

Title of Exposure Draft: Risk Classification (for All Practice Areas)

Comment Deadline: May 1, 2024 (Extension approved for May 8, 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
Kirsten Pedersen, MAAA, FSA Chairperson, Life Underwriting and Risk Classification Subcommittee (American Academy of Actuaries)

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

Question No.	Commentator Response
N/A	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)
1.2	Change 'or' to 'including' in the second paragraph <i>"The guidance in this ASOP does not apply to actuaries when performing actuarial services with respect to individual pension benefit calculations including nondiscrimination testing."</i>	Clarity – as originally written, an actuary could interpret that nondiscrimination testing in other practice areas could be excluded.
2.3 and 2.4	These definitions are circular. We would prefer to see less reliance on other definitions.	If you insert the definition of risk characteristic into the definition of risk class, there appears to be circularity with using the risk class definition.
2.7	Add 'group'. An individual, entity or group that is or may be covered by a financial or personal security system.	We believe groups are neither entities nor individuals.
2.8	Rephrase to "Impacts or outcomes on specific risk subjects arising from a risk classification framework that was not intentionally designed to produce such effects."	Clarity.
3.2.1	Add "within the scope of the actuary's assignment"	This confirmation is not always in scope. For example, and actuary in a life valuation role would

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		not need to determine whether a risk classification system was appropriate.
3.2.3	<p>Rephrase the 3rd paragraph to be:</p> <p>“The actuary should consider the appropriateness of using a risk characteristic, which may depend upon a variety of factors such as societal, regulatory and industry concerns, or the scope and context of the actuary’s work.”</p>	The sentence in the draft does not provide guidance.
3.2.4	<p>Rephrase to</p> <p>“To the extent practical, the actuary should consider multivariate effects, interdependencies, or correlations. The actuary should assess whether such multivariate effects, interdependencies, or correlations among risk characteristics are material to the assignment of risk subjects to an appropriate risk class.”</p>	Clarity.
3.2.5	Please clarify the intent of this section particularly related to unmitigated adverse selection.	We do not understand how the actuary would estimate unmitigated adverse selection. What if the actuary does not know that adverse selection is happening or even possible? How would the actuary estimate the extent of that?
3.4	Add materiality. “The actuary should consider the potential for any material unintended bias as appropriate within the scope of the actuary’s assignment.”	Any unintended bias is too broad.
3.5	Change ‘understand’ to ‘consider’ “When doing so, the actuary should understand consider the following:”	Simply understanding the law is insufficient – needs an action for the actuary.
4.1	Add disclosures Sections 3.2.4, 3.2.7 and 3.5.	Given the large considerations for multi-variate effects, practicality, and protected classes, there seems to be a need for disclosure or noted documentation requirement.

IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
There is inconsistent use of the terms, ‘regulation’, ‘government practices’, and ‘laws’ within this document. We recommend that these be reviewed and made consistent.	

V. Signature:

Commentator Signature	Date
Kirsten Pedersen, MAAA, FSA	5/3/2024