

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 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: <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
Alex Buzzell, 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)
Draft sections 2.8 and 3.4	Remove	The inclusion of "Unintended Bias" in the exposure draft creates a new term and leads to 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, based upon risk characteristics. "Unintended bias" is a new term without legal basis with a confusing and vague definition; as such, this standard will be very difficult to apply and its purpose is unclear. 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).
Existing section 3.2.1	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.	The draft removes well-established standards for actuaries regarding the relationship between risk characteristics and expected outcomes. Current language aligns with legal standards for actuaries. This is a significant change that is not supported by rationale or clearly identified.

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	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 fair is often used in place of the word <i>equitable</i> .”	
Draft section 3.2.3	Remove: “The actuary should have a rational explanation that the relationship between a risk characteristic and a risk measure is not obscure, irrelevant, or arbitrary”	This language conflicts 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. The addition of “obscure, irrelevant, or arbitrary” is vague and adds confusion; the existing language is much clearer. Also, the current 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.
Draft section 3.2.3	Remove: “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.”	Unnecessary. Section 1.2 already reinforces an actuary’s responsibility to comply with applicable laws. As written, this section is without a clear purpose. Including “societal practices” without a definition may conflict with existing legal standards requiring prices to be cost-based.
Existing section 3.2.2	Retain current language: “While the actuary should select risk characteristics that are related to expected outcomes, it is not necessary for the actuary to establish a cause and effect relationship between the risk characteristic and expected outcome in order to use a specific risk characteristic.”	If 3.2.3 is modified such that “however, the actuary is not required to demonstrate a causal relationship.” is removed, it is necessary to retain the existing 3.2.2 language to make sure it is clear somewhere in ASOP 12 that it is not an actuary’s duty to prove causality.
Draft section 3.5	Remove	Unnecessary. Section 1.2 already reinforces an actuary’s responsibility to comply with applicable laws. As written, this section is without a clear purpose.

IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
This exposure draft has gone beyond the committee’s goal of describing procedures and guidelines an actuary should follow when performing actuarial work. The new terms and standards introduced in this draft are vague, abstract, and potentially conflict with legal standards.	This draft is a departure from cost-based pricing, which is fundamental to the actuarial practice and promotes equity and availability of the financial protection insurance provides. Moving away from cost-based pricing would harm the insurance market, decrease availability, and would not be an appropriate or effective way to address societal issues. This draft as written will lead to subjectivity and inconsistency in its application. If actuarially fair, cost-based pricing creates affordability challenges for individuals or groups, there are better ways to address that than to move away from cost-based pricing entirely. Individual states can and do prohibit rating characteristics if they find that to be in the public’s best interests, and they can design programs to provide support to those for whom insurance is unaffordable. The AAA and its

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	members are well-equipped to help inform the design of such assistance programs to improve affordability without harming insurance markets.
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V. Signature:

Commentator Signature	Date
Alex Buzzell	4/29/2024