

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
Pinnacle Actuarial Resources, Inc.

II. ASB Questions (If Any). Responses to any transmittal memorandum questions should be entered below.

Question No.	Commentator Response
None	

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 paragraph 2	Clarify whether nondiscrimination testing applies across practice areas. There is ambiguity given it is listed in conjunction with pension specific practice. If it applies more broadly, how does nondiscrimination testing fit within the context of unintended bias considerations? At what point does assessing unintended bias become nondiscrimination testing?	
2.4	Consider replacing "based." Might suggest something like "A group of risk subjects defined by risk characteristics"	"Based" fails to highlight the segmentation of a risk class
2.7	Consider adding "reasonably" to "may reasonably be"	Adding "reasonably" narrows the definition a bit.
3.2.3	"Rational explanation" is not defined	This may be too high of a bar. Actuaries should consider whether there is a rational explanation, but it not being required could be a better standard. With more complex models, determining an explicit rational explanation may be challenging if not impossible.

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3.4/3.2	3.4 can be moved into the list of considerations in Section 3.2.	Section 3.4 is another consideration.
3.4	Possibly provide a more ultimate definition of unintended bias.	As currently defined, could place too large a burden on the actuary in terms of the number of things that are to be considered.
3.5	This section can be removed.	Section 1.2 states that if an actuary has to depart from the guidance because of applicable law, they should document it. Section 3.2.8 says that the actuary should take into account applicable laws. Given these two elements, the guidance in 3.5 is not necessary
4.1	Should add “how the potential for unintended bias was considered and the findings of this analysis”	This is highlighted as an area the actuary should consider and should be disclosed.

IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
Use of the term “unintended bias” is broad.	Are we focusing on a particular type of bias? Social, statistical, protected class, etc.? If intended to really cover all bias, this should be spelled out in a clear fashion.
Discussion of materiality should be added to Section 3.	Provide some direction on what unintended outcomes are to be considered and the extent of what the actuary needs to consider/review/spend additional time and resources on. Discussion of material impacts or outcomes of risk subjects and risk characteristics. Also, discussion of how decisions and selections can impact materiality of findings.
The ASOP does not explicitly consider the time element in relation to risk characteristics.	The Public Policy Monograph authored by the American Academy of Actuaries (On Risk Classification) in November 2011 states that risks are dynamic and they can and do change over time. Sections 3.2.5 and 3.3 imply the actuary would need to consider the time element but the ASOP does not explicitly discuss how an actuary should consider the time element as regards risk characteristics. That is, should the risk classification framework relate to a time period for individual risks at policy inception? Over the next 12 months? Over the next 2 years? What is the appropriate time measure? Presumably it will recognize the risk characteristics over the period of time the policy is intended to be in effect. If that is the case, how does one recognize changing risk characteristics that may occur within the policy period. Examples may relate to telematics measures that may be part of a risk classification framework but are measured continuously; credit scores are another example.

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V. Signature:

Commentator Signature	Date
The comments above are the collected comments of the consultants employed or affiliated with Pinnacle. If you have any questions regarding our comments, please contact Laura Maxwell, Pinnacle's Professional Standards Officer, at p Laura A. Maxwell, FCAS, MAAA, CSPA	5/1/2024