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Via email to Kris DeFrain (kdefrain@naic.org) and Tiffany Fosgate (fosgate@naic.org)

Richard Piazza
Chair, Casualty Actuarial and Statistical (C) Task Force

c/o Kris DeFrain, Director, Research and Actuarial Department
National Association of Insurance Commissioners
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RE: Casualty Actuarial and Statistical (C) Task Force Request for Information

Dear Mr. Piazza:

Thank you for the opportunity to provide further input on the Casualty Actuarial and Statistical (C) Task Force (CASTF) “Price Optimization White Paper.” As you know from previous comments filed¹, the American Academy of Actuaries² Casualty Practice Council (CPC) formed the Price Optimization Task Force earlier this year to specifically focus on the actuarial and public policy issues concerning price optimization. In this letter, we provide specific comments on the latest draft, specifically Section VII, *Recommendations and Next Steps*, which was released on Aug. 15, 2015.

Paragraph 46: This paragraph appears to us to conflict with other paragraphs in Section VII. For example, paragraph 48 notes that capping and transitional rating are generally considered in the public interest and that it is acceptable for companies to consider an insured’s demand to determine the best transition plan, whereas paragraph 46 disallows retention analysis and propensity to shop, both of which are elements of an insured’s demand.

Paragraph 48: The second sentence should read, “Insurance classification plans will group insureds into homogeneous risk categories...”

Paragraphs 51 and 52: These paragraphs introduce a new term, “charge,” used in context of a grammatical subject, e.g., current charge, indicated charge, selected charge. Because “class plan”

¹ http://www.actuary.org/files/CPC_PO_TF_Response_to_NAIC_PO_Recommendations_07.31.15.pdf
http://actuary.org/files/CPC_Price_Opt_TF_Response_to_NAIC_PO_2nd_Draft_7.2.15.pdf

http://actuary.org/files/Price_Optimization_TF_Response_to_NAIC_PO_White_Paper_Exposure_4.15.15.pdf

² The American Academy of Actuaries is an 18,500+ member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

and “rating factor” are defined in paragraph 12 (in sections h and j, respectively), we suggest the following edits:

Paragraph 51, last sentence: “Under any type of law, companies are either required to file support or justification for rates ~~charges-charged~~ and/or to maintain such records at the insurance company.”

Paragraph 52, last sentence: “The Task Force recommends that rate filings made to the state and kept in desk-filings at the company be required, at a minimum, to contain the ~~current-charge, the indicated, charge-the~~ and selected charge-rating factor for every rate element of the class plan (including rating factors, and rate/premium adjustments) and justification ~~of~~ for each ~~indicated~~ indication and selected charge-selection.”

Paragraph 55a: This paragraph also uses the term “charge,” for which we offer an alternative below. In addition, we suggest replacing “risk-based” in this paragraph with “cost-based,” which is described in paragraph 12, section f. We recommend changing paragraph 55a as follows:

“For every element of the class plan rate (including rating factors and rate/premium adjustments), the insurer must disclose the current rating factor-charge; the cost-risk-based indication indicated-charge-(see b below); the indicated rating factor charge after further adjustments, if any; and the selected rating factor-charge.”

Paragraph 55b: In keeping with the previous comment, we suggest the following edit:

“The cost-based risk-based indicated-charge-indication should be actuarially justified as the measurement of the cost to transfer risk from the insured to the insurer. Actuarial judgment to evaluate that transfer cost can be included.”

Paragraph 57: Questions 3-5 are relevant if the models are deployed as part of an optimization exercise. Is the intention to limit the review only when models are used for optimization? For example, an insurer could develop a retention model to understand how consumers respond to rate changes but never deploy the model in an optimization routine. We suggest replacing questions 3-5 with the following:

- 3) What is the purpose of the model?
- 4) If the model(s) is used as part of an optimization routine, what are the targeted objectives (e.g., renewal retention, increasing new business, etc.)?
- 5) Are there limits for the selected rating plan factors, and how do the selected factors relate to the indications?

The Academy’s Price Optimization Task Force appreciates this opportunity to provide comments to the CASTF. We hope these observations and suggestions are helpful, and we welcome further

discussion. If you have any questions about our comments, please contact Lauren Pachman, the Academy's casualty policy analyst, at pachman@actuary.org or (202) 223-8196.

Sincerely,

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