

Title of Exposure Draft: ASOP 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
Erik Anderson, MAAA, FSA/ on behalf of New York Life Insurance Company

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)
1.2	This standard also applies to actuaries when performing actuarial services with respect to using any elements of a risk classification framework in connection with financial or personal security systems , to the extent practical and consistent with the scope of the actuary’s assignment.	We believe the scope may be interpreted to be broader than what the ASB might have intended by the inclusion of the language of using any elements of a risk classification framework. We would recommend refining the language to apply to the appropriate scope intended by the ASB.
3.2.3	The actuary should <u>consider developing</u> have a rational explanation that the relationship between a risk characteristic and a risk measure is not obscure, irrelevant, or arbitrary; however, the actuary is not required to demonstrate a causal relationship.	There may not always be a rationale explanation when a correlation exists. What is considered rationale may also be very subjective. With the revision to the ASOP, this change may result in more speculation, which may not be the intent of the change by the ASB.
3.2.4	The actuary should <u>consider</u> assess whether multivariate effects, interdependencies, or correlations among risk characteristics are material to the assignment of risk subjects to an appropriate risk class . To the extent practical, the actuary should <u>recognize</u> take into account multivariate effects, interdependencies, or correlations.	It was unclear what was required from the term “assess” in this instance. We believe that it may at times be onerous to perform an assessment. Edits were made to provide more clarity and what we believe was more appropriate in all instances where multivariate effects, interdependencies and correlations may exist.

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3.2.7	The cost, time, and effort associated with risk classification may increase as the complexity increases. The actuary should <u>consider</u> take into account the following:	Edits were made due to practical considerations of applying this section of the ASOP.
3.2.9	<u>Effectiveness</u> — <u>To the extent practical</u> , the actuary should evaluate the effectiveness of the risk classification framework at supporting the viability of the financial or personal security system .	It is not always feasible to evaluate effectiveness.

IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
3.2.3:... a risk measure is not obscure, irrelevant, or arbitrary;	We believe that there may be several interpretations of what could be considered “obscure, irrelevant, or arbitrary”. We would recommend either adjusting the language in the ASOP, include definitions or add more clarity in a practice note.
3.2.6: A risk characteristic can be objectively determined if it is based on verifiable facts or if, in the actuary’s judgment, the potential for manipulation is not significant	It is unclear what constitutes "significant manipulation". We recommend providing clear criteria to apply this principle or providing examples of application in a practice note.
3.2.8: <u>External Environment</u> - The actuary should take into account known or emerging external influences that have the potential for material adverse impacts on the effectiveness of the risk classification framework or on the viability of the financial or personal security system . Such external influences include applicable law and business, government, and industry practices.	We suggest that if a practice note is developed, the note provide specific examples of external influences that may impact the effectiveness of risk classification frameworks. This would help actuaries identify and assess relevant external factors more accurately.
4.1.g. the effectiveness of the risk classification framework on the viability of the financial or personal security system (see section 3.2.9);	We recommend providing guidance on how to evaluate the effectiveness of the risk classification framework in a practical manner. This could include suggested metrics or benchmarks for measuring effectiveness.
4.1.h. changes made to the risk classification framework , and the impact such changes could have on the effectiveness of the risk classification framework or on the viability of the financial or personal security system (see section 3.3); and	We suggest that if a practice note is developed, the note should include recommendations on how to quantify or qualify the impact of changes to the risk classification framework. This would help actuaries communicate the significance of changes more effectively.

V. Signature:

Commentator Signature	Date
 Erik Anderson, MAAA, FSA	May 1, 2024