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February 25, 2020

Property/Casualty Rate Filing ASOP
Actuarial Standards Board
1850 M Street NW, Suite 300
Washington, DC 20036-4601

RE: Request for Input—Property/Casualty Rate Filing ASOP

On behalf of the Casualty Practice Council (CPC) of the American Academy of Actuaries,¹ I am pleased to respond to the Actuarial Standards Board's (ASB) request for input concerning the potential development of an actuarial standard of practice (ASOP) that would apply to actuaries when preparing property/casualty rate filings. The term "rate filing" discussed in this document is broadly defined as including property/casualty rate filings, loss costs filings, filings for factors for rating individual policies, and other rate-related filings.

The membership of CPC includes property & casualty actuaries who work for (and prepare rate filings on behalf of) insurance companies, as well as actuaries who work as consultants to state insurance regulators in the capacity of reviewing rate filings. Below, we have provided responses to the questions raised by the ASB:

1. What are the existing or current actuarial responsibilities in determining the final proposed rates?

Actuaries are frequently responsible for a multitude of activities associated with the development of indicated rates. Such activities include the development of indicated loss costs and other components of the proposed rates, such as expense provisions and profit and contingencies provisions, and the preparation of competitive rate comparisons. However, actuaries are often not the sole determinants of the proposed rates, nor is the selection of final proposed rates always an actuarial responsibility. Other parties and processes that often determine final proposed rates include underwriters, product specialists, marketing personnel, regulations, and company management judgment. The extent of actuarial involvement in the determination of the final proposed rates varies greatly from company to company, as well as by line of business.

As noted in the Casualty Actuarial Society's Statement of Principles Regarding Property and Casualty Insurance Ratemaking, "The actuary, by applying the ratemaking principles in this

¹ The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted 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.

Statement, will derive an estimation of the future costs associated with the transfer of risk. Other business considerations are also a part of ratemaking. By interacting with professionals from various fields including underwriting, marketing, law, claims, and finance, the actuary has a key role in the ratemaking process.”

2. What are the existing or current actuarial responsibilities in the development of a rate filing?

Here too, actuarial responsibilities are frequently of multiple types, and actuaries are often not exclusively responsible for the development of rate filings. Actuarial responsibilities often include preparing materials that support the indicated rates, rating factors, loss costs, expense provisions, or profit loads. On occasion, the actuary might provide competitive rate comparisons. The actuary might at times provide anecdotal support for rates derived in situations where little or no historical experience exists.

However, it is important to note that there are many rate filings where no actuarial involvement occurs or is required. Very few jurisdictions require actuarial certification of the rates being filed.

3. Are there aspects of rate filings that you consider actuarial in nature? What aspects do you consider not actuarial in nature?

Development of formula indicated rates or loss costs and rating factors is and generally has been the aspect of rate filings most considered to be actuarial in nature. However, these activities, as well as the determination and selection of many of the other components filed in a rate filing, can be and are also prepared by non-actuaries and therefore can be construed to be not actuarial in nature.

Aspects of a rate filing that would be considered non-actuarial in nature would be the filing memo describing the content of the filing, filing transmittals, and required financial data.

4. What aspects of a rate filing frequently cause issues during regulatory review?

This varies by state, but we have seen the following aspects most often resulting in objections during the filing review: use of catastrophe models and predictive modeling; the selected profit provision; the level of detail and support provided for the selection of key assumptions; lack of information in the filing due to confidentiality concerns; complexity of the rating plan; and the introduction of new, nontraditional products or rating plans.

5. Given that many rate filings contain the results of large computer modeling, does the proposed ASOP on Modeling sufficiently address your concerns with regard to rate filings?

ASOP 56, *Modeling*, is fairly general. While there is guidance in the ASOP on several topics regarding the development and usage of a model, there is relatively little on the

documentation of, communicating the results of, and disclosures associated with documenting and communicating the results of a model. As such, we do not believe the ASOP on modeling is broad enough to provide guidance regarding the use of models in rate filings. Also, we do not necessarily have any concerns with regard to rate filings, as this question presumes.

6. What actuarial aspects need further guidance to actuaries in the rate determination process beyond the guidance already contained in existing ASOPs?

We believe that there is the potential for actuaries to need more guidance with respect to new advanced rate determination processes, predictive modeling approaches, the use of alternative rating factors such as credit scores and demographics, the use of external (non-insurance) data, and the potential for models to unintentionally result in unfairly discriminatory rates.

7. What actuarial aspects need further guidance to actuaries in the rate filing process beyond the guidance already contained in existing ASOPs?

We are not certain if rate filing guidance is needed. See additional considerations below.

8. Is guidance to actuaries needed for all rate filings?

- a. All lines of insurance?
- b. All types of rate regulation laws (prior approval, file and use, use and file, etc.)?
- c. If not needed for all filings, which specific filings either limited to specific lines of insurance, rate regulatory laws, or other conditions would trigger activation of the ASOP?

If guidance is to be provided, then it should apply only if a rate filing is required, and support in the form of actuarially based documentation is required. In some states and/or for some lines, rates do not need to be filed at all. In other states, rate filing regulations do not require any support to be included in the filing. And in the vast majority of states, the regulations do not require that an actuary be involved in preparing, submitting, or certifying the rate filing.

Requiring actuaries to adhere to guidance in an ASOP on rate filings in all states, while not requiring non-actuaries to adhere to the same guidance, could discourage companies' inclusion of actuaries in the rate filing process in states where rate filings are not required to be prepared by or certified by an actuary.

Because few jurisdictions require rate filings to be certified by or prepared by an actuary, an ASOP on rate filings would be of limited practical use, if the intent is to improve the quality or consistency of rate filings.

9. Should the scope of this standard be confined to filings that require an actuarial certification?

This could be an appropriate way to address some of the considerations below, but very few states require an actuarial certification of the final rates, so the ASOP would have limited application.

Following are additional items that we believe should be considered when determining whether an ASOP on property/casualty rate filings should be developed:

- As noted above, the selection of final rates to be filed is not inherently actuarial in nature, and is rarely uniquely actuarial in practice. Clearly, structured actuarial calculations as guided by the ASOPs and Principles are a key actuarial responsibility. And it is not uncommon for actuaries to be part of the discussion (to have a “seat at the table” so to speak) when final decisions are made. The selection of final rates to be filed is not always, however, an actuarial responsibility, and unduly prescriptive actuarial guidance regarding rate filings could inhibit insurance companies’ desire for actuarial participation in the rate-setting process.

This might seem counterintuitive as we believe that holding ourselves to higher standards via the ASOPs adds to the quality, reliability, and value of the work that we provide. Over the long run, any new standard around rate filings should prove this out. However, our work is not done in a vacuum, and there is not a clearly defined line between where the actuarial support used in the development of a rate filing ends and the selection of final rates begins. If actuaries are held to higher standards than non-actuaries in preparing rate filings, senior decision-makers may prefer that rate filings not be formally prepared by actuaries, in order to avoid any potential conflicts in the final rate selection.

- As also noted above, many rate filings are currently not prepared by an actuary because they are not required to be prepared by an actuary. An ASOP regarding rate filings would not apply to a filing prepared by someone other than an actuary. When a company is determining the resources that they want to use to prepare a rate filing, a standard applicable only to actuaries could discourage companies’ inclusion of actuaries in the rate-filing process.
- If there are concerns with the quality of the material presented in rate filings, this might be better addressed by the National Association of Insurance Commissioners so that the guidance applies to non-actuaries as well as actuaries.

The CPC appreciates this opportunity to provide comments to the ASB. We hope these observations are helpful, and we welcome further discussion. If you have any questions about our comments, please contact Marc Rosenberg, the Academy’s senior casualty policy analyst, at rosenberg@actuary.org or 202-785-7865.

Sincerely,

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