

Title of Exposure Draft: [Proposed Revision of ASOP No. 12 – Risk Classification \(For All Practice Areas\)](#)

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
Jennifer Heizer, MAAA and FCAS / State Farm

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)
1.3	Please consider keeping the word consider rather than changing to follow: "the actuary should consider the guidance in this standard to the extent it is applicable and appropriate".	"Consider" tends to be the verbiage used in other ASOPs.
2.1 (Current)	Please consider reinserting the definition of advice, "An actuary's communication or other work product in oral, written, or electronic form setting forth the actuary's professional opinion or recommendations concerning work that falls within the scope of this standard."	This was removed; advice is not defined in ASOP 1 or other ASOPs.
2.1	Please consider retaining the definition of adverse selection that is in the current version of ASOP 12, as follows: "Actions taken by one party using risk characteristics or other information known to or suspected by that party that cause a financial disadvantage to the financial or personal security system (sometimes referred to as antiselection)."	The proposed definition in the draft does not capture the information imbalance that is an important feature of the current definition

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2.5 (Current)	Please consider reinserting the definition of homogeneity, “The degree to which the expected outcomes within a risk class have comparable value.”	This was removed; homogeneity is not defined in ASOP 1 or other ASOP’s
2.6 (New)	Please consider reflecting “expected costs” withing the definition. “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. Examples of measurement include: Expected Outcome, Value at Risk, Variance.”	This more clearly ties the definition of risk measure to traditional actuarial techniques.
2.8 and 3.4	Remove	The committee has created a term and drafted 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 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).
Current 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. 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 equitable.	The committee has removed language that represent well-established standards for actuaries regarding risk characteristics and expected outcomes. No justification for these changes has been provided, nor has this critical removal of a standard been acknowledged in the ‘Notable changes’ preface.
Current 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.
3.2.3	Remove draft language: The actuary should have a rational explanation that the relationship between a risk characteristic and a risk measure is not obscure, irrelevant, or arbitrary	The committee has created standards that conflict with well-established legal standards for actuaries. The current ASOP 12 language’s standard of reflecting ‘material differences in

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		expected cost’ is the well-understood legal standard and the definition of ‘materiality’ can be linked to ASOP 1. Also, 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.
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.	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. It is unclear the committee’s objective in including this language, but use of an undefined ‘societal’ standard may, in fact, conflict with existing legal standards of rates being based on expected costs.
3.5	Remove	Duplicative of overriding expectation in 1.2 that an actuary should comply with applicable law. In other parts of the draft the committee has removed examples, and 3.5 is itself an example of one component of what might be a part of applicable law for actuaries to comply with.
4.1.e	Revert this change to previous wording.	The revised requirement is much more complicated and burdensome than the existing requirement.

IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
The committee seems to have gone beyond its core purpose of describing the procedures an actuary should follow when performing actuarial services and has drifted into introducing terms and standards that potentially conflict with widely established existing legal standards.	Cost-based pricing is one of the most fundamental actuarial principles and is a critical legal standard for allowing the benefits of peace of mind of insurance coverage to be readily available. The AAA and its members are capable and should stand ready to help states design programs that provide support when cost-based pricing challenges affordability for subsets of customers, without harming insurance markets broadly.
A key section from the current ASOP #12 is excluded: "Rates within a risk classification system would be considered equitable if differences in rates reflect material differences in expected cost for risk characteristics."	This statement is extremely important for a ratemaking actuary to follow and valuable to reference when communicating with regulators and principals. It is often used to support that a risk classification system for setting rate relativities complies with state laws that rates may not be unfairly discriminatory. It's understandable that the Task Force wants to avoid narrowing parts of the ASOP to only risk classification frameworks with the intended purposed of solving for rate differences. A more generic suggestion is "The grouping of risk characteristics into risk classes would be considered equitable if

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	differences in risk classes reflect material differences in the individual risk classes' risk measures.”
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V. Signature:

Commentator Signature	Date
Jennifer Heizer	5/1/24