

ASOP 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 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
Mike Hebenstreit, Pricing Manager, State Farm Insurance, F.C.A.S., 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)
New 2.6	Risk Measure - A measurement of the expected costs or outcomes of a contingent event mitigated by the financial or personal security system. Examples of risk measures include mortality rates, healthcare costs, and claim frequency and severity. (add item in red)	Appreciate the committee's efforts to update ASOP 12 as well as make more concise. Whether intentional or not, it appears some of the streamlining of prior ASOP has left out some important references/examples from current ASOP 12 that are fundamental to ratemaking, insurance laws and the actuarial profession. In doing so, there is an apparent erosion of the importance of cost based pricing and less emphasis on mathematics and statistics, which is the essence of the actuarial science. I offer for consideration to retain some key aspects of current ASOP 12 to ensure the reader's understanding of Risk Classification.
New 3.2.3	Retain all or some the following parts of current 3.2.1 "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	Rationale is same as my comments in prior section above. Emphasis on keeping reference to expected outcome/costs and reliance on statistical & mathematical analysis. This will balance and compliment the newly worded sections of the draft ASOP. Much of this is consistent with CAS Ratemaking Principles.

ASOP 12 Risk Classification:

Comment Deadline: [May,1,2024]

	<p>it can be shown that the variation in actual or reasonably anticipated experience correlates to the risk characteristic.”</p> <p>“.. the actuary may use relevant information from any reliable source, including statistical or other mathematical analysis of available data...”</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>	
New 2.8 & 3.4	Remove	I appreciate the spirit under which these sections were added. However, as written there are practical and objective challenges. Created is a term and drafted as the standard is something that conflicts with insurance legal standards for actuaries. The 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).
New 3.5	Remove	It appears the committee worked to trim down some parts of the old ASOP, but on the other hand were redundant with new additions. New 3.5 is one of these. It is duplicative of overriding expectation in 1.2 that an actuary should comply with applicable law.
New 3.2.3	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.	As written, could imply that the individual actuary is the determinant of how to interpret law vs societal attitudes. In this regard, 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
New 3.2.3	Remove (or soften) draft language: The actuary should have (may consider) a rational explanation that the relationship between a risk characteristic and a risk measure is not obscure, irrelevant, or arbitrary	The use of the word “should” seems too stringent of a standard for rational explanation in all possible cases. This suggestion is in concert with my recommendation to retain parts of current 3.2.1 noted above

IV. General Recommendations (If Any):

ASOP 12 Risk Classification:

Comment Deadline: [May,1,2024]

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)

V. Signature:

Commentator Signature	Date
Mike Hebenstreit	4/30/24