

Title of Exposure Draft: Risk Classification (for All Practice Areas)

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 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.

The ASB posts all signed comments received to its website to encourage transparency and dialogue. Comments received after the deadline may not be considered. Anonymous comments will not be considered by the ASB nor posted to the website. Comments will be posted in the order that they are received. The ASB disclaims any responsibility for the content of the comments, which are solely the responsibility of those who submit them.

I. Identification:

Name of Commentator / Company
Brett Ware, State Farm Insurance Companies

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

Question No.	Commentator Response
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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)
3.2.3	Determine a specific word or phrase to capture "obscure, irrelevant, or arbitrary" and define it specifically in the definitions	According to the dictionary definitions of these words I have no idea what the ASOP is actually trying to say. Based on my experience I know that the phrase is trying to get at the idea of if you have a big enough dataset and use data mining tools you can find relationships that don't make any sense or hold up in future testing. If we are looking to 'codify' a specific requirement we should have a clear definition for what it means. Sometimes we can't truly explain why a particular risk characteristic predicts future loss, but if it holds up after multiple different tests, and works on out-of-time/sample data and it fits all the other criteria in the ASOP then it seems like it should be fine to use until we can develop a rational explanation or discover "what it proxies for" which does have a rational explanation.
3.4	Delete the section	Bias is a result of not hitting the actual loss ratio for a particular cohort of business. When not related to "protected classes" then this is simply adverse selection which is already sufficiently covered in 3.2.4, 3.2.5, 3.2.8, and 3.2.9. To put an "additional should" on top of all those requirements is not practical since there will always be unintended bias as we continually iterate towards more effective risk

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		classification frameworks. The key aspect of “unintended bias” is covered in 3.5(b) in terms of our legal obligations in respect to protected classes.
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IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
3.2.2 relying almost wholly on ASOPs 23 and 56, 3.5(a) specifically referencing the applicable law.	Risk Classification is a very broad part of the actuarial work effort, impacting many different countries, types of insurance, types of insureds, etc. The more we can avoid broad-reaching ASOP language that only applies to a subset of situations, the more power this ASOP can have in the future to apply to new situations that will arise.

V. Signature:

Commentator Signature	Date
Brett Ware	April 15, 2024