

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
Anthony T. Salis, FCAS, MAAA, CSPA, CPCU

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	Add back a definition of "practical": "Practical—Realistic in approach, given the purpose, nature, and scope of the assignment and any constraints, including cost and time considerations."	The term "practical" is still used 4 times (1.2, 3.2.3, 3.2.4, 3.2.5) outside of Section 3.2.7 and it would be a cleaner way to introduce that concept while allowing Section 3.2.7 to address the considerations of practicality.
3.2.3	"The actuary should have a rational explanation that the relationship between a risk characteristic and a risk measure is not obscure, irrelevant, or arbitrary; select risk characteristics that are related to the selected risk measure(s). A relationship between a risk characteristic and a risk measure is demonstrated if it can be shown that the variation in actual or reasonably anticipated measure correlates to the risk characteristic. However, the actuary is not required to demonstrate a causal relationship. <u>In demonstrating a relationship, the actuary may use relevant information from any reliable source, including statistical or other mathematical analysis of available data. The actuary may also use clinical</u>	The language from the old Section 3.2.1 is critical to defining what a fair risk classification system looks like. Actuaries rely heavily on this concept of cost-based pricing for many years to have confidence that rates are fair. This has been supported not only in actuarial literature and standards of practice but also in law. When the CAS rescinded <i>The Statement of Principles Regarding Property and Casualty Ratemaking</i> in 2020, members of the CAS fought vigorously to reinstate it for the very purpose that it provided firm guidance on fair pricing. CAS and SOA members alike have also relied heavily on ASOP No. 12 for this support. The removal of this language from the

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	<p><u>experience and expert opinion.</u> In some cases, the actuary may lack clear evidence or face other practical impediments to demonstrate a consistent relationship between risk characteristics and a risk measure. In such circumstances, the actuary may use professional judgment to select risk characteristics.</p> <p><u>Rates within a risk classification system would be considered equitable if differences in rates reflect material differences in risk measures for risk characteristics. In the context of rates, the word fair is often used in place of the word equitable.</u></p> <p>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>ASOP is not going unnoticed even though its removal was not acknowledged in the Notable Changes from the Existing Standard.</p> <p>I recognize that the term "rates" no longer appears in this draft, so perhaps there is a better way to word this. (I think maybe "risk class" is intended but the definition leans toward it defining a group, not the rate charged to the group.) Better yet, the concept of "rates" should be introduced and defined as the output of the risk classification system.</p> <p>Under the current exposure draft, "rational explanation" is not defined. But even if it were defined, this direction is concerning. It sounds like a plausible explanation of what might be a causal relationship that is unproven. This is arbitrary in nature and places an unfair onus on the actuary.</p> <p>The phrase "consistent relationship" is not defined. Showing a "relationship" is sufficient language. If there is more that needs to be said, perhaps a reference to ASOP No. 25 may be appropriate here.</p> <p>It is unnecessary/inappropriate to say that risk characteristics may not be appropriate from each perspective:</p> <ul style="list-style-type: none"> • Societal – Actuaries are to fulfill the profession's responsibility to the public (Code of Professional Conduct, Precept 1). Societal practices should not govern the work of an actuary. • Regulatory – Actuaries are required to comply with the law (Section 1.2). • Industry – The industry does not govern the work of an actuary. Actuaries shape the industry. • Scope/Context – Covered by Section 1.2.
<p>3.2.5</p>	<p>"The actuary should assess the potential for adverse selection effects that may result or have resulted from the design, development, selection, modification, or continued use of the risk classification framework. The actuary should take into account that a lack of ongoing monitoring of the risk classification framework may increase the risk of adverse selection. When practical and appropriate within the scope of the actuary's assignment, the actuary should consider estimating the potential impact of adverse selection or mitigating the impacts of material adverse selection."</p>	<p>I do not see what this statement adds to the paragraph. This statement seems just to warn of the dangers of not monitoring the risk classification framework but does not contribute to what the actuary's responsibilities are. The following statement sufficiently covers estimating and mitigating adverse selection and is general enough to consider the practicality and appropriateness of such considerations.</p> <p>Perhaps there is something that needs to be added to Section 3.3.3 to address potential for adverse selection if the existing risk classification framework has not been monitored, but Section 3.3.3 currently</p>

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		has sufficient language saying, “the actuary should understand the frequency of past reviews”.
3.2.6	“The actuary should take into account whether the <u>should select</u> risk characteristics <u>that</u> can be objectively determined.”	This wording from the old Section 3.2.3 was changed without explanation. It is still necessary to have risk characteristics that can be objectively determined.
3.2.7	“The cost, time, and effort associated with <u>designing, developing, selecting, modifying, reviewing, evaluating, or opining on any elements of a risk classification framework</u> may increase as the complexity increases. The actuary should take into account the following <u>characteristics of the risk classification framework</u> .”	This brings in more consistent language from other parts of the ASOP and completes the thoughts of 3.2.7.a and 3.2.7.b.
3.5	Remove entire section	<p>The entirety of this section centers around “The actuary must follow applicable law.” Outside of this, there is no professional guidance given. It is already well established that actuaries need to follow the law in the Code of Professional Conduct and ASOP No. 1, Section 3.1.5 (which is already repeated in Section 1.2).</p> <p>The presence of this section implies that actuaries should be understanding unintended bias on protected classes regardless of the presence of applicable law. For this to happen, the ASB at a minimum must define “protected classes” and provide guidance for steps an actuary should take even if there is no law governing protected classes or unintended bias.</p>

IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
Consider a reference to ASOP No. 25 when addressing homogeneity, heterogeneity, and credibility in Section 3.2.7.a.	With the removal of the definitions of “homogeneity” and “credibility”, none of these terms are defined within this ASOP. These are familiar terms to actuaries, although it is useful to reference what has been laid out in ASOP No. 25 to clarify these considerations.
Either put in more guidance in Section 3.4 on what the actuary should consider for unintended bias or remove Sections 2.8 and 3.4 entirely.	<p>The term “unintended bias” is only used in Sections 3.4 and 3.5, and I have already recommended removing Section 3.5. Based on this and the discussion in the Current Practices section, I infer that this term was primarily included to address its relationship with protected classes. If that is indeed the only reason this term is in the ASOP, then it should be removed entirely. This needs to be addressed by applicable law.</p> <p>However, this concept of unintended bias is much broader in the context of a risk classification plan, such as the impact on</p>

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	renewal business due to changes made to better segment new business. But without appropriate guidance, the more common usage of this term in regard to protected classes will likely be the prevailing application and actuaries will be ill-equipped to handle considerations that are relevant to the intended purpose.
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V. Signature:

Commentator Signature	Date
Anthony T. Salis	April 30, 2024