

## Title of Exposure Draft: Proposed Revision of ASOP 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
Jennifer Kubit, FCAS, MAAA / Progressive Insurance Co.

### 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)
1.2	Remove the sentence "This standard also applies to actuaries when performing actuarial services with respect to using any elements of a risk classification framework in connection with financial or personal security systems, to the extent practical and consistent with the scope of the actuary's assignment."	The meaning of the phrase "using any elements" is not clear. Also, it's not clear to which actuarial services this phrase applies that's not covered by the first sentence of the Scope section, 1.2.
2.1	Revise the Adverse Selection definition. "Risk characteristics or other information known to or suspected by one party, but not known by the other party, which could adversely impact the effectiveness of a risk classification framework or the viability of the financial or personal security system. Adverse selection is sometimes referred to as 'antiselection'."	This definition is inconsistent with the commonly understood concept of adverse selection where one party has information that is not known to the other party, and "could adversely impact the effectiveness of a risk classification framework or the viability of the financial or personal security system". Adverse selection may not always be the result of a choice. And it could occur by parties other than the risk subjects, e.g., an insurance agent.
2.5	Revise the Risk Classification Framework definition. "The system, process, or schema used to assign risk subjects to risk classes, based on the risk characteristics of each risk subject and the selected risk measure(s)."	The selected risk measure(s) are an important part of the Risk Classification Framework. The same risk characteristic may be assigned to different risk classes in two risk classification frameworks based on the solved-for risk measures in each framework.

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3.2.3	Add "A relationship between a risk characteristic and the risk measure is demonstrated if it can be shown that the variation in actual or reasonably anticipated experience correlates to the risk characteristic."	There is no explicit mention in this revised ASOP that a mathematical or statistical correlation between the risk characteristic and risk measure should be present. Section 3.2.3 should include a statement like the current ASOP #12.
3.5	Remove this section	This section 3.5 is unnecessary. Section 3.2.8 already states that an actuary should include "applicable law" in considerations for Risk Classification. It's not necessary to state that an actuary should follow applicable law more than once in the revised ASOP. Or it's not clear why following applicable laws on Protected Classes requires a different standard of practice relative to following applicable laws on other topics.

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

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
Definition 2.8 Unintended Bias - The phrase "impacts and outcomes" needs to be defined, specifically in its relation to the risk measure of the risk classification framework. The phrase "intentionally designed" should be replaced with a reference to section 3.2.1 Intended Purpose.	Definition 2.8 Unintended Bias as written is vague. It is difficult for the actuary to follow the guidance in Section 3.4, Potential for Unintended Bias, because the definition of Unintended Bias is vague.
A key section from the current ASOP #12 is excluded: "Rates within a risk classification system would be considered equitable if differences in rates reflect material differences in expected cost for risk characteristics."	<p>This statement is extremely important for a ratemaking actuary to follow and valuable to reference when communicating with regulators and principals. It is often used to support that a risk classification system for setting rate relativities complies with state laws that rates may not be unfairly discriminatory.</p> <p>It's understandable that the Task Force wants to avoid narrowing parts of the ASOP to only risk classification frameworks with the intended purpose of solving for rate differences. A more generic suggestion is "The grouping of risk characteristics into risk classes would be considered equitable if differences in risk classes reflect material differences in the individual risk classes' risk measures."</p>
Section 3.5 includes the only "must" action that an actuary must take in following this revised ASOP. Why does the ASB use the term "must" in section 3.5's reference to following applicable law regarding prohibited impacts or outcomes on risk subjects in a protected class, as compared to the term "should" in section 3.2.8's reference to following applicable law?	All applicable laws should receive the same type of "must" or "should" consideration within the actuarial services.

**V. Signature:**

Commentator Signature	Date
Jennifer Kubit, FCAS, MAAA	4-26-24