

Title of Exposure Draft: Proposed Revision of Actuarial Standard of Practice (ASOP) No. 12 , Risk Classification (for All Practice Areas)

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
ERM/ORSA Committee / American Academy of Actuaries

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

Question No.	Commentator Response

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)
2.3 & 2.4	Change "Risk Characteristics" and "Risk Class" definitions. The definition of these two terms is a circular reference. We recommend explicit definitions that are not reliant on each other's definitions.	2.7 Risk Subject (or Prospect, see below) – the individual or entity exposed to risk that may be covered by a financial security system. 2.3 Risk Characteristics – a Risk Subject (Prospect) has various attributes which increase or decrease its exposure to risk, and thus may be useful in assigning the Risk Subject (Prospect) to a Risk Class. 2.4 Risk Class – a group of Risk Subjects (Prospects) noted for relatively homogeneous Risk Characteristics. Also, instead of adhering to an alphabetical listing of definitions we suggest the order above for a more intuitive flow of the ideas.

Title of Exposure Draft: Proposed Revision of Actuarial Standard of Practice (ASOP) No. 12 , Risk Classification (for All Practice Areas)

Comment Deadline: [May, 1, 2024]

2.7	Change the term “subject” to “prospect”	Subject implies that the individual or entity has no agency or has no say in the matter or is otherwise completely powerless. An individual or entity may shape exposure to any particular risk to some extent. A word other than “subject” may better represent an individual or entity that likely must assume a risk or portion of a risk but also may take actions to shape their exposure, even for transferred risk. One suggestion is the word “prospect” instead of “subject,” giving the individual or entity more agency in how they respond to the portion of the risk they are assuming, because risk is never entirely transferred through a financial system.
3.2.3	Change “Relationship of Risk Characteristics and the Risk Measures”: Suggested is “...the actuary may use professional judgment to select risk characteristics and risk measures.”	The draft states that the actuary may use professional judgment to select risk characteristics. Professional judgment is also necessary for risk measures.
3.2.4	The title of the section and references in the paragraph should changed to “multivariable” instead of “multivariate.”	Multivariable appears to be what is intended instead of multivariate. Multivariate is the use of two or more dependent variables. Multivariable is the use of two or more explanatory variables.
3.2.7	Suggested change to “What is reasonable and necessary for risk classification may increase as the complexity increases.”	Cost, time, and effort associated are mentioned, however, it may be better to instead focus on parsimony, what is reasonable and necessary for the purpose of the risk classification.
3.3	Change the “...frequency of past reviews and extent of previous changes...” is already included in “...take into account whether past, recent, or expected changes or lack of changes...”. Suggested is to make the second and third sentences a. and b. after “The actuary should take into account:” and delete “...understand the frequency of past reviews and extent of previous charges...”.	The last phrase of the first sentence is essentially repeated in the second sentence.
3.4 & 3.5	Add that biases of all types should be measured and reduced.	The focus is on unintended bias. Consider not only unintended biases but also inappropriate biases. Inappropriate biases may not always be under the umbrella of Protected Classes.
3.7	Machine Learning and Statistical Methods (move exposure draft 3.7 to 3.8)	An actuary may use machine learning or statistical techniques in the identification of Risk Characteristics or the development of Risk Measures. These may include artificial intelligence, neural networks, generalized linear modeling, or similar approaches. The actuary should exercise professional judgment to ensure the relationships developed are appropriate and unintended biases are properly evaluated.

IV. General Recommendations (If Any):

Title of Exposure Draft: Proposed Revision of Actuarial Standard of Practice (ASOP) No. 12 , Risk Classification (for All Practice Areas)

Comment Deadline: [May, 1, 2024]

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
1.2, 2.1, 2.2, 2.6, 2.7, 3.2.8, 3.2.9, 3.3, 4.1.e, 4.1.g, 4.1.h, <u>...Personal...</u> : References to “financial or personal security system” can be shortened to “financial security system”.	This ASOP is about risk classification for financial security. Using “personal” makes it sound like the ASOP might include health and safety risk management in some way when that is far outside the scope.
Drop the word “risk” where possible	The ASOP might read better without “risk” being mentioned so frequently. Consider the necessity of using “risk characteristics”, “risk class”, “risk classification framework”, “risk measure”, and “risk subject” when the reader knows the entire ASOP is about risk classification, so perhaps instead omit “risk” in front of each of those words. Overuse of “risk” may be distracting to many readers.

V. Signature:

Commentator Signature	Date
On behalf of the ERM/ORSA Committee, Respectfully submitted, Charles V. Ford, MAAA, FSA, CFA, Chairperson	5/1/2024