

**Title of exposure draft, exposure draft #, and link to draft**

**Comment Deadline: [Month, Day, Year]**

**Sample response to Exposure Draft**

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](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.

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
Greg Frankowiak, AVP & Actuary, State Farm, MAAA, FCAS, CPCU, CSPA, MSM

**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 and 3.4	Remove	<p>The committee has created a term and drafted a standard that conflicts with well-established insurance legal standards for actuaries. The well-understood legal standard in nearly all jurisdictions is that rates are not unfairly discriminatory if differences in rates reflect material differences in expected cost for risk characteristics. Also, ASOP 23 Data Quality and ASOP 56 Modeling already have expectations of the input data/models/output/etc. being appropriate for the intended purpose (e.g. ASOP 56 3.1.3).</p> <p>In addition, the section 2.8 definition of unintended bias seems unworkable when read in conjunction with the section 2.7 definition of "risk subject" since 2.7 refers to "an individual" vs. even referring to "groups of" risk subjects in section 2.8.</p>

**Title of exposure draft, exposure draft #, and link to draft**

**Comment Deadline: [Month, Day, Year]**

Current 3.2.1	<p>Retain current language: The actuary should select risk characteristics that are related to expected outcomes. A relationship between a risk characteristic and an expected outcome, such as cost, is demonstrated if it can be shown that the variation in actual or reasonably anticipated experience correlates to the risk characteristic.</p> <p>Rates within a risk classification system would be considered equitable if differences in rates reflect material differences in expected cost for risk characteristics. In the context of rates, the word <i>fair</i> is often used in place of the word <i>equitable</i>.</p>	<p>The committee has removed language that represent well-established standards for actuaries regarding risk characteristics and expected outcomes. No justification for these changes has been provided, nor has this critical removal of a standard been acknowledged in the 'Notable changes' preface.</p>
3.2.3	<p>Remove draft language: The actuary should have a rational explanation that the relationship between a risk characteristic and a risk measure is not obscure, irrelevant, or arbitrary</p>	<p>The committee has created standards that conflict with well-established legal standards for actuaries. The current ASOP 12 language's standard of reflecting 'material differences in expected cost' is the well-understood legal standard, and the definition of 'materiality' can be linked to ASOP 1. Also, Section 3.2.1 of the ASOP 12 draft is designed to set an expectation of appropriateness for the intended purpose, as does ASOP 23 2.1 and ASOP 56 3.1.3. In addition, the use of the word "should" seems too stringent of a standard for rational explanation in all possible cases.</p>
3.2.3	<p>Remove draft language: 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.</p>	<p>This language is unnecessary in a standard of practice and in part duplicative of the expectation in 1.2 that an actuary should comply with applicable law. It is unclear the committee's objective in including this language, but use of an undefined 'societal' standard may, in fact, conflict with existing legal standards of rates being based on expected costs.</p>
3.5	<p>Remove</p>	<p>Duplicative of overriding expectation in 1.2 that an actuary should comply with applicable law. In other parts of the draft the committee has removed examples, and 3.5 is itself an example of one component of what might be a part of applicable law for actuaries to comply with.</p>

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

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
<p>The committee seems to have gone beyond its core purpose of describing the procedures an actuary should follow when performing actuarial services and has drifted into introducing</p>	<p>Cost-based pricing is one of the most fundamental actuarial principles and is a critical legal standard for allowing the benefits of peace of mind of insurance coverage to be readily</p>

**Title of exposure draft, exposure draft #, and link to draft**

**Comment Deadline: [Month, Day, Year]**

<p>terms and standards that potentially conflict with widely established existing legal standards, as well as moving too far into the realm of public policy.</p>	<p>available. Undermining the principle of cost-based pricing, even unintentionally, could significantly impact proper functioning of the insurance marketplace, and could potentially impact the solvency of companies and availability of insurance to consumers. Given that the AAA's Code of Conduct (Precept 1) notes that an actuary shall act "in a manner to fulfill the profession's responsibility to the public", moving away from cost-based pricing could end up running counter to this statement. The AAA and its members are capable and should stand ready to help states design programs that provide support when cost-based pricing challenges affordability for subsets of customers, without harming insurance markets broadly.</p>
---	---

**V. Signature:**

Commentator Signature	Date
Greg Frankowiak	4/26/2024