



DAVE JONES
Insurance Commissioner

April 28, 2016

Actuarial Standards Board
ASB Comments
American Academy of Actuaries
1850 M Street NW, Suite 300
Washington, DC 20036

**Re: Comments on Actuarial Standard of Practice (ASOP) – Property/Casualty
Ratemaking**

Dear Members of the Actuarial Standards Board,

I write you to express my strong concern about the revisions included in the American Academy of Actuaries' Actuarial Standard Board's (ASB) second exposure draft titled "Actuarial Standard of Practice (ASOP) – Property/Casualty Ratemaking." More specifically, I want to express my objections to how those changes impact Principle 4 of the Casualty Actuarial Society's Statement of Principles Regarding Property and Casualty Insurance Ratemaking.

Currently, Principle 4 of the Casualty Actuarial Society's Statement of Principles Regarding Property and Casualty Insurance Ratemaking states:

"A rate is reasonable and not excessive, inadequate, or unfairly discriminatory if it is an actuarially sound estimate of the expected value of all future costs associated with an individual risk transfer."

By this definition, it is understood that the rate developed by the actuary contemplates all the costs of the insurance and asserts that the rate is an actuarially sound estimate. However, ASB's draft ASOP conflicts with that Principle. Specifically, Article 1.2, "Scope," of the draft states:

"This standard is limited to the estimation of future costs. While the actuary may play a key role in the company's decisions in determining the price charged after taking into account other considerations, such as marketing goals, competition,

and legal restrictions, this standard does not address these other considerations.”

Clearly, if the rate submitted to the regulator for approval has been developed under this compromised approach there can be no reliance on the actuarial soundness of the rate or the basic fairness of the rate.

If the actuary is going to make adjustments to the rate for marketing or competitive reasons, the standards should take on the responsibility to address those activities and call for clear delineations between the actuarially-devised indications and the adjustments made to those indications to develop the final rate selection. The standards should include a requirement for separate supporting documentation for the indications and for each adjustment. This information would allow the regulator to fully evaluate the rate and determine which adjustments, if any, are allowable under state law.

By referencing these “other considerations” without giving guidance, the draft ASOP language can have the effect of compromising the actuarial product and opening the door to the type of hidden biases in the ratemaking which many states, including California, have recently protested or, in the case of Price Optimization, banned.

I believe that this Standard is the appropriate place to address the issue of external influences unrelated to the risk of loss entering the ratemaking process. Instead, the Standard implicitly condones those influences and otherwise avoids the issue. I ask that the Actuarial Standards Board reconsider its proposed language and create standards that further promote fairness and transparency in the ratemaking process.

Sincerely,



DAVE JONES
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