ASOP 12: Risk Classification

Comment Deadline: May 1, 2024

Exposure Draft: Proposed Revision of ASOP No. 12 - Risk Classification (For All Practice Areas) - Actuarial Standards BoardActuarial Standards Board

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Instructions: Please review the exposure draft, and give the ASB the benefit or 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:

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 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
Tyson Mohr, FSA / State Farm Mutual Automobile Insurance Company

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)
2.8	Replace the definition of "unintended bias" with one that more clearly explains the term as it pertains to risk classification.	I made several attempts to edit the existing wording in order to clarify the meaning. I was unsuccessful because the current definition is so unclear. The language seems to describe a risk classification that is erroneously or inconsistently applied to individual insureds. For example, if a risk subject were assigned to a risk class randomly or due to a technical implementation error, this would be a system "not intentionally designed to result in such impacts or outcomes." This does not align with my understanding of any of the uses of the term "bias." "Bias" is a challenging term to define. It has a colloquial meaning as well as technical definitions across multiple disciplines (e.g., statistics, data science, psychology, law). The term is also politically

			charged. The ASOP needs to clarify what concept is being discussed in order for an actuary to follow the guidance.
3.2.3		The actuary should select risk characteristics that are related to risk measures. A relationship between a risk characteristic and a risk measure is demonstrated if it can be shown that the variation in actual or reasonably anticipated experience correlates to the risk characteristic. In demonstrating a relationship, the actuary may use relevant information from any reliable source, including statistical or other mathematical analysis of available data. The actuary may also use clinical experience and expert opinion. ~~The actuary should have a rational explanation that the relationship between a risk characteristic and a risk measure is not obscure, irrelevant, or arbitrary;~~ However, the actuary is not required to demonstrate a causal relationship. In some cases, the actuary may lack clear evidence or face other practical impediments to demonstrate a consistent relationship between risk characteristics and a risk measure. In such circumstances, the actuary may use professional judgment to select risk characteristics. Whether it is appropriate to use a risk characteristic may depend on societal, regulatory, and industry practices or may depend on the scope and context of the actuary's work.	This revision reintroduces the first paragraph of the current section 3.2.1, edited to change "expected outcome" to "risk measure" in alignment with the new definitions. This idea is a core actuarial concept – because insurance prices must typically be set prior to incurred costs, the justification for a risk classification system is based on anticipated loss experience. It should not be removed from the ASOP. Seeking a "rational explanation" and avoiding "obscure, irrelevant, or arbitrary" relationships has intuitive appeal. However, in practice these concepts are subjective. They are prone to cognitive biases (using the term here as defined by psychologists) such as availability bias and confirmation bias. Actuaries should justify risk measures based on correlation with anticipated experience, not with rhetoric or personal opinions. I will note that my recommended edit is aligned with the "Notable Changes from Existing Standard" in the exposure draft, quoted below. References throughout the document to expected outcomes, as in the former section 3.2.1, Relationship of Risk Characteristics and Expected Outcomes, have been changed to references to the risk measure. I was surprised to find that the removed language from the current 3.2.1 was not mentioned as a notable change. If the final version of ASOP 12 continues to exclude this language, I recommend that an explanation be offered in the Notable Changes section.

IV.   General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
Edit the document for grammar and word choice	There are several instances of repeated or unnecessary words, such as the overuse of "applicable". I trust that other reviewers will provide specific feedback on these points. Editing the document for readability prior to finalization will be helpful to ensure clarity.

V.   Signature:

Commentator Signature	Date

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| Tyson Mohr, FSA | 04/12/2024 |