

Comment #4 – 2/18/20 – 6:08 p.m.

February 18, 2020

Property/Casualty Rate Filing ASOP
Actuarial Standards Board
1850 M Street, NW, Suite 300
Washington, DC 20036-4601

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

The Casualty Actuarial and Statistical (C) Task Force is responding to the Actuarial Standards Board (ASB) request for input concerning the development of an actuarial standard of practice (ASOP) on property/casualty (p/c) rate filings. As noted in the ASB request, the ASOP would be expected to provide guidance to actuaries on the actuarial aspects of the selection of final rates and p/c rate filings to state insurance departments. The potential standard would be guidance regarding the actuarial aspects of a rate filing for the filing actuary, the regulatory actuary, and the reviewing actuary.

The Task Force members have divergent views as to whether a rate filing ASOP is appropriate. While not offering a single consensus opinion, the attachment contains compiled state insurance regulators' answers to your questions and some additional comments.

The Task Force appreciates this opportunity to provide comments to the ASB. If you have any questions about our comments, please contact Kris DeFrain, at kdefrain@naic.org.

Sincerely,

Phil Vigliaturo, ACAS, MAAA
Chair, Casualty Actuarial and Statistical (C) Task Force

Attachment

Casualty Actuarial and Statistical (C) Task Force

Individual State Regulators' Responses to the
Actuarial Standards Board's (ASB) Request for Input on a Potential
Property/Casualty (P/C) Rate Filing Actuarial Standard of Practice (ASOP)

State	1. What are the existing or current actuarial responsibilities in determining the final proposed rates?
CA	<p>a. Ensuring that the final proposed rates are loss cost-based, and the rating variables themselves reflect a substantial relationship to the risk of loss.</p> <p>b. Ensuring that the rates or rating relativities, at minimum, move directionally and substantially toward their indicated values, where those indicated values consider only the relationship between the rating variable and the risk of loss.</p> <p>c. Under California regulation, there is no room for consideration of non-loss cost based factors such as an individual's willingness to pay a higher premium, retention/lifetime value in the development of the expense premium, or competitive position. Exception: Competitive position may be a consideration if used for the development of a new product, or rating variable, for which the insurer has no data upon which to base its rates.</p>
CO	<p>Colorado currently reviews rate filings for validation of earned premium, losses, expenses, return on investment and underwriting profit utilized in determining the loss ratio and resultant premiums. We further perform reasonableness tests for factor and trend selections. Lastly, we review any predictive models for goodness of fit and compliance of variables as well as compliance with the rate capping bulletin B-5.32 and/or the price optimization bulletin B-5.36. This involves reviewing rating variables to ensure that they comply both in nature and application.</p>
MN	<p>Must fit the legal standards of not excessive, inadequate or unfairly discriminatory and follow the unfair trade practices statute in our state.</p>
NE	<p>"Actuarial responsibility" is an interesting concept. Responsibility or accountability for P&L is typically delegated to an actuary only through his/her role in Line Management. Some actuaries are good candidates for Line Management, and may find actuarial skills helpful in those jobs, but only they can say whether they are still providing actuarial services to their superiors, themselves or subordinates when making (and selling) Line decisions. I would look for providers of actuarial services in Staff positions. The Line at tactical levels can be directed to implement recommendations from a staff actuary with or without exceptions, but upper Line Management can also permit or guide subordinates to entirely ignore the actuary. Actuarial recommendations or indications probably gain value when sensitive to, but independent of Line Management. Whether that works depends on culture, leadership, organization and execution. Assume that's achieved for a moment. Who determined the final proposed rates? I say Line Management from Board of Directors down is responsible for the final rates, even if the actuary's numbers are implemented without exceptions.</p>
PA	<p>I believe the insurance company's management is responsible for determining the final proposed rates. Often these decisions are based on actuarial analyses, but this is not always the case.</p> <p>PA law, to my knowledge, does not require that an actuary be involved with the setting of final proposed rates. In fact, in my experience, many small companies do not use actuaries in many of their rate filings.</p> <p>When actuaries are involved, I believe ASOPs 12, 13, 23, 25, 29, 30, 38, 39, 41, 43 and 53 apply. However, they apply to the actuarial work and not to management's decision to deviate from the actuarial analyses.</p>

WV	The rate analyst determines the need for an actuarial review or performs the review using the skills and knowledge they've received through years of training or experience as a rate analyst. The rate analyst does have the final approval/disapproval capability of a rate filing. Note: WV does not employ in-house actuaries and all actuarial reviews are performed by a contracted actuarial firm.
	2. What are the existing or current actuarial responsibilities in the development of a rate filing?
CA	<ul style="list-style-type: none"> a. Ensuring that the data underlying the rate or rate relativity indications is accurate, reconciles to external reports, and is internally (between exhibits in the current rate filing) and time-wise (between current and prior filings) consistent. b. Ensuring the data provided in support of the proposed rate or rate relativities is appropriate for the product to which the filing applies. c. Ensuring that appropriate actuarial assumptions (e.g., trend, development, etc.) were made to project premiums, losses and DCCE for the rate effective period, and are compliant with regulations. d. Ensuring appropriate use of credibility, including determining the appropriate standard for full credibility, the rule for partial credibility and the complement of credibility, in the absence of regulations that prescribe those values. e. Ensuring proper adherence to regulations in the development of rates, even in those cases where regulations may deviate from actuarial principles or standards of practice.
CO	We do not prepare rate filings as we are regulators.
MN	It seems companies try to provide as little information as what they can get away with. What makes it even more difficult for the regulator to review is the filer only files what is changed, meaning there could be quite a bit of unsupported and perhaps not up to standards parts of the rating plan that does not get reviewed. This is a problem for our department due to staffing issues.
NE	I'm now a regulatory actuary, but in my early years making rate filings, the company funded no actuaries, with pride. If "actuarial" or "actuarial-looking" documents were required, I was among the non-actuaries who created them. A decade or so later, an actuarial unit managed by an ACAS or FCAS would routinely deliver supporting documents to a state filings counterparty, but at levels well below ACAS. So managers were both credentialed actuaries (bound by the ASOP's) and internally accountable, but employees actually creating and delivering the filing support were un-credentialed. The ACAS or FCAS was effectively anonymous in rate filings, unless the state required a credentialed actuary's signature, or objections (e.g. litigation) caused a credentialed actuary to be named. The insurer made rate filings, but generally didn't have to identify an actuary or even delegate work it to an actuary.
PA	Same answer as #1
WV	WV requires an actuarial certification for rate filings. All rate filings must be fully supported by actuarial data and must be adequate and fair.
	3. Are there aspects of rate filings that you consider actuarial in nature? What aspects do you consider not actuarial in nature?
CA	<ul style="list-style-type: none"> a. Reconciliation of data underlying the rate filing, loss and premium trend, on-leveling of premiums, loss and DCCE development, catastrophe adjustment, modeling, credibility adjustment, expense loads, reinsurance, including any deviations (variances) to prescribed methods for handling these aspects, where applicable, are considered actuarial in nature. b. To the extent that filed changes to underwriting guidelines and forms do not have an impact on rates, these changes are not actuarial in nature, but are still subject to regulatory review.

CO	We consider any rules that affect rate or premium to be actuarial in nature as well as any calculations involving rate development including trends, factors and relativities. Remaining rules and filing procedures are considered non-actuarial.
MN	If it is a rate filing all aspects of the filing would be actuarial in nature. However, filers often include information in the filing that are not actuarial in nature. Due to staffing issues, we have to filter which filings we review. Things like rate pages we have the non-technical staff spot check.
NE	Obviously, actuaries have developed widely accepted techniques to argue that proposed rates are not excessive or inadequate. Showing that proposed rates are not unfairly discriminatory is perhaps multi-disciplinary rather than actuarial, even in the absence of any public policy decisions. The legal standards that rates must meet are not inherently actuarial.
PA	It depends on the filing. Some filings are based on actuarial analyses. Some are not. Some include actuarial analyses and then deviate from the analyses based on non-actuarial decisions. I think it is typically pretty easy to identify the aspects of the filing that are actuarial in nature and the aspects that are not.
WV	The trending and justification is actuarial. Policy count, position in the market, marketing, etc. is not considered actuarial.
	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?
CA	<ul style="list-style-type: none"> • There are frequently data issues, where the data underlying the rate filing exhibits doesn't match to external reports, or to other exhibits within the rate filing. • Filers may omit some of the required documentation, in the hope that the reviewer will not request it. • Given that California is a prior approval state, actuarial support for all rate changes is required. Often, industry actuaries responsible for California filings bypass this step. There is often a lack of documentation and support for requested rate changes, especially at the segmentation level. When support is provided, it can be shoddily prepared or incomplete, or lack clarity as to assumptions and methods. • When justifying numerical results, industry actuaries often fail to provide their calculations in Excel format, with working formulas. • Industry actuaries tend to provide simplistic "vanilla" responses to regulator questions requesting clarification of insurer actions or assumptions, often resulting in the need for additional follow-up questions and further delay in the review of the filing. Example, a very common response to the Department's request for justification of a trend period is "to ensure a balance between stability and responsiveness," without any discussion of the drivers of the trends, mix shifts or why other allowable trend fits were not suitable. • Many of the actuarial assumptions that insurers are allowed to use in personal lines are prescribed by California regulation. In other lines, there is considerable flexibility in how an industry actuary supports its rate action. The filer should provide more detailed actuarial documentation, not less, as is often the case, for these lines of business in support of their rate changes.

	<p>a. Many of these issues are related to actuarial content and actuarial communication, and are already appropriately covered by existing ASOPs. Perhaps it's only necessary to revise the ASOP on Actuarial Communication to include more emphasis on communications to regulators.</p> <p>b. These issues reflect concerns with the support, data and assumptions underlying the requested rate actions. The Department requires that sufficient information be provided to be able to understand what the insurer is doing with the rates, if it is actuarially appropriate and if it is allowed by regulation. Effective review of the rates cannot be accomplished in the absence of appropriate actuarial support and documentation of the assumptions and methods underlying the rate change analysis.</p> <p>c. --</p>
CO	<p>Review of rules for compliance, incomplete filing submissions, review of predictive models and rate transition plans for compliance.</p> <p>a. Yes, rate development is directed by guidelines for compliance and with the advent of GLM's in rating it has become increasingly difficult to determine if an insurers rating model adheres to actuarial principles.</p> <p>b. Ratemaking and data use compliance are actuarial in nature.</p> <p>c. It would be considered filing procedures specific to State guidelines.</p>
MN	<p>Complex models including glms, capping, affinity groups, discounts, car scores telemetrics.</p> <p>a. Some will, but some are based upon our state's interpretation of statutes and regulations.</p> <p>b. If they are not state statute or regulation, then actuarial principals apply.</p> <p>c. Some of the statutory provisions and rules override actuarial principles.</p>
NE	<p>Incomplete or missing explanations. Exhibits missing, poorly labeled or not self-explanatory. Non-adherence to or ignorance of published requirements. Content not organized to make completeness of the filing easy to assess. Factors must be objective rather than subjective in my state. I sometimes see loss costs adopted using some variant of the standard NAIC form, without rate adequacy support for Loss Cost Modification Factors not equal to 1.000, and/or unsupported variations in proposed LCMF's.</p> <p>a. No.</p> <p>b/c: These issues are like a bunch of smart high school kids testing whether the teacher is reading, and being entertained when the teacher gets overwhelmed. If the delinquents are actuaries, maybe the actuarial solution would be to deprive the actuaries of the anonymity that currently renders all of the ASOP's inapplicable.</p>
PA	<ul style="list-style-type: none"> • Erroneous data. This can take many forms, but as one example, basic ratemaking data (e.g. car-years, earned premium, incurred losses, etc.) underlying traditional actuarial analyses is often inaccurate and may not even not reconcile throughout a filing's supporting documentation. • Filings that propose rate changes but do not include any supporting documentation. • Filings that include some supporting documentation but not at the same level as the proposed changes (e.g. an overall rate level indication is provided but support for the various rating variable changes that are proposed is not provided). • Filings that propose rates which deviate from the actuarial indications without any additional information for the deviations. • Simple mathematical errors. In particular, the inability to correctly multiply the LCM by the loss cost.

	<ul style="list-style-type: none"> • The lack of a filing contact that can speak technically about the filing. • Rates and rules that do not comply with state law. • Attempts to get around actually filing the rates that will be used. • Insurers not responding to objection letters in a timely manner. <ul style="list-style-type: none"> a. Some do (erroneous data, documentation of the actuarial work, actuarial communications) b. I think it is generally pretty easy to decipher when filing issues are actuarial in nature and when they are not. c. Many rate filings and much content of rate filings do not use or require any actuarial knowledge. I think it is generally pretty easy to decipher when filing issues are actuarial in nature and when they are not.
WV	Nearly all companies are using modeling for most actuarial data. It's often hard to determine if data is correct as we only receive aggregate results of trending and cannot confirm each factor calculation or if the model is appropriately used. Our sole assurance that the data is accurate is the actuarial certification which is often signed by a company representative and not an actuary.
	5. Given that many rate filings contain the results of large computer modeling, does the proposed ASOP on Modeling (http://www.actuarialstandardsboard.org/asops/modeling-fourth-exposure-draft/) sufficiently address your concerns with regard to rate filings?
CA	The NAIC's draft white paper on "Regulatory Review of Predictive Models" may offer more guidance in this area, at least for certain lines and types of models.
CO	The proposed ASOP provides sufficient guidance on review of predictive models including evaluation of the data, user input and model output.
MN	No. I don't think CASTF would be writing a white paper if it did.
NE	<p>No.</p> <ol style="list-style-type: none"> 1 First, the Modeling ASOP has been in development since December 2012, so I count eight years and we're waiting for comments on the fourth exposure draft. Meanwhile, modeling practice continues to evolve. I'd like to see an argument that says the ASOP process is keeping up. 2 Second, ASOP guidance is binding on credentialed actuaries only. Of people involved in making and reviewing rate filings, the vast majority are not bound by the ASOP's, and those who are bound by them can enjoy anonymity. While ASOP's have educational value for those not bound by them, I would not assume that the non-credentialed audience will understand or respect the Modeling ASOP, or a Rate Filings ASOP, well enough for the public to benefit. 3 Third, I have taken another look at the Modeling 4th exposure draft, and find it rather abstract and distant compared to the relatively concrete multivariate pricing problem. I see a need to update ASOP 12 (Risk Classification) adopted in 2005, which says "The actuary should consider the interdependence of risk characteristics. To the extent the actuary expects the interdependence to have a material impact on the operation of the risk classification system, the actuary should make appropriate adjustments." The update should try to specify the changing meaning of "appropriate adjustments" after a few decades' trend in the power of hardware platforms and statistical software.

PA	While modeling is common, many rate filings and much content of rate filings do not use models.
WV	WV is continuing the review of the fourth draft.
	6. What actuarial aspects need further guidance to actuaries in the rate determination process beyond the guidance already contained in existing ASOPs?
CA	None. Most actuarial topics that would be relevant to supporting the development of rates in California already have ASOPs. Additionally, ASOPs tend to be high level and general, and rate filing requirements vary by each state's regulatory filing law, making the development of a single overriding guidance for all jurisdictions difficult.
CO	We do not prepare rate filings as we are regulators.
MN	The biggest problem from a regulator's point of view is that the actuaries do not make the filing and as a result, much of the actuarial support does not exist in the filing. As a result, as a regulator, we have to track down the actuary (if there is one) who has provided the support. It is not always true that this person is an actuary and most state statutes do not require credentialed actuaries to produce rate filings.
NE	See above. I have not agreed that any aspect of determining final rates is inherently actuarial.
PA	Beyond that which already exists in ASOPs 12, 13, 23, 25, 29, 30, 38, 39, 41, 43 and 53, I might offer the actuary's reliance upon third party reports could use further guidance. There seems to be a lot of uncertainty regarding the accuracy of third party reports and the amount of information they include and exclude. Is it okay for the actuary to recommend rating values for "unknown" or "report not ordered", etc? Is it okay for these rating values to be non-unity? Can two risks of the same class and essentially the same hazard be charged different rates only because a third party had come across data for one of the risks and not the other?
WV	N/A
	7. What actuarial aspects need further guidance to actuaries in the rate filing process beyond the guidance already contained in existing ASOPs?
CA	In light of the fact that many industry actuaries argue actuarial concepts even when regulations clearly require different treatment in the development of rates, it may be worthwhile to shore up language in existing ASOPs to emphasize, even more than is done currently, that in the event of a conflict between regulation/statute and actuarial principle, regulation/statute take precedence.
CO	Evaluating the predictive model for discriminatory, duplicative or prohibited variables.
MN	If company actuaries (and their consultants) followed ASOP 41, then disclosure would not be an issue.
NE	See above. I have not agreed that any aspect of determining final rates is inherently actuarial.
PA	Same answer as #6
WV	N/A
	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?
CA	In the event an ASOP is developed for rate filings... a. Yes. There is no reason why guidance from an ASOP shouldn't apply to all lines, if it is deemed to be necessary at all.

	<p>b. Again, while prior approval states generally have stricter regulations and prescribe the requirements with regard to rate filings, there is no reason why guidance from an ASOP shouldn't apply to all rate regulation filing laws, if it is deemed to be necessary at all.</p> <p>c. --</p>
CO	<p>Yes, guidance to actuaries is need for all rate filings in P&C.</p> <p>a. Within P&C, yes.</p> <p>b. Yes, within reason.</p> <p>c. N/A</p>
MN	Well it should be. This answer applies to 8a, 8b and 8c is n/a.
NE	Those who actually submit filings need to guide those who provide rates and/or evidence.
PA	<p>I'm not sure further guidance is needed than that which already exists in ASOPs 12, 13, 23, 25, 29, 30, 38, 39, 41, 43 and 53 with the possible exception of the actuary's reliance upon third party reports.</p> <p>a. Same answer</p> <p>b. Same answer. I don 't think the applicable filing review standard affects the actuarial work.</p> <p>c. Same answer.</p>
WV	<p>No, often rate filings contain a single factor change that does not affect the overall rate. Those filings require very little actuarial data and no actuarial certification.</p> <p>a. No, often rate filings contain a single factor change that does not affect the overall rate. Those filings require very little actuarial data and no actuarial certification.</p> <p>b. No, often rate filings contain a single factor change that does not affect the overall rate. Those filings require very little actuarial data and no actuarial certification.</p> <p>c. I believe it would be on a case by case basis based on various requirements noted by the State.</p>
	9. Should the scope of this standard be confined to filings that require an actuarial certification?
CA	If an actuary, or any individual performing actuarial work, is responsible for the submission of a rate filing in a particular jurisdiction, that actuary/individual should be guided by the same ASOP, whether or not actuarial certification is required.
CO	No
MN	I see no good reason why it should be limited to just filings requiring certifications.
NE	No. ASOP's should be developed for more general circumstances. Confining an ASOP's scope this way would waste valuable volunteer hours, and if ASOP guidance happened to differ from or conflict with a state's certification requirement would trigger a routine but gratuitous disclosure. If this became a proposed model actuarial certification requirement for P&C rate filings, can the NAIC (CASTF) consider who would be an appropriate author?
PA	I'm not sure that this ASOP is needed, but if it is, then it should apply to the actuarial work regardless of the inclusion / exclusion of any certification.
WV	I believe it would be on a case by case basis but the actuarial certification should definitely require the standards be applied.
	Information about position and role in the rate filing process

CA	<p>These comments are being submitted by regulatory actuaries who work in the Rate Regulation Branch of the California Department of Insurance:</p> <p>Lynne Wehmuller, FCAS, MAAA Chief Actuary – Rate Regulation Branch California Department of Insurance</p> <p>Mitra Sanandajifar, FCAS, MAAA Senior Casualty Actuary – Rate Regulation Branch California Department of Insurance</p> <p>Edward Cimini, ACAS, MAAA Senior Casualty Actuary – Rate Regulation Branch California Department of Insurance</p> <p>Our role as regulatory actuaries is to review rate filings on behalf of the California Insurance Department.</p>
CO	<p>I am a regulator Review rate filings on behalf of insurance department(s)</p>
MN	<p>A regulator Review rate filings on behalf of insurance department(s)</p>
NE	<p>I am currently a regulatory actuary, and a member of the Casualty Committee of the Actuarial Standards Board.</p> <p>I review rate filings on behalf of the Nebraska insurance department, but only those referred on an exception basis for actuarial review.</p> <p>My resume' shows several decades experience beginning as an agent, then personal lines underwriter, and state filings analyst in a corporate legal context. My first actuarial job was in an IT context, where I spent a decade designing, implementing and refining automated actuarial systems including rate level indications, rating factors experience, trend data and analyses, loss development data and reserving analyses. The rate level indications, including selected trends and LDF's, wer available for decision support "on the shelf" throughout the company, and routinely used without modification in subsequent rate filings. I spent another two decades in actuarial pricing management for personal and commercial lines. From about 1990 to 2011, as rating system development became increasingly GLM-dependent, I had various combinations of hands-on versus oversight involvement, with each project concluding with documentation, explanation, internal selling and finally rate filing deliverables. Since 2011, as the Property & Casualty Actuary at the Nebraska Department, my primary responsibilities are in the Examination Division. When the Property & Casualty Division occasionally refers rate filings to me, the typical reason is either the rating system's dependency on a complex model, or a market segments perceived trend into rate inadequacy.</p>
PA	--
WV	<p>A regulator (non-actuary) Review rate filings on behalf of insurance department(s)</p>
	Additional Comments
NV	<p>I write these comments to express categorical opposition to the development of any Actuarial Standard of Practice (ASOP) on Property/Casualty (P/C) insurance rate filings, for the following reasons. I will be happy to discuss my reasons for opposition further during subsequent conference calls of the Casualty Actuarial and Statistical Task Force (CASTF) and in any other contexts that may be considered beneficial. However, in prior conversations with</p>

other States' regulatory actuaries, it has become apparent to me that significant differences of opinion exist on this subject, and thus a single combined comment from the CASTF to the American Academy of Actuaries' Actuarial Standards Board (ASB) would not be practical or reflective of the broad spectrum of regulatory actuaries' views and preferences. Accordingly, I am of the view that comments submitted to the ASB on this subject should be sent by individual regulatory actuaries on their own behalf.

The views expressed herein are my own and not necessarily a reflection of the views of any organization in which I am a member or participant.

1. Requirements for rate filings are prescribed pursuant to State law, and an ASOP would not add any rigor those requirements or ensure any beneficial outcomes that State requirements do not already produce. Indeed, State law and regulatory guidance takes precedence over ASOPs, as the text of many ASOPs already acknowledges.

2. However, an ASOP may serve to dilute the efficacy of State-based insurance regulation by reducing the diversity of State-specific requirements – some of which facilitate cutting-edge awareness of insurers' predictive models and other filing innovations and the evaluation of the consumer impacts of such proposals – to the lowest common denominator. ASOPs are by nature broad and general and could not be a substitute for the detailed set of filing-related statutes, regulations, guidelines, and precedents that individual States have developed. Especially in prior-approval jurisdictions, it would be difficult to imagine an ASOP adding any useful aspects that the State had not already considered, but it would be easy to imagine a filer referring to the ASOP as perceived justification for creating a filing that falls significantly short of State-specific requirements.

3. Indeed, as has been observed with other ASOPs related to elements of ratemaking and risk classification in the past, some insurers and insurer-aligned interested parties are likely to use the new ASOP as an attempted shield from regulatory scrutiny, alleging that because certain regulatory inquiries or principles of filing review are not found in the ASOP, they are therefore illegitimate for the regulator to delve into. This has been particularly observed with a prevalent industry remark that because ASOP No. 12 on Risk Classification does not require causation to be demonstrated, therefore, regulators should not consider questions of causation at all. Many regulatory actuaries have justifiably pushed back against this interpretation, but a Rate-Filing ASOP would create many more openings for certain interested parties to seek to challenge regulatory inquiries instead of appropriately responding to them. These kinds of challenges often will not prevail, but they could bog down the conversation on emerging rating treatments in unnecessary retreading of the same generic territory for many years – time which could have been better spent examining the substance of specific rating treatments, models, variables, and supporting data.

4. Currently there is no legal requirement, at least in the majority of jurisdictions, for a credentialed actuary to be involved either in the development of a P/C rate filing or in its review. Having actuaries involved in both roles is, of course, a benefit given the extensive additional technical knowledge and subject-specific expertise that actuaries bring (albeit, not a benefit that is practically achievable in every rate-filing situation). A Rate-Filing ASOP would bind the actuaries but not the non-actuaries involved in filing creation and review. This would have an undesirable and unintended effect on the incentives of the principals on both sides of the process. If it is more burdensome to utilize the actuaries in rate filings (because they personally would have to comply with an additional set of requirements to which non-actuaries are not bound), then why not (per the logic that would tempt such principals) opt to

develop and process the filings using non-actuaries only, especially if this is permitted by law? It is important to keep in mind that the principals on each side of the rate-filing interaction are concerned about their own objectives and requirements being met (the insurer's business goals and speed to market in a jurisdiction and the regulator's responsibility to protect consumers and enforce the law, as well as a desire for efficiency in processing an often-considerable filing workload) – and would view the superimposition of another set of requirements by a third interest (that of the promulgators of the ASOP) as an inconvenience and a complicating factor. The promulgators of the ASOP are presumably motivated by a desire to strengthen the actuarial profession, yet the Rate-Filing ASOP would have the opposite effect in practice by discouraging the utilization of credentialed actuaries in rate-filing contexts. For the prospects of the members of the actuarial profession to be advanced, it needs to be as easy as possible for both insurers and regulatory agencies to utilize actuaries in developing, reviewing, and corresponding on rate filings.

5. Because the Rate-Filing ASOP, at least per the wording of the ASB's exposure document, would appear to encompass the roles of "the regulatory actuary" and "the reviewing actuary", and because the American Academy of Actuaries is composed predominantly of actuaries practicing within the private sector and employed by regulated entities, a serious concern arises that the creation of a Rate-Filing ASOP would invert the regulator-industry relationship, and would effectively create a situation wherein industry members would be "regulating the regulators" – a scenario that could even be termed regulatory capture. This concern could be averted if the proposed ASOP clearly expresses that it only applies to those actuaries submitting the rate filings, not those actuaries who review the filings on behalf of State regulatory agencies. Those who review rate filings should only be bound by the requirements of applicable law and the policies, procedures, precedents, and deliberations of the regulatory agencies whom they represent. All of these aforementioned requirements were developed with the interests of consumers and the general public in mind, whereas there is no guarantee that an ASOP developed predominantly by private-sector actuaries – even persons of the highest integrity – would have this as its primary motivation. Even exceptional good character and good motives on the part of industry decision-makers cannot be a justification for a situation where they come to "regulate the regulators" – for this would be inconsistent with the very reasons for the existence of insurance regulation in the first place.

6. Especially if the Rate-Filing ASOP binds regulatory actuaries, this leaves an opening for a filing company's actuaries to allege violations of the ASOP on the part of a regulatory actuary who attempts to inquire regarding certain matters within the filing where there is a disagreement between the company and the regulators regarding the appropriateness of certain treatments. It is important to prevent any situation where filers may be able to utilize this kind of tactic to thwart regulatory reviewers from performing their jobs. Currently, more so than in any prior era, it is imperative for regulators to thoroughly review emerging predictive models and ask new and different types of questions to ensure that long-standing objectives of transparency and fair treatment of consumers are maintained. Hence it is vital to preserve an environment in which questioning of new filing methodologies and new types of rating classifications – an activity to which regulatory actuaries are uniquely suited – does not carry with it the potential for personal adverse consequences.

7. Especially given the NAIC's ongoing efforts to express regulatory predictive-model-review best practices / guidance – as exemplified by the white paper in progress regarding the Regulatory Review of Predictive Models – the proposal for a Rate-Filing ASOP appears to be duplicative and to create parallel and potentially conflicting standards with those expressed in

	<p>the NAIC guidance. The NAIC guidance explicitly recognizes the sovereignty of individual States and the ability of individual States to tailor the NAIC guidance to their own unique contexts. The Rate-Filing ASOP, on the other hand, is vulnerable to becoming a one-size-fits-all approach. Furthermore, the simultaneous existence of the NAIC white-paper guidance and the Rate-Filing ASOP could engender confusion among both filers and regulators.</p> <p>8. The entire project for a Rate-Filing ASOP appears to expand the domain of ASOPs beyond the context in which they are useful or beneficial. It is reasonable to have ASOPs that articulate guidelines for behavior in areas where only private parties are involved, or areas where the law is straightforward and highly consistent across States (as is the case, for instance, with regard to annual Statements of Actuarial Opinion pertaining to loss and loss-adjustment-expense reserves carried on insurers’ NAIC P/C Annual Statements). However, in areas where the requirements of law and the guidance of regulators are both highly varied and highly detailed, an ASOP drafted predominantly by private parties can only undermine the objectives of the regulatory process. I fully support the concept of a self-regulating actuarial profession – but that self-regulation must always subordinate itself to the official regulation that States perform in the course of reviewing and making decisions on insurers’ P/C rate filings. Where the official regulation has clearly expressed itself, the self-regulation needs to take a step back and let the regulators regulate as they know best.</p> <p>9. Existing ASOPs already address such areas relevant to ratemaking as risk classification (ASOP No. 12), trending (ASOP No. 13), credibility (ASOP No. 25) expense provisions in ratemaking (ASOP No. 29), profit and contingency provisions and cost of capital (ASOP No. 30), catastrophe losses (ASOP No. 39) – as well as other areas that would be applicable in a ratemaking context. I do not see any reason that insurers’ actuaries would need any additional ASOP-style guidance for rate filings in particular that would not be encompassed by the guidance in the aforementioned concept-specific ASOPs. Both insurers and regulators who wish to draw upon ASOPs for any portion of their work product or the justification thereof already have an ample and extensively developed set of provisions to reference.</p> <p>For the aforementioned reasons, I recommend that individual regulatory actuaries oppose the establishment of any manner of ASOP specific to P/C Rate Filings. Again, it is my view that CASTF as a whole would not be able to express a unified view on this proposal because of the considerable difference in individual members’ views. I do, however, respect these differences – an expression of the desirable variety inherent in State-based insurance regulation – and am open to discussing this topic further with any CASTF members who express an interest in doing so.</p> <p>Mr. Gennady Stolyarov II, FSA, ACAS, MAAA, CPCU, ARe, ARC, API, AIS, AIE, AIAF Lead Actuary, Property and Casualty Insurance, Nevada Division of Insurance</p>
NE	<p>Those in favor of a P&C Rate Filings ASOP should make their case.</p> <ul style="list-style-type: none"> • If most people involved in rate filings will not be bound by the proposed ASOP (or perhaps more importantly ASOP #41), and if those who are bound by the ASOP’s can choose anonymity, how does the proposed Rate Filings ASOP help? In particular, to attract participation by regulatory actuaries, how should regulators expect to benefit from the proposed Rate Filings ASOP? • Some have suggested starting with ASOP #8, which addresses Health Rate Filings. After appropriate edits, the P&C guidance appears to depend on references to ASOP #53 on “Estimated Future Costs” adopted in 2018 and ASOP’s 12, 13, 25, 29, 30, 38 and 39 adopted earlier. Is there anything in the

Health Rate Filings ASOP that's applicable to P&C filings but not already adopted for P&C actuaries' work?

- I have studied the previously accumulated comments, but briefly, instead of reasons in favor I saw assertions regarding scope. Those in favor of a P&C Rate Filings ASOP need to describe the problem(s) they're perceiving and explain how their envisioned ASOP would help. Unless compelling reasons surface in favor, the ASB should focus elsewhere.

Background (legal context for an actuarial role)

- An assertion that filed rates (or loss costs) are neither excessive nor inadequate can be efficiently supported by actuarial evidence that has evolved into familiar exhibits, ranging in sophistication from a one-page experience exhibit to a rate level indication summary supported by detailed ancillary exhibits and rigorous explanatory narrative. Rate advisory organizations, insurers, state regulators, actuaries and sometimes consumer advocates have given this much attention. For brevity, the current technical regulatory requirements often reflect a hard-won working balance between interested parties, with actuaries facilitating much of the long transition from trial and error toward more of a science that can be memorialized. A series of ASOP's document evidentiary practices that previously evolved and stabilized among actuaries, regulators and others (e.g. insurers' managements and occasionally litigators) over decades.
- Evidence for an assertion that filed rates (or loss costs) are not unfairly discriminatory is a more complex problem, with subjective aspects well known long before recent decades' technological developments. Market leading insurers historically adhered fairly closely to rate advisory organizations' coverage forms and loss cost relativities. Innovation has accelerated following various tipping points, including a proliferation of increasingly powerful personal computers, internet connectivity, affordable multi-source datasets and easily-accessible software. It is a matter of decades since insurers writing standard or specialty coverages began using statistical models to create increasingly complex independent rating plans for competitive advantage and/or defense. Advisory organization aggregations of competitors' statistical data are much further removed from final prices for a viable competitor than the days when advisory organizations filed final rates. Now, insurers commonly develop and implement independent and specialized classification systems for their most populated personal and commercial coverages, and they commonly assert trade secrets deserving of confidentiality for their supporting evidence. So evidence sufficient to justify classification systems and pricing relationships within them is stubbornly unsettled territory. States' allocated resources seem to vary a lot, but my general impression is that increasingly granular classification systems have progressed far ahead of regulators' capacity for review and response. Efforts are in their infancy to balance products' speed-to-market versus consumer protection and market stability. A consensus definition of "not unfairly discriminatory" would be helpful, but we've often diverged. A main reason is that statistical evidence

alone isn't probative. Meanwhile, products and rates evolve, and generally, insurance markets function despite lack of agreement.

- All this evidence supporting assertions that rates meet legal standards can come from any source, not necessarily actuarial or a credentialed actuary. A credentialed actuary's certification or testimony is sometimes legally required, but generally the whole product development cycle can at least theoretically exist without actuaries. Even if we think actuaries or their subordinates should be involved, or know for a fact that they are, it is arguably not in the rate filer's interest to identify one or more of their most recruitable employees in a public record. The regulatory focus should be on the evidence provided and whether it is sufficient.