

Title of Exposure Draft:

Comment Deadline: [Month, Day, Year]

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
Bradley Granger, FCAS, MAAA

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)
3.2.3	Remove this section " <i>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.</i> "	First, coming up with such a rational explanation for every risk characteristic in a risk classification system is completely unrealistic. The number of risk characteristics used is often incredibly high, not to mention the number of risk characteristics that interact with one other, which increases the difficulty of this exercise exponentially. Second, this presents a false choice between developing such a rational explanation and establishing causality. In practice, to have a sound classification system that minimizes adverse selection and matches rates to expected costs, the actuary should be employing techniques to emphasize true causality and not simply correlation (i.e., hold out data sets, not overfitting) that will reveal stable risk characteristics that reliably predict

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		future costs. Inherent in that is the use of the scientific method (hypothesize, test, analyze, conclude) to determine cause and effect relationships to the highest degree possible. Requiring the actuary to also develop explanations for underlying cost generating mechanisms is completely unnecessary and simply put, a 'bridge too far'.
3.2.3	Restore the removed language ' <i>Rates within a risk classification system would be considered equitable if differences in rates reflect material differences in expected cost for risk characteristics.</i> '	<u>This is extremely problematic.</u> What exactly does actuarial justification stand for if not for a reflection of varying expected costs in rates for differing risk profiles? A hallmark of a sound risk classification system that protects against adverse selection is one where risk reflects cost differences. By removing this language and the resulting mathematical and statistical evidence in support of same we have weakened the strength of risk classification systems considerably.
3.4	Remove the requirement to ' <i>consider the potential for unintended bias as appropriate within the scope of the actuary's assignment</i> '.	This is also problematic. First, there is no delineation of which group of risks this would pertain to. That could potentially be a very large list of affected 'groups'. Ratemaking is inherently about 'fair discrimination'. Disparate impact of some degree to some subset of risks is essentially mathematically guaranteed. Requiring the actuary to consider this potential is not only unrealistic but also is at complete cross purposes with a cost-based approach, which I thought (and still fervently believe) should be the bedrock of actuarially justified rates.
3.5	Remove this section.	Actuarial Standards of Practice are always superseded by law or regulation. This section is superfluous.

IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
I would like to thank the committee for their efforts in promulgating a revised Actuarial Standard of Practice on Risk Classification. I always assume positive intent but I	We seem more concerned with outcomes than with costs. That is letting the 'tail wag the dog.' We absolutely must stand for cost-based systems and approaches. That is the bedrock of what an actuary does and should do.

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<p>think, in general, the proposed changes completely miss the mark and do a disservice to the actuarial profession. Overall, I am greatly concerned by the devaluation of the importance and absolute criticality of reflecting cost-based differences in a sound risk classification system and the elevation of consideration of unintended bias, protected classes, and the creation of explanations for why risk characteristics work.</p>	<p>We will always comply with law and regulation (for example, not using banned rating variables) but should not be self-editing ourselves and trying to cater to potential future law/regulation changes within these Standards of Practice – which, sadly, I believe these proposed changes are doing.</p> <p>I believe strongly that we should maintain our discipline around cost based actuarial soundness.</p>
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V. Signature:

Commentator Signature	Date
Bradley Granger, FCAS, MAAA	April 26, 2024