

Title of Exposure Draft: Risk Classification ASOP No. 12

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
Jeff Clinch, State Farm Insurance Companies

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

Question No.	Commentator Response
N/A	

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)
2.8 and 3.4	Remove	The exposure draft includes a term and formulates a new standard that contradicts the long-standing legal standards for actuaries in the insurance industry. These established legal standards, recognized in nearly all jurisdictions, maintain that rates are not unfairly discriminatory if they accurately reflect differences in expected cost for risk characteristics. There are already existing guidelines, such as ASOP 23 Data Quality and ASOP 56 Modeling, that provide expectations around the appropriateness of input data, models, and outputs for their intended purposes (e.g., ASOP 56 3.1.3). I find the definition for 'unintended bias' to be confusing and am not seeing how the current definition will be helpful to the actuarial profession.
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	The proposed draft disregards the established standards for actuaries concerning the connection between risk characteristics and expected outcomes. The existing language aligns with the legal standards for actuaries, making this a significant change that lacks a clear rationale or justification.

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	<p>variation in actual or reasonably anticipated experience correlates to the risk characteristic.</p> <p>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.</p>	
3.2.3	<p>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</p>	<p>The language in the exposure draft contradicts the well-established legal standards for actuaries. The existing language in ASOP 12, which focuses on reflecting "material differences in expected cost," is the well-understood legal standard. Also, the definition of "materiality" can be linked to ASOP 1. On the other hand, the addition of "obscure, irrelevant, or arbitrary" is vague and I believe will only introduce confusion. It is not clear what problem this draft is trying to solve when I believe the current language provides much greater clarity.</p>
3.2.3	<p>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.</p>	<p>Including this language in a standard of practice is unnecessary and partially redundant, as the expectation for actuaries to comply with applicable law is already outlined in 1.2. It is not clear to me what the objective is by including this language. Introducing an undefined 'societal' standard may potentially be in direct conflict with existing legal standards that require rates to be based on expected costs.</p>
3.5	<p>Remove</p>	<p>An actuary is already responsible for complying with applicable laws, as mentioned in section 1.2. This section serves no useful purpose and should be removed.</p>

IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
<p>The exposure draft is going beyond the goal of describing the procedures an actuary should follow when performing actuarial work. Many of the new terms and standards potentially conflict with widely established existing legal standards.</p>	<p>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.</p>

V. Signature:

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Commentator Signature	Date
Jeff Clinch	5/1/2024