 41 in a use and file state, are specific to a specific form of regulation.

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

The scope of the standard should not be confined to filings that require an actuarial certification.

The comments above are the collected comments of the consultants employed or affiliated with Pinnacle. If you have any questions regarding our comments, please contact Laura Maxwell, Pinnacle's Professional Standards Officer, at lmaxwell@pinnacleactuaries.com.

Sincerely,



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