

Title of Exposure Draft: 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
Mallika Bender, 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)
2.1	Adverse selection: The economic incentive for groups of risk subjects to take advantage of any apparent information imbalance between those risk subjects and the entity administering the risk classification framework, which could adversely impact the effectiveness...	The current definition focuses on choices of a single risk subject (and could be unintentionally interpreted as actuaries laying blame on individual consumers for making a financial system vulnerable), but adverse selection happens because of perceived economic incentives (lower price than the risk you bring to a company) resulting from a lack of information about the risk those policyholders pose, that encourage multiple risk subjects to make those choices and potentially harm the viability of the system.
2.8	Instead of “specific risk subjects” this could refer to “a group of risk subjects with a common characteristic, which may or may not be considered within the risk classification framework”. Perhaps the term should be “unintentionally biased outcomes” instead of “unintentional bias”	Bias is a systematic process, not a one-off, so here again I think reference to “Specific risk subjects” is misleading, when we’re looking for impacts on groups that share a common characteristic. Is “Bias” an “impact or outcome” as opposed to bias being a contributing factor to unintentional differences between groups of risk subjects? When considering a risk classification framework, I suggest

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		that “Bias” is not an outcome, but an outcome can be “biased”
3.2.9 and 3.2.7	Effectiveness could be combined into 3.2.7 as part ‘c’ 3.2.7 “the cost, time, effort and benefits associated with risk classification...”	Greater effectiveness may be achieved with additional complexity, mentioned in 3.2.7, but that may compromise the ease of use and explanation, so effectiveness may also be one of the factors.
3.4	Add a sentence – “This may include consideration of the impacts of bias on data availability for groups of risk subjects, data sources, data manipulation and transformations, other assumptions and model inputs, model selection, and other inputs to the risk classification framework.”	This statement as written feels too vague to be useful guidance.
3.5	The actuary must follow applicable law regarding prohibited impacts or outcomes on risk subjects when evaluated across protected class groupings.	“risk subjects in protected classes” doesn’t really make sense, because it implies that some risk subjects are not in protected classes (like disability vs no disability), but everyone is in a protected class when you are considering gender, race/ethnicity/etc.
4.1/4.2		Considering the addition of “unintended bias” and “protected classes” in the ASOP, it’s interesting that there is no mention of them in the Disclosures sections. Should the actuary disclose adjustments made to the risk classification framework to comply with applicable law regarding protected classes? Should the actuary disclose if they believe the risk classification framework could result in unintentionally biased outcomes?

IV. General Recommendations (If Any):

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

V. Signature:

Commentator Signature	Date
Mallika Bender, FCAS, MAAA	4/30/2024