

**Title of Exposure Draft: ACTUARIAL STANDARD OF PRACTICE NO. 12 – RISK CLASSIFICATION**

**Comment Deadline: [May 1, 2024]**

Instructions: Please review the exposure draft, and give the ASB the benefit of your recommendations by completing this comment template. Please fill out the tables within the section below, adding rows as necessary. Sample for completing the template provided at the following link: <http://www.actuarialstandardsboard.org/email/2020/ASB-Comment-Template-Sample.docx>

Each completed comment template received by the comment deadline will receive consideration by the drafting committee and the ASB. The ASB accepts comments by email. Please send to [comments@actuary.org](mailto:comments@actuary.org) and include the phrase ‘ASB COMMENTS’ in the subject line. Please note: Any email not containing this exact phrase in the subject line will be deleted by our system’s spam filter.

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**I. Identification:**

Name of Commentator / Company
Mark Kaczynski, FSA, MAAA / Northwestern Mutual

**II. ASB Questions (If Any). Responses to any transmittal memorandum questions should be entered below.**

Question No.	Commentator Response

**III. Specific Recommendations:**

Section # (e.g. 3.2.a)	Commentator Recommendation (Please provide recommended wording for any suggested changes)	Commentator Rationale (Support for the recommendation)
3.2.5	Update the last sentence in 3.2.5 as follows:  “When practical and appropriate within the scope of the actuary’s assignment, the actuary should consider estimating the potential impact of adverse selection <del>or</del> <b>and</b> mitigating the impacts of <b>any</b> material adverse selection.”	We believe actuaries should generally be expected to estimate the potential impact of adverse selection, and if material adverse selection is discovered or expected, the actuary should take action to mitigate. The existing language appears to limit the actuary’s responsibility to either estimating <i>or</i> mitigating the impact of adverse selection, which suggests they should not consider performing both actions. The “practical” and “appropriate” language provides sufficient flexibility for those situations where both estimating and mitigating the impact of adverse selection may not be expected, reasonable, or relevant.
3.2 & 3.4	Recommend section 3.4, <i>Potential for Unintended Bias</i> , be moved within section 3.2, <i>Considerations for Risk Classification</i> , as an additional consideration (listed as 3.2.10).	Section 3.4 identifies the potential for unintended bias as a factor an actuary “should consider” within the scope of their assignment. This consideration appears to fit naturally within section 3.2, rather than being split out separately, given the name of section 3.2, <i>Considerations for Risk Classification</i> , and our belief that the potential for unintended bias

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		is likely to be properly evaluated with the other considerations listed in section 3.2 in practice.
3.2.8	Update 3.2.8 as follows:  <u>Internal &amp; External Environments</u> – The actuary should take into account known or emerging internal and external influences. Such influences may include applicable law and business, government, industry, and company practices.	The inclusion of <i>effectiveness</i> and <i>viability</i> in 3.2.8 creates redundancy with 3.2.9. In addition, <i>effectiveness</i> and <i>viability</i> are not mentioned with the other considerations in section 3.2 but would likely be important to analyze with respect to many of those considerations as well. We recommend only mentioning <i>effectiveness</i> and <i>viability</i> in 3.2.9 to maintain consistency throughout section 3.2.  Also, we recommend broadening the language in 3.2.8 to include internal influences. For example, a company’s distribution system, technology, or underwriter expertise may impact the design or evaluation of a risk classification framework.
Appendix – Current Practices – paragraph 2	Update the last sentence to:  “Additionally, changing views on social structures and advances in data science and analytics have caused actuaries to re-evaluate risk classification frameworks <del>for unfair discrimination</del> , which may contribute to socially undesirable inequities in products, services, prices, and availability.”	The inclusion of “unfair discrimination” may result in an unjustly negative or ominous view towards existing risk classification frameworks, given the strong connotation of “unfair discrimination” within society and the regulatory environment. In addition, unfair discrimination is not defined in the ASOP, and there is not a single, consistent definition used by regulators and industry.

**IV. General Recommendations (If Any):**

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
2.8, 3.4, 3.5.b, Appendix page 9  Consider removing the term “bias” from the ASOP and replace “unintended bias” with “unintended outcome” or “unintended impact.”	“Bias” has become a loaded term with a negative connotation, when in fact, insurance – risk classification in particular – is based on lawful bias. Outside parties may interpret the inclusion of “bias” in the ASOP as setting an expectation that risk classification frameworks are naturally unfair and/or unlawful.  In addition, recent regulations, bulletins, and other regulatory guidance have not introduced an “unintended bias” concept or used that term. They have largely focused on “unfair discrimination,” and nondiscrimination testing is excluded from this ASOP. We recommend not introducing a new term, especially given the potential for parties to improperly link unintended bias to unfair discrimination.

**V. Signature:**

Commentator Signature	Date
Mark Kaczynski, FSA, MAAA <i>On behalf of Northwestern Mutual</i>	03/08/2024