

CASUALTY ACTUARIAL AND STATISTICAL (C) TASK FORCE

Casualty Actuarial and Statistical (C) Task Force March 9, 2021, Minutes

Casualty Actuarial and Statistical (C) Task Force Feb. 17, 2021, Minutes (Attachment One)

Casualty Actuarial and Statistical (C) Task Force Feb. 9, 2021, Minutes (Attachment Two)

Consumer Federation of America (CFA) Comment Letter (Attachment Two-A)

Casualty Actuarial and Statistical (C) Task Force Feb. 2, 2021, Minutes (Attachment Three)

Casualty Actuarial and Statistical (C) Task Force Dec. 30, 2020, Minutes (Attachment Four)

Casualty Actuarial Society's (CAS) Comparison of Statements of Principles and the Actuarial Standards of Practice (ASOPs) (Attachment Five)

CFA Letter (Attachment Six)

CFA Comment on CAS Comparison (Attachment Seven)

Letter to CAS (Attachment Eight)

CAS Research Report (Attachment Nine)

Society of Actuaries Research Report (Attachment Ten)

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Draft Pending Adoption

Draft: 3/30/21

Casualty Actuarial and Statistical (C) Task Force
Virtual Meeting (*in lieu of meeting at the 2021 Spring National Meeting*)
March 9, 2021

The Casualty Actuarial and Statistical (C) Task Force met March 9, 2021. The following Task Force members participated: Grace Arnold, Chair, represented by Phil Vigliaturo (MN); James J. Donelon, Vice Chair, represented by Rich Piazza and Nichole Torblaa (LA); Lori K. Wing-Heier represented by Katrina Kelly and Michael Ricker (AK); Jim L. Ridling represented by Daniel Davis (AL); Evan G. Daniels represented by Vanessa Darrah and Tom Zuppan (AZ); Ricardo Lara represented by Anna Chou, Giovanni Muzzarelli, Mitra Sanandajifar and Lynne Wehmueller (CA); Michael Conway represented by Mitchell Bronson and Sydney Sloan (CO); Andrew N. Mais represented by Susan Andrews, Wanchin Chou and Qing He (CT); Karima M. Woods represented by David Christhif, Monica Dyson and Monica Myers (DC); David Altmaier represented by Sandra Starnes (FL); Colin M. Hayashida represented by Randy Jacobson (HI); Doug Ommen and Travis Grassel (IA); Dana Popish Severinghaus represented by Judy Mottar (IL); Vicki Schmidt represented by Nicole Boyd and Heather Droge (KS); Kathleen A. Birrane represented by Robert Baron, Ron Coleman and Walter Dabrowski (MD); Eric A. Cioppa represented by Sandra Darby (ME); Anita G. Fox represented by Kevin Dyke (MI); Chlora Lindley-Myers represented by Cynthia Amann, Preston Nilges and LeAnn Cox (MO); Troy Downing represented by Mari Kindberg and Ashley Perez (MT); Mike Causey represented by Arthur Schwartz (NC); Chris Nicolopoulos represented by Christian Citarella (NH); Marlene Caride represented by Mark McGill (NJ); Russell Toal represented by Anna Krylova (NM); Barbara D. Richardson represented by Gennady Stolyarov (NV); Judith L. French represented by Tom Botsko (OH); Glen Mulready represented by Andrew Schallhorn (OK); Andrew R. Stolfi represented by TK Keen (OR); Jessica K. Altman represented by Kevin Clark, James DiSanto and Michael McKenney (PA); Raymond G. Farmer represented by Michael Wise (SC); Doug Slape represented by Monica Avila, J'ne Byckovski, Brock Childs, Nicole Elliott, Miriam Fisk, Eric Hintikka and Bethany Sims (TX); Michael S. Pieciak represented by Rosemary Raszka (VT); Mike Kreidler represented by Eric Slavich (WA); and Jeff Rude represented by Donna Stewart (WY). Also participating was: Tomasz Serbinowski (UT).

1. Adopted its Feb. 17, 2021; Feb. 9, 2021; Feb. 2, 2021; Dec. 30, 2020; and Nov. 10, 2020, Minutes

Mr. Vigliaturo said the Task Force met Feb. 17, 2021; Feb. 9, 2021; Feb. 2, 2021; and Dec. 30, 2020. During these meetings, the Task Force adopted statistical reports presented by the Statistical Data (C) Working Group.

The Task Force also met Feb. 16, 2021, in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities or individuals) of the NAIC Policy Statement on Open Meetings, to discuss rate filing issues.

The Task Force held its Predictive Analytics Book Club conference calls Feb. 23, 2021; Feb. 2, 2021; and Dec. 15, 2020. During its Feb. 23, 2021, meeting, Dorothy L. Andrews, Roosevelt Mosley and Lauren Cavanaugh (American Academy of Actuaries—Academy) presented on race and underwriting. During its Feb. 2, 2021, meeting, David Heppen and Jennifer Balester (Risk & Regulatory Consulting LLC) presented on acceptable rating variables. During its Dec. 15, 2020, meeting, Howard A. Kunst and Daniel Betten (CoreLogic) presented on parametric hail insurance.

Mr. Piazza made a motion, seconded by Mr. Botsko, to adopt the Task Force's Feb. 17, 2021 (Attachment One), Feb. 9, 2021 (Attachment Two), Feb. 2, 2021 (Attachment Three), Dec. 30, 2020 (Attachment Four), and Nov. 10, 2020 (*see NAIC Proceedings – Fall 2020, Casualty Actuarial and Statistical (C) Task Force*) minutes. The motion passed unanimously.

2. Adopted the Report of the Statistical Data (C) Working Group

Mr. McGill said all the statistical reports have been approved, posted on the website, and released to the public.

Mr. McGill made a motion, seconded by Mr. Chou, to adopt the report of the Statistical Data (C) Working Group. The motion passed unanimously.

3. Discussed the CAS's Rescission of its SoPs

Mr. Vigliaturo said the Casualty Actuarial Society's (CAS's) rescission of its collection of Statements of Principles (SoPs) was discussed on the Task Force's Feb. 9 call. Some members of the Task Force volunteered to draft a letter to the CAS Board of Directors. Mr. Citarella said he, Ms. Krylova, Mr. Schwartz and Mr. McKenney drafted a letter for the Task Force to consider adopting and sending to the CAS. Mr. Citarella briefly described the letter's content.

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Ken Williams (CAS) provided a comparison of the SoPs on Ratemaking and the Actuarial Standards of Practice (ASOPs) (Attachment Five).

Jessica Leong (CAS), president of the CAS, said the CAS is hearing a lot of feedback on the CAS Board's rescission of the SoPs. She said the CAS takes the concerns being expressed and the professionalism of members seriously. She said given feedback to date, the CAS opened a formal comment period until March 15. The CAS Board will consider the feedback.

J. Robert Hunter (Consumer Federation of America—CFA) said he and other consumer groups support the draft letter (Attachment Six). He said there should be a linkage between final rates and cost. He said if the CAS rejects reinstatement of the principles, then he would suggest that the state insurance regulators would need to address the loss of the principles. He also supplied comments on the CAS's comparison of the SoPs on Ratemaking and the ASOPs (Attachment Seven).

Mr. Stolyarov asked whether rescission of the SoPs means the document can no longer be cited or republished. He also asked if the CAS would be amenable to gifting the principles to the public domain. Ms. Leong said she would find out and respond at a later date. Mr. Stolyarov said knowledge, in general, is objective irrespective of whether a specific organization considers it to be true. He said having the knowledge formulated in some way to be accessible to practitioners and those seeking to learn about the discipline would be useful. He said he believes the SoPs were useful in communicating the key areas. He said the principles should remain somewhere, either at the CAS or documented in some other way.

Peter Kochenburger (University of Connecticut School of Law) supported the letter, and he said a missing word might be "transparency" because it helps non-actuaries understand what the rules are. Ralph Blanchard (Travelers) clarified that the principles are not rules. He said "excessive, inadequate and unfairly discriminatory" are defined by each state's statutes. For example, he said some states only consider rates to be "inadequate" if the rates would cause the insurer to be insolvent.

Mr. Citarella made a motion, seconded by Mr. Botsko, to adopt the attached letter and send it to the CAS (Attachment Eight). The motion passed unanimously.

4. Received a Report on the NAIC Rate Model Reviews

Kris DeFrain (NAIC) said in April 2018, the Executive (EX) Committee agreed with the Big Data (EX) Working Group's recommendation to direct NAIC management to "conduct research on the appropriate skills and potential number of resources for the organization to help NAIC members in coordinating their reviews of predictive models." NAIC senior management conducted the research and recommended gradual build-up of expertise at the NAIC to aid state insurance regulators' review of property/casualty (P/C) rate models.

In 2019 with existing actuarial, legal and information technology (IT) staff, the NAIC did three things: 1) drafted a contractual agreement called the Rate Review Support Services Agreement (Agreement) to be used so a state can gain access to the shared model database and can request a rate model technical review from the NAIC; 2) developed the initial NAIC rate model technical review process with a consulting actuary, and 3) created a shared model database for confidential regulatory communication.

As of today, there are 28 states contracted with the NAIC using the Agreement. Of those 28 states, there is diverse participation from small states without P/C actuaries on staff to large states with actuarial teams. Twenty of the states are members of the Task Force.

The Agreement is set so the NAIC will review a rate model at the request of a state when resources are available. The NAIC's technical review is consistent with the Task Force's white paper, and it includes information such as what documentation is included or missing in the filing, any actuarial or statistical errors, and any potentially questionable support.

Ms. DeFrain said the NAIC does not assume any regulatory authority, create objections to be sent to the company, recommend acceptance or rejection of the model or any specific rating variable, or do separate modeling to determine any correlation with unlawful characteristics or assess disparate impact. The process and the report are subject to improvement over time, and suggestions are welcome.

In August 2020, the NAIC hired Sam Kloese (NAIC) to work with the rate model review team to implement the project. In total as of today, we have reviewed 31 rate filings and objection responses for nine states. The volume of requests is increasing. At the beginning of February, the team was already booked into March for reviews. NAIC staff is currently analyzing the

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potential workload for this year and evaluating the need for additional resources. NAIC staff will soon be sending information to commissioners about potential resource needs to meet the demands for assistance.

Mr. Piazza asked if there is a list of filings that have been reviewed. Ms. DeFrain said the reviews are uploaded to the shared model database. She said she could also provide a list if desired. Mr. Piazza and Mr. Vigliaturo agreed that periodic communication to the state insurance regulators would be helpful.

Mr. Serbinowski asked if the NAIC review team would do presentations to the state insurance regulators to highlight the issues. Ms. DeFrain said Mr. Kloese presents case studies in months when the Task Force does not have a Book Club. She said the periodic communication requested by Mr. Piazza could also include a high-level overview of each model. She added that states can sign the Agreement with the NAIC and be under no obligation to do anything or ask the NAIC to conduct any reviews. She said the Agreement provides access to the database and case studies.

Birny Birnbaum (Center for Economic Justice—CEJ) asked for a copy of the Agreement, the processes and procedures for the shared model database, and the processes and procedures for the NAIC rate model reviews. Ms. DeFrain said parties can ask the states for a copy of the signed Agreement through their request for documents. She said there are no manuals for processes and procedures because it is a fairly simple process. She said there are instructions for use of the database, but they cover how to use the functions in the NAIC and do not describe processes and procedures. She said she would be happy to answer any direct questions. Mr. Birnbaum said this is a black box at the NAIC. He said he wants to know: 1) what provisions are in the Agreement, such as what confidentiality is promised; 2) what is included in the rate model review other than what has been said on this call; and 3) who can access the shared model database and what use it can be put to. He said he has been asking for this information at the NAIC for more than a year, and he believes this information should be public. He said he does not need content of the reviews. He asked if the NAIC's report is available to the filers. Ms. DeFrain said this is a state decision. She said the NAIC does not provide actuarial opinions or step into the state insurance regulators' role. He asked if the state is limited in its use of the review. Ms. DeFrain said she does not recall the Agreement restricting the use by the state insurance regulator.

Mr. Blanchard asked how long the reviews take. Ms. DeFrain said the reviews can take up to two weeks.

Robert Curry (Insurance Services Office—ISO) asked whether the filer would be notified that the NAIC is reviewing the model. He said the companies are notified when a consultant is involved. Ms. DeFrain said there is no notification process that is required. The state can inform you that they have requested an NAIC review. The state can list the NAIC as a reviewer if they choose. Ms. DeFrain said consultants provide opinions and write objections, putting themselves in the place of state insurance regulators. She said the NAIC does not do this.

5. Heard Reports from Professional Actuarial Associations

Ms. Cavanaugh said the Committee on Property and Liability Financial Reporting (COPLFR) produced its annual law manual and practice note on annual statement reserves and updated its COVID-19 frequently asked questions (FAQ). The Academy's P/C Risk-Based Capital Committee produced a report on updated underwriting factors. The Academy's Cyber Risk Task Force in cooperation with the Academy's research team published individual states' reporting requirements for cyber breaches. A paper is expected on COVID-19's impact on auto ratemaking and a consumer-oriented paper to describe basic insurance concepts and rating for auto insurance. The Academy's Casualty Practice Council formed a racial equity task force to address P/C race and insurance as it relates to public policy. Additional topics being monitored include the Pandemic Risk Insurance Act, flood insurance, the Terrorism Risk Insurance Program, and presumptive benefits for COVID-19. The Academy will assist with the NAIC Insurance Summit.

Mr. Blanchard provided the CAS's research report (Attachment Nine). Dale Hall (Society of Actuaries—SOA) provided the SOA's research report (Attachment Ten).

6. Discussed Other Matters

Mr. Vigliaturo said the Task Force's white paper, *Regulatory Review of Rate Models*, will be considered for adoption by the Executive (EX) Committee and Plenary at the Spring National Meeting.

Having no further business, the Casualty Actuarial and Statistical (C) Task Force adjourned.

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Casualty Actuarial and Statistical (C) Task Force
E-Vote
February 17, 2021

The Casualty Actuarial and Statistical (C) Task Force conducted an e-vote that concluded Feb. 17, 2021. The following Task Force members participated: Grace Arnold, Chair, represented by Phil Vigliaturo (MN); James J. Donelon, Vice Chair, represented by Rich Piazza (LA); Lori K. Wing-Heier represented by Michael Ricker (AK); Jim L. Ridling represented by Daniel Davis (AL); Evan G. Daniels represented by Tom Zuppan (AZ); Ricardo Lara represented by Lynne Wehmueller (CA); Michael Conway represented by Mitchell Bronson (CO); Andrew N. Mais represented by Wanchin Chou (CT); Karima M. Woods represented by David Christhif and Angela King (DC); Colin M. Hayashida represented by Randy Jacobson (HI); Doug Ommen represented by Travis Grassel (IA); Dana Popish Severinghaus represented by Judy Mottar (IL); Vicki Schmidt represented by Nicole Boyd (KS); Eric A. Cioppa represented by Sandra Darby (ME); Chlora Lindley-Myers represented by Cynthia Amann (MO); Troy Downing represented by Mari Kindberg (MT); Marlene Caride represented by Carl Sornson (NJ); Russell Toal (NM); Barbara D. Richardson represented by Gennady Stolyarov (NV); Judith L. French represented by Tom Botsko (OH); Glen Mulready represented by Andrew Schallhorn (OK); Andrew R. Stolfi represented by David Dahl (OR); Raymond G. Farmer represented by Will Davis (SC); Doug Slape represented by J'ne Byckovski (TX); Michael S. Picciak represented by Rosemary Raszka (VT); Mike Kreidler represented by Eric Slavich (WA); James A. Dodrill represented by Juanita Wimmer (WV); Jeff Rude represented by Donna Stewart (WY).

1. Adopted the *Auto Insurance Database Report*

The Task Force conducted an e-vote to consider adoption of the *Auto Insurance Database Report*. The motion passed unanimously.

Having no further business, the Casualty Actuarial and Statistical (C) Task Force adjourned.

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Draft: 3/8/21

Casualty Actuarial and Statistical (C) Task Force
Virtual Meeting
February 9, 2021

The Casualty Actuarial and Statistical (C) Task Force met Feb. 9, 2021. The following Task Force members participated: Grace Arnold, Chair, represented by Phil Vigliaturo (MN); James J. Donelon, Vice Chair, represented by Rich Piazza, Larry Steinert and Nichole Torblaa (LA); Lori K. Wing-Heier represented by Katrina Kelly and Michael Ricker (AK); Jim L. Ridling represented by Daniel Davis (AL); Evan G. Daniels represented by Vanessa Darrah and Tom Zuppan (AZ); Ricardo Lara represented by Ken Allen, Mitra Sanandajifar and Lynne Wehmueller (CA); Michael Conway represented by Mitchell Bronson and Eric Unger (CO); Andrew N. Mais represented by Susan Andrews and Wanchin Chou (CT); Karima M. Woods represented by David Christhlf and Monica Myers (DC); David Altmaier represented by Sandra Starnes (FL); Colin M. Hayashida represented by Randy Jacobson (HI); Doug Ommen represented by Travis Grassel (IA); Dana Popish Severinghaus represented by Reid McClintock and Judy Mottar (IL); Vicki Schmidt represented by Nicole Boyd and Heather Droge (KS); Kathleen A. Birrane represented by Ron Coleman and Walter Dabrowski (MD); Eric A. Cioppa represented by Sandra Darby (ME); Chlora Lindley-Myers represented by Cynthia Amann and LeAnn Cox (MO); Troy Downing represented by Mari Kindberg and Ashley Perez (MT); Mike Causey represented by Kevin Conley and Arthur Schwartz (NC); Chris Nicolopoulos represented by Christian Citarella (NH); Marlene Caride represented by Mark McGill and Carl Sornson (NJ); Russell Toal represented by Anna Krylova (NM); Barbara D. Richardson represented by Gennady Stolyarov (NV); Judith L. French represented by Benjamin Beckman and Tom Botsko (OH); Glen Mulready represented by Andrew Schallhorn (OK); Andrew R. Stolfi represented by David Dahl (OR); Jessica K. Altman represented by Kevin Clark, James DiSanto, and Michael McKenney (PA); Raymond G. Farmer represented by Will Davis and Michael Wise (SC); Doug Slape represented by Monica Avila, J'ne Byckovski, Brock Childs, Nicole Elliott, Eric Hintikka, Jason Lester, Brian Ryder and Bethany Sims (TX); Michael S. Picciak represented by Rosemary Raszka (VT); Mike Kreidler represented by Dan Forsman (WA); James A. Dodrill represented by Tonya Gillespie and Juanita Wimmer (WV); and Jeff Rude and Donna Stewart (WY). Also participating was: Gordon Hay (NE).

1. Adopted the Reports of the Actuarial Opinion (C) Working Group and the Statistical Data (C) Working Group

Mr. Vigliaturo announced the appointments of Ms. Krylova as chair and Miriam Fisk (TX) as vice chair of the Actuarial Opinion (C) Working Group, as well as Carl Sornson as chair and Mr. Chou as vice chair of the Statistical Data (C) Working Group.

Ms. Krylova said the Actuarial Opinion (C) Working Group has not met in 2021.

Mr. McGill said the *Report on Profitability by Line by State* (Profitability Report) was released publicly on Jan. 12. The *Dwelling Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner's Insurance Report* (Homeowners Report) was released publicly on Jan. 13. The *Competition Report* was posted on the NAIC website on Feb. 2. The *Auto Insurance Database Report* (Auto Report) will be considered for adoption via e-vote soon.

Mr. Piazza made a motion, seconded by Mr. Botsko, to adopt the reports of the Actuarial Opinion (C) Working Group and the Statistical Data (C) Working Group. The motion passed unanimously.

2. Discussed Project #2019-49: Retroactive Reinsurance Exception

Mr. Vigliaturo said the Statutory Accounting Principles (E) Working Group referred Project #2019-49: Retroactive Reinsurance Exception to the Task Force in January 2020. The project was initialized after receipt of a letter from the American Academy of Actuaries' (Academy) Committee on Property and Liability Financial Reporting (COPLFR). Mr. Vigliaturo said Mr. Hay, Ms. Fisk and Mr. Botsko have been working on this difficult project.

Mr. Hay said *Statement of Statutory Accounting Principles (SSAP) No. 62R—Property and Casualty Reinsurance* does not deal with every possible reinsurance agreement, but rather only the more commonly employed methods. Prospective exceptions to prescribed retroactive accounting appear in paragraphs 36 and 39. He said these exceptions emerged individually from historical circumstances, so unanticipated future circumstances are possible. For the identified exceptions, the default assumption is that prescribed prospective accounting, including Schedule P Instructions, will apply with no modification. In a few circumstances, the SSAPs (including SSAP No. 62R) require restatement of historical calendar years' earned premium and/or losses on

Schedule P. He said he, Ms. Fisk and Mr. Botsko need to reconcile the default assumption versus prescribed restatements, with examples of insurers and reinsurers' actual Schedule P presentation, including the two examples in the COPLFR letter that gave rise to Project #2019-49. He said in some important examples, state interpretations in real time, rather than company decisions, created precedents for divergent Schedule P presentation in subsequent years. He said he still hopes to recommend appropriate Schedule P presentation guidance for each exception identified in SSAP No. 62R paragraphs 36 and 39. Mr. Hay said he, Ms. Fisk and Mr. Botsko are working on a recommendation to improve prospective reinsurance accounting prescriptions in SSAP No. 62R paragraphs 30–32 and paragraphs 49–54 (cedants' accounting and credit taken) or paragraphs 42–48 (reinsurers' accounting).

3. Discussed CAS Rescission of Statements of Principles

Mr. Vigliaturo said the Casualty Actuarial Society (CAS) notified the Task Force that it rescinded its collection of Statements of Principles, including the ratemaking principles that many states use when reviewing rate filings. He said after the CAS presentation, he would like to hear from state insurance regulators and interested parties about the impact on state regulation and whether state insurance regulators want to take any actions such as creating NAIC principles on ratemaking or leave such decisions to individual states.

Ken Williams (CAS) said the impact on states was intended to be minimal. He said all the statements of principles (ratemaking, reserving and evaluation) were written in the late 1980s before Actuarial Standards of Practice (ASOPs) were developed and were intended to be a foundation for the development of standards. With more than 50 ASOPs developed today, he said the ASOPs are now robust, enforceable and somewhat prescriptive. He said the view is that the principles have served their purpose to be a foundation for ASOPs. He added the principles often parallel the ASOPs, with any differences sometimes leading to confusion.

Mr. Williams said actuaries are held to professional standards within the U.S. and are required to follow the Code of Conduct, ASOPs, Qualification Standards and state regulations. Mr. Williams said the CAS is now a worldwide organization. He said every state has “not excessive, not inadequate and not unfairly discriminatory” language in their regulatory statutes. He said the CAS notified the three states with direct reference to the statement of principles in laws or regulations.

State insurance regulators expressed multiple views: 1) the Task Force was dissatisfied that the CAS did not request comment from its membership before rescinding, and there might have been some concerns; 2) states may use the principles for other purposes, including a data call which cited the principles; 3) lawmakers would look to the CAS as experts on ratemaking and may interpret rescission of the principles as a need to rewrite laws on rates; 4) state insurance regulators make the principles enforceable by referring to the principles in certain situations; and 5) the principles on ratemaking seemed to be more specific than ASOPs, and some concepts do not exist in the ASOPs. The CAS was asked to send the Task Force a comparison of the principles with the ASOPs to be able to evaluate the redundancy. Mr. Williams said he would prepare a comparison for distribution.

J. Robert Hunter (Consumer Federation of America—CFA) described his document sent to the Task Force for the meeting (Attachment Two-A). He said the only public actuarial requirement that final rates be related to risk was rescinded. The Actuarial Standards Board (ASB) had tried to write an ASOP for the final rate and had to back off because of unfair discrimination. In the mid-2010s, there was a five-year debate on these issues, and then suddenly the CAS Board rescinded the principles. Initially, the principles were not going to be rescinded until the ASOPs covered the principles. There is now no final rate principle, so actuaries could use price optimization. Many documents refer to the statements of principles. Mr. Hunter suggested the Task Force urge the CAS to reverse its rescission at least long enough to seek input. If the CAS does not reinstate, then he suggested the NAIC create a bulletin for the states to delete references of sound actuarial principles in rate regulation and laws. He said another option would be for the Task Force to propose the four principles be codified into laws to define actuarial soundness of rates.

Birny Birnbaum (Center for Economic Justice—CEJ) said the CAS could un-rescind the principles without notice and with immediate effect. He said the flawed process suggests the state insurance regulators have some urgency on this matter. Actuaries in rate hearings often quote the statements of principles.

Ralph Blanchard (Travelers) said the CAS generally stays out of the public policy arena. He said Article 9 of the CAS constitution says any public policy action requires a three-quarters vote of the Board. Based on his experience at the CAS, he said he expected there was a fair amount of analysis before the Board acted.

Ms. Amann said that given the reliance on the principles, the Task Force could develop its own principles. She said the document would then be controlled by state insurance regulators. She said if comfortable with the principles and the CAS does not reinstate the principles, then state insurance regulators can adopt the principles themselves. Mr. Birnbaum said that has merit, but many states refer to “sound actuarial principles” of practice. He said there needs to be a solution in the short term. Mr. Stolyarov said “sound actuarial principles” do not rely on a document from an organization. He said the principles are concepts, and state insurance regulators can quote sources that have no power over the rates. He said there is no real short-term impact. He said similar content developed by the state insurance regulators could be effective guidance. Mr. McKenney and Mr. Citarella said principles developed at the NAIC are non-binding. Mr. Citarella said he quotes the principles when working with legislators, so rescission makes that process more difficult.

Some members of the Task Force will draft a letter to the CAS for the Task Force’s future consideration.

Having no further business, the Casualty Actuarial and Statistical (C) Task Force adjourned.

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Consumer Federation of America

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**COMMENTS OF J. ROBERT HUNTER, FCAS, MAAA,
DIRECTOR OF INSURANCE FOR CFA
BEFORE THE CASUALTY ACTUARIAL AND STATISTICAL TASK FORCE
OF THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
FEBRUARY 9, 2021
AGENDA ITEM 3: DISCUSS CAS RESCISSION OF STATEMENT OF PRINCIPLES
AND IMPACT ON STATES**

EXECUTIVE SUMMARY

The fundamental basis of insurance ratemaking is that rates must be related to risk. For decades, that concept has been made explicit for actuaries in the Casualty Actuarial Society's Statement of Principles Regarding Property and Casualty Insurance Ratemaking, which sets out the following four related Principles:

Principle 1: A rate is an estimate of the expected value of future costs. Ratemaking should provide for all costs so that the insurance system is financially sound.

Principle 2: A rate provides for all costs associated with the transfer of risk. Ratemaking should provide for the costs of an individual risk transfer so that equity among insureds is maintained. When the experience of an individual risk does not provide a credible basis for estimating these costs, it is appropriate to consider the aggregate experience of similar risks. A rate estimated from such experience is an estimate of the costs of the risk transfer for each individual in the class.

Principle 3: A rate provides for the costs associated with an individual risk transfer. Ratemaking produces cost estimates that are actuarially sound if the estimation is based on Principles 1, 2, and 3. Such rates comply with four criteria commonly used by actuaries: reasonable, not excessive, not inadequate, and not unfairly discriminatory.

Principle 4: 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.

The CAS Board of Directors rescinded these Principles on December 22, 2020. To my knowledge, they did this with no public warning or request for input, not even from their Members. It was entirely foreseeable that such a move would be controversial based on the effort to alter the language of the SOP a few years ago, which makes the surreptitious nature of

this action all the more concerning. Many at NAIC will recall CAS withdrawing its controversial rewrite of the SOP in 2016 and, the next year, ASB failing to produce a comprehensive ASOP for Ratemaking, citing the controversy over issues like price optimization and unfair discrimination.

CAS claimed the rescissions were justified because of overlap between the SOPs and 50+ ASOPs. They did not point out that only five of the 50+ ASOPs relate to important specific aspects of P/C ratemaking, but no ASOP governs the final, selected rate.

So, today there is no actuarial standard that covers the final rate. After December 22, 2020, an actuary could file a rate with the state, with five aspects of the rate fully complying with ASOPs and, at the end, pick any rate to file the actuary wanted, including rates adjusted by a price optimization algorithm or just picked out of the air. The actuary could properly confirm to the regulator that this rate “meets all actuarial standards.”

The SOP on ratemaking has been relied upon by regulators and state legislators who often include language referencing sound actuarial principles or practices, sometimes mentioning the now defunct CAS SOP by name. The rescission leaves a major gap . . . and opens the door to the discredited efforts to de-link rates from expected costs.

We ask the CASTF to urge the CAS to reverse their rescission of the ratemaking principles. Failing that, we ask that the CASTF recommend that the NAIC issue a bulletin to the states to act to delete any references to sound actuarial principles in rate regulation laws and regulations. Alternatively, CASTF could give consideration to proposing that states codify the Principles into laws defining actuarial soundness.

BACKGROUND OF 3 MAJOR ACTIONS ON RATEMAKING STANDARDS BY CAS AND ASB

1. In 2016, CAS stopped work on a revision to their Ratemaking Principles.

Here is their explanation of that withdrawal:

UPDATE ON THE PROPOSED REVISIONS TO THE CAS STATEMENT OF PRINCIPLES REGARDING PROPERTY AND CASUALTY INSURANCE RATEMAKING

08/25/2016 —

In early 2015, the CAS released for comment a Discussion Draft of proposed revisions to the Statement of Principles Regarding Property and Casualty Insurance Ratemaking (Statement). The Statement was released concurrently with a draft Actuarial Standard of Practice (ASOP) on Property/Casualty Ratemaking from the **Actuarial Standards Board** (ASB).

Since the release of the Discussion Draft in 2015, the work on the Statement by the CAS Statements of Principles Task Force has been suspended while the ASB continues to

develop its ASOP. While it was initially thought that the two documents should be developed in tandem, it was ultimately concluded that it was better to limit the number of "moving parts" in the development process. Therefore, the CAS will wait until the ASB has completed the development of its ASOP, and then assess, in light of the ASOP, how to amend the Statement to avoid duplicative, conflicting or confusing guidance for actuaries.

The ASB issued a second exposure draft of its proposed ASOP on Property/Casualty Ratemaking in February 2016 with comments due by April 30, 2016. The proposed new ASOP addresses items in the Considerations section of the Statement, as well as ratemaking items not currently addressed in existing ASOPs."

In fact, the reason for the withdrawal by CAS was the significant opposition to the CAS draft, including from Commissioners, because it eliminated the requirement that rates be cost-based. CAS did promise to "wait until the ASB has completed the development of its ASOP" on ratemaking. However, a complete ratemaking ASOP has never been developed.

2. In 2017, the ASB withdrew its proposed ASOP on ratemaking.

The same opposition to the ASB draft ASOP on Property/Casualty Ratemaking (i.e., that it resulted in allowing rates that were not cost-based) resulted in the ASB draft also being withdrawn.

That draft was replaced by ASOP 53, Estimating Future Costs for Prospective Property/Casualty Risk Transfer and Risk Retention (not in any way related to the entire final rate). When announcing the new ASOP, the ASB made clear that key questions that led CAS to end its revision efforts the prior year pending resolution of the issues by ASB remained unresolved. ASB stated this clearly, as follows:

In crafting this ASOP and responding to comments from its initial exposures, the ASB quickly realized that there are significant differences of opinion within the profession regarding certain aspects of ratemaking, including pricing, price optimization methodologies, and rate filing requirements, that would need to be reconciled before a comprehensive standard of practice on ratemaking could be developed. Therefore, to create a standard of practice for the core aspects of ratemaking that could be issued in a reasonable amount of time, the ASB has chosen to develop this ASOP to pertain solely to the development or review of future cost estimates for prospective property/casualty risk transfer and risk retention. It should be noted, however, that upon completion of this proposed ASOP, the ASB will give consideration to the development of a standard of practice on rate filings in an attempt to address the various issues within rate regulatory discussions today (for example, price optimization, unfair discrimination, and the Principles contained in the current CAS Statement of Principles)."

This disclaimer, provided in the ASOP transmittal memorandum, makes clear that the ASB has no standard covering the final rate and an ASOP to cover the final rate remains to be developed.

3. IN 2020, The CAS rescinds the Statement of Principles on P/C Ratemaking

Even though CAS promised not to act to amend the Statement of Principles Regarding Property/Casualty Ratemaking, the CAS suddenly rescinded the Statement, with this explanation:

The original Statement of Principles were drafted before any Actuarial Standards of Practice were developed or promulgated by the Actuarial Standards Board. The adoption of the 50+ Actuarial Standards of Practice in the United States over the past 30 years, as well as the adoption of standards in many other jurisdictions, has resulted in considerable overlap between certain standards and the Statement of Principles. Therefore, the CAS Board has determined that the Statements were no longer necessary and that rescinding them will eliminate any confusion that may have existed between actuarial principles and actuarial standards.

The CAS argument supporting the rescission – that “50+ Actuarial Standards of Practice...has resulted in considerable overlap between certain standards and the Statement of Principles” – appears to be disingenuous. Of the 56 ASOPs adopted by the Actuarial Standards Board, only 11 (12 did exist but one has been withdrawn) apply to P/C insurance at all. Of these, only five directly relate to P/C ratemaking (#13 Trending, #29 Expense Provisions, #30 Profit and Contingency, #39 Catastrophes, and # 53 Future Costs for Prospective P/C Risk Transfer and Risk Retention). These are important discrete elements of ratemaking, none of which, as the ASB itself says, contain a “standard of practice on rate filings.” The only such standard, until now, was the Statement of Principles Regarding Property and Casualty Ratemaking of the CAS. But since December 22, 2020 that’s gone.

As they moved toward rescission, the CAS acted with no public comment as far as I am aware; the Members of CAS were not even asked to comment. This is a strange process when you consider the fact that, when considering changes to the language of the Principles heretofore, CAS asked for comments and received many responses. CAS leadership should have known from their own experience in 2014-2016, having to withdraw their proposed changes to the Principles, that this would be a controversial act. Certainly the depth of interest and concern among actuaries, regulators and others about the SOP was in evidence to CAS leadership again when the ASB unsuccessfully attempted to develop the ASOP on final rates. The ASB did not hide the need for ongoing stakeholder engagement in this area when it noted “significant differences of opinion within the profession regarding certain aspects of ratemaking, including pricing, price optimization methodologies, and rate filing requirements, that would need to be reconciled before a comprehensive standard of practice on ratemaking could be developed.” It is shocking that the CAS acted in such a stealthy way to pull off this rescission.

DISCUSSION OF THE PROBLEM FACING CASTF TODAY

The problem before the regulators and for consumers is obvious. No ASOP exists that applies to the final rate to be charged to policyholders. The ASOPs that exist only relate to specific aspects of ratemaking, not the final rate. CAS, supposedly waiting for the ASB to act on a ratemaking ASOP, went ahead and acted to eliminate the Statement of Principles Regarding P/C Ratemaking before the ASB even has a draft ASOP for the final rate. This means that the issues such as price optimization and unfair discrimination, mentioned as serious controversies by ASB when it did not propose an ASOP for the final rate, are unresolved.

So, since December 22, 2020 we have no actuarial guidance in place on the final rate to be charged. In other words, the actuary could make rates fully compliant with every ASOP relating to specific elements of the filing and, at the end, select any final rate to file, whether to grab market share or implement a price optimization algorithm, and still be able to declare the regulator that this rate “meets all existing actuarial standards”.

There is another implication of this rescission. The linkage between the actuarial standards and statutory requirements is broken. The statutes require risk-based rates, often cited as “actuarially sound” rates, while the actuarial standards no longer require that final rates are risk-based. Talk about confusion. This is a very serious problem that CASTF must face.

Of course, those who want to use price optimization and other models such as Consumer Lifetime Value to move the price away from the cost-based rate now have no actuarial standard barrier to overcome.

Fortunately, state rating laws still require rates not to be excessive, inadequate or unfairly discriminatory. The standard has always tied back to cost-based pricing. Regulators will still have the capacity to protect consumers since rates will remain unfairly discriminatory if two consumers of identical risk are charged different prices simply because of non-risk differences such as shopping habit or potential future purchases of other products. But the murkiness created by the removal of actuarial standards for filed rates will embolden insurers and weaken the hand of regulators to protect consumers and secure a fair marketplace. I know, from careful review of many rate filings in recent years, that insurers often do not disclose clearly to the regulators what is going on inside a filing (e.g., price optimization) and it is very complex indeed to dig such items out.

PROPOSED RESPONSE BY CASTF

So, what should CASTF do?

The hole in actuarial standards is a thumb in the eye of CASTF, which specifically opposed CAS’s prior attempt to change the language in the Ratemaking principles to allow Price Optimization. Now CAS has accomplished this by fiat, taking sudden action with no comments even from its own members.

State insurance laws mention the CAS Statement of Principles on P/C Ratemaking. For example, Oklahoma defines acceptable actuarial standards as “the standards adopted by the Casualty Actuarial Society Statement of Principles Regarding Property and Casualty Ratemaking or the Standards of Practice adopted by the Actuarial Standards Board.” But now Oklahoma has a definition of acceptable actuarial standards that relies on a non-existent standard. Worse, if ASOPs alone define “acceptable actuarial standards,” there is no standard at all that applies to the final rate. Indeed, the definition with no CAS Principle in place, opens the door to the discredited efforts to de-link rates from expected costs.

CFA calls upon CASTF to take the following actions:

First, CASTF should urge the CAS to reinstate the Principles. If CAS refuses, CASTF should propose that the states delete any reference to sound or acceptable actuarial standards in statute since there's no longer alignment between the actuarial standards and the statutory standards.

Second, CASTF should consider proposing a Model Law codifying the four Principles of the rescinded SOP into a definition of sound or acceptable actuarial standards for state rating laws. Although the CAS has, in my view, dishonored itself by the action it took on December 22, 2020, CASTF can ensure that that action will have no adverse effect on insurance regulation or the insurance marketplace by codifying the Principles the CAS has rescinded.

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Draft: 2/4/21

Casualty Actuarial and Statistical (C) Task Force
E-Vote
February 2, 2021

The Casualty Actuarial and Statistical (C) Task Force conducted an e-vote that concluded Feb. 2, 2021. The following Task Force members participated: James J. Donelon, Vice Chair, represented by Rich Piazza (LA); Lori K. Wing-Heier represented by Michael Ricker (AK); Jim L. Ridling represented by Daniel Davis (AL); Evan G. Daniels represented by Tom Zuppan (AZ); Michael Conway represented by Mitchell Bronson (CO); Andrew N. Mais represented by Wanchin Chou (CT); Karima M. Woods represented by David Christhlf (DC); Colin M. Hayashida represented by Randy Jacobson (HI); Doug Ommen represented by Travis Grassel (IA); Dana Popish Severinghaus represented by Judy Mottar (IL); Vicki Schmidt represented by Nicole Boyd (KS); Eric A. Cioppa represented by Sandra Darby (ME); Chlora Lindley-Myers represented by Cynthia Amann (MO); Troy Downing represented by Mari Kindberg (MT); Mike Causey represented by Kevin Conley (NC); Chris Nicolopoulos represented by Christian Citarella (NH); Marlene Caride represented by Carl Sornson (NJ); Russell Toal represented by Anna Krylova (NM); Barbara D. Richardson represented by Gennady Stolyarov (NV); Tynesia Dorsey represented by Tom Botsko (OH); Andrew R. Stolfi represented by David Dahl (OR); Jessica K. Altman represented by Michael McKenney (PA); Raymond G. Farmer represented by Will Davis (SC); Doug Slape represented by J'ne Byckovski (TX); Michael S. Pieciak represented by Rosemary Raszka (VT); Mike Kreidler represented by Eric Slavich (WA); James A. Dodrill represented by Juanita Wimmer (WV); and Jeff Rude (WY).

1. Adopted the *Competition Database Report*

The Task Force conducted an e-vote to consider adoption of the *Competition Database Report*. All voted in favor of adoption. The motion passed.

Having no further business, the Casualty Actuarial and Statistical (C) Task Force adjourned.

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Draft: 1/6/21

Casualty Actuarial and Statistical (C) Task Force
E-Vote
December 30, 2020

The Casualty Actuarial and Statistical (C) Task Force conducted an e-vote that concluded Dec. 30, 2020. The following Task Force members participated: Grace Arnold, Chair, represented by Phil Vigliaturo (MN); James J. Donelon, Vice Chair, represented by Rich Piazza (LA); Lori K. Wing-Heier represented by Michael Ricker (AK); Jim L. Ridling represented by Daniel Davis (AL); Michael Conway represented by Mitchell Bronson (CO); Andrew N. Mais represented by Wanchin Chou (CT); Karima M. Woods represented by David Christhlf (DC); Doug Ommen represented by Travis Grassel (IA); Shannon Whalen represented by Anthony Bredel (IL); Vicki Schmidt represented by Nicole Boyd (KS); Eric A. Cioppa represented by Sandra Darby (ME); Chlora Lindley-Myers and Cynthia Amann (MO); Chris Nicolopoulos represented by Christian Citarella (NH); Marlene Caride represented by Carl Sornson (NJ); Russell Toal represented by Anna Krylova (NM); Barbara D. Richardson represented by Gennady Stolyarov (NV); Tynesia Dorsey represented by Laura Miller (OH); Glen Mulready represented by Andrew Shallhorn (OK); Andrew R. Stolfi represented by David Dahl (OR); Jessica K. Altman represented by Michael McKenney (PA); Raymond G. Farmer represented by Will Davis (SC); Doug Slape represented by J'ne Byckovski (TX); Michael S. Pieciak represented by Rosemary Raszka (VT); and Mike Kreidler represented by Eric Slavich (WA).

1. Adopted the Profitability Report and the Homeowners Report

The Task Force conducted an e-vote to consider adoption of the *Report on Profitability by Line by State* (Profitability Report) and the *Dwelling Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner's Insurance Report* (Homeowners Report). All voted in favor of adoption. The motion passed.

Having no further business, the Casualty Actuarial and Statistical (C) Task Force adjourned.

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Comparison of ASOP 53 and CAS Principles of Ratemaking

Considerations and definitions discussed in both documents

Statement of Principles Consideration (Section III)	ASOP 53 Analysis of Issues (section 3)	
Exposure Unit	3.6	Exposure Base
Data	3.4	Data Quality
	3.8	Use of Historical Data
Organization of Data	3.3	Organization of Data
Credibility	3.11	Credibility
Trends	3.8.3	Trends
Catastrophes	3.12	Treatment of Catastrophes
Change in Mix of Business	3.8.4.b	Adjustments to Historical Data
Reinsurance	3.14	Reinsurance
Operational Changes	3.8.4.e	Adjustments to Historical Data
Other Influences	3.8.4.a	Adjustments to Historical Data
Classification Plans	3.7	Risk Classification System
Risk Load	3.2	Intended Measure
Investment and Other Income	3.15	Profit and Contingencies and the Cost of Capital
Expense Definitions (Section I)	3.9	Expenses

Considerations covered in other ASOP's

Homogeneity	ASOP 12	Risk Classification 2.5 Homogeneity 3.3.2 Actuarial Considerations
Actuarial Judgment	ASOP 1	Introduction to ASOPS 2.9 Professional Judgement 3.1.3, 3.1.4

Other considerations in ASOP 53 not mentioned in Statement of Principles

- Methods, Models and Assumptions
- Considerations for New Coverages
- Infrequent Events other than Catastrophes
- Additional Funding Sources (refers to assessments)

Items in Statement of Principles considerations not specifically covered by ASOP 53 or related ASOPs

- Loss Development
- Individual Risk Rating



Consumer Federation of America

March 8, 2021

**CFA SUPPORTS THE CASTF DRAFT LETTER CALLING UPON CAS TO
REVERSE THE RESCISSION OF THE PRINCIPLES OF P&C RATEMAKING**

To CASTF Members:

As your draft letter makes clear, the heart and soul of the now rescinded CAS SOP are in the Principles section where the Four Principles of Ratemaking are delineated. Both as a matter of process and substance, the decision by CAS to unceremoniously and without warning drop the ratemaking principles that have served as the foundation of regulatory practice for 30 years is unacceptable. The draft letter CASTF has presented speaks clearly to the importance of these Principles as key actuarial guidance and as a clear and concise tool for explaining the standards and parameters of our profession.

CASTF has a vital role to play to assure that these standards remain in place in one form or another. Without them, the movement away from cost-based rates, in violation of state rating laws, will accelerate. This would open the door to abuse, particularly of the poor and people of color. Your draft letter is a great step in the direction of maintaining cost-based prices. Should CAS refuse to reinstate the SOP, CASTF must stand ready to act to make the four Principles a regulatory standard for actuaries to continue to rely upon.

Sincerely,



J. Robert Hunter, FCAS, MAAA
Director of Insurance

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TWO GLARING OMISSIONS IN DOCUMENT ATTACHED TO CASTF MATERIALS REGARDING ITEM 3 OF THE UPCOMING MARCH 9, 2021 CALL

The document, “Comparison of ASOP 53 and CAS Principles of Ratemaking” ignores the most important part of the rescinded SOP and, as the subtitle indicates, only looks at the less important “considerations and definitions” sections of the rescinded SOP.¹

The comparison in this document could be confused to some readers as showing that ASOP 53 and other ASOPs are almost be a complete substitute for CAS Statement of Principles Regarding Property and Casualty Insurance Ratemaking. That is simply not true. The document only addresses lesser aspects of the CAS SOP on Ratemaking and does not address two central purposes of the rescinded CAS SOP: the Principles themselves and the linkage of final rates to cost-based indications.

1. The Document Ignores the Central Purpose of the Rescinded SOP on Ratemaking:

The heart and soul of the now rescinded CAS SOP is in the Principles section where four Principles of Ratemaking are delineated. They are:

Ratemaking is prospective because the property and casualty insurance rate must be developed prior to the transfer of risk.

Principle 1: A rate is an estimate of the expected value of future costs. Ratemaking should provide for all costs so that the insurance system is financially sound.

Principle 2: A rate provides for all costs associated with the transfer of risk.

Ratemaking should provide for the costs of an individual risk transfer so that equity among insureds is maintained. When the experience of an individual risk does not provide a credible basis for estimating these costs, it is appropriate to consider the aggregate experience of similar risks. A rate estimated from such experience is an estimate of the costs of the risk transfer for each individual in the class.

Principle 3: A rate provides for the costs associated with an individual risk transfer.

Ratemaking produces cost estimates that are actuarially sound if the estimation is based on Principles 1, 2, and 3. Such rates comply with four criteria commonly used by actuaries: reasonable, not excessive, not inadequate, and not unfairly discriminatory.

¹ That ASOP 53 covers the “considerations” section of the rescinded CAS SOP on Ratemaking is no surprise. As ASB said, in transmitting ASOP 53 to actuaries, “It should be noted that this ASOP incorporates all of the Considerations contained in the CAS *Statement of Principles* and addresses issues related to the estimation of costs for risk transfer and risk retention not currently addressed in existing ASOPs. This ASOP also references other existing ASOPs that include relevant issues related to the estimation of future costs for prospective risk transfer and risk retention.”

Principle 4: 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.

There is nothing in ASOP 53 or in any ASOP that addresses these key Principles, even remotely. (Please note that the rescinded Principle 4 contains language similar or identical to that which appears in the insurance rating laws of almost every state)

2. The Document Ignores the Fact that Final Rates Charged to Consumers are no Longer Covered by any Actuarial Standard or Principles:

Where the rubber hits the road when it comes to ratemaking are the final rates charged to consumers of insurance. ASOP 53 and all other ASOPs currently in place have no impact on final rates charged to policyholders. As ASB said in December 2017, in transmitting ASOP 53 to actuaries and to the public, *“the ASB quickly realized that there are significant differences of opinion within the profession regarding certain aspects of ratemaking, including pricing, price optimization methodologies, and rate filing requirements, that would need to be reconciled before a comprehensive standard of practice on ratemaking could be developed. Therefore, to create a standard of practice for the core aspects of ratemaking that could be issued in a reasonable amount of time, the ASB has chosen to develop this ASOP to pertain solely to the development or review of future cost estimates for prospective property/casualty risk transfer and risk retention.”*

The sudden and unexpected rescission of the CAS SOP on Ratemaking leaves actuaries with no actuarial standards or Principles as respects final rates, the only rates that really matter to the public and to regulators. Today, an actuary could make a filing with the state, fully complying with current ASOPs and, at the end, pick any rate to file the actuary wanted, including rates adjusted by a price optimization, consumer lifetime value or other algorithms or just picked out of the air. The actuary could then properly confirm to the regulator that this rate, untethered from any cost-based indication “meets all actuarial standards.” This puts the regulator in an untenable position and, in some cases at least, unable to determine exactly what is going on with the filed rates being reviewed since disclosure of the uses of new algorithms in rate filings is often obscure or even completely missing.

TO: Casualty Actuarial Society (CAS) Board of Directors
Sent via email to Laura Stout

FROM: Phillip Vigliaturo, Chair
Casualty Actuarial and Statistical (C) Task Force

DATE: March 9, 2021

SUBJECT: Comments on the CAS Board of Director's Decision to Rescind Statements of Principles

On December 22, 2020, the Casualty Actuarial Society ("CAS") announced that its Board of Directors unilaterally rescinded the following Statements of Principles:

- Statement of Principles regarding Property and Casualty Insurance Ratemaking (May 1988)
- Statement of Principles regarding Property and Casualty Valuations (September 1989)
- Statement of Principles regarding Property and Casualty Unpaid Claims Estimates (November 2014)

Not only was the decision unilateral, it was seemingly made without any notice to the CAS membership. We are disappointed that this rescindment occurred without notice, open discussion or input from the membership. For the reasons set forth in this letter, the NAIC's Casualty Actuarial and Statistical Task Force ("CASTF") requests the reinstatement of the Statement of Principles ("SOP") regarding Property and Casualty Insurance Ratemaking.

We are not aware of another document as concise and accessible as the Ratemaking SOP that so clearly and completely ties rates to risk. A generation of actuaries have reviewed, relied upon and cited the ratemaking principles since its adoption in 1988. While the document was not prescriptive or exhaustive, it provided clearly stated principles for any and all insurance professionals to consider with regard to ratemaking. For this very reason, many regulatory actuaries relied on the document for a common foundation in discussions with industry representatives whether or not they were credentialed actuaries.

The rescindment of the Ratemaking SOP provides the impression that the principles are no longer viewed as valid by the actuarial profession. We find this especially troubling in an environment in which characteristics used by insurers in pricing are being challenged, quite publicly, for their perceived lack of a relationship to risk. The Ratemaking SOP complemented state laws that require rates to be related to risk and which provide regulators their authority to challenge rates that are not. The rescindment might open the door to attacks on these rate regulatory laws.

While it has been argued that aspects of the Ratemaking SOP are repeated in various Actuarial Standards of Practice ("ASOPs"), parties that are not closely affiliated with the CAS are challenged to search, read through and comprehend multiple ASOPs, which are often issue-specific. Much of the utility of the Ratemaking SOP was in its simplicity and focus; it applied to all aspects of actuarial ratemaking – a true principles statement – and provided value even if duplicative of certain parts of different ASOPs. For example, when testifying before a legislative committee or explaining a concept to a consumer, referring to multiple ASOPs risks the audience's attention and comprehension as opposed to a singular SOP document that is credible, concise and understandable to a layperson.

We recognize that there are opportunities to modernize the SOP for recent developments in ratemaking such as price optimization, artificial intelligence and predictive models. These developments can be addressed with amendments to the SOP rather than a wholesale rescindment of the document. In fact, these developments support the need for the rescinded ratemaking principles to ensure that non-actuaries leading these developments understand the actuarial profession's position on the need for risk-based rating.

In closing, we submit that the Statement of Principles regarding Property and Casualty Insurance Ratemaking is too important of a document and too widely cited and relied upon to be rescinded at this time. We urge you to reverse the rescindment.

Cc: Kris DeFrain, NAIC

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Current Research

Project	Status	Expected publication
Uninsurable risk with a focus on BI	Copy editing	Q1 2021
Demand for Microinsurance	Final draft awaited	Q2 2021
The peer-to-peer insurance market	First draft imminent	Q2 2021
Credibility for excess insurance layers	First draft reviewed	Q2 2021
Flood models using public data	First draft reviewed	2021
Cannabis legislation and auto loss frequency (joint project with CIA)	Contract signed	2021
Guide to IFRS 17 for US actuaries	Working group underway	Q3 2021
Claims analysis of social inflation	Working group underway	Q4 2021



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Future Research

Although the CAS is considering a number of future research projects, there are no open calls for authors or researchers at present.



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Recent CE

Item	Type	When
CAS Annual Meeting	Seminar	Nov. 10-11
GIRO Session: Effective actuarial communication through storytelling	Webinar	Nov. 12
CIA Session: Regularization techniques for actuaries	Webinar	Nov. 13
Underwriting Collaboration Seminar	Seminar	Nov. 18
CAS Webinar: Disparate Impact and Rate Differentiation: A New Paradigm	Webinar	Nov. 19
Revisiting the Methodology of Actuarial Science	Webinar	Dec. 1
Casualty Actuaries of Greater New York (CAGNY) 2020 Virtual Fall Meeting Webinar	Seminar	Dec. 9
Casualty Actuaries of the Bay Area (CABA) 2020 Virtual Fall Meeting	Seminar	Dec. 10
Southern California Casualty Actuarial Club (SCCAC) 2020 Virtual Fall Meeting	Seminar	Dec. 10
Autonomous Trucking	Webinar	Dec. 17

3

Upcoming CE

Item	Type	When
Ratemaking, Product and Modelling Virtual Seminar	Seminar	Mar 15-17
Predictive Modelling – A Regulator’s Perspective	Webinar	March 25
Social Inflation and Emerging Mass Torts – Now, Next and Beyond	Webinar	March 31
Telematics – the Future for Auto Insurance?	Webinar	April 22
Professionalism Challenges for Innovative Actuaries	Webinar	May 13
Data Visualization	Webinar	May 18
Seminar on Reinsurance	Seminar	June 8-9



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CASUALTY ACTUARIAL AND STATISTICAL (C) TASK FORCE

March 2021

Society of Actuaries (SOA) Actuarial Research and Education Update

- Highlights of Recent Research Reports

- *Catastrophe & Climate Strategic Research Program Newsletter*
 - January 2021 edition
 - <https://www.soa.org/publications/catastrophe-climate/>
 - Overview of SOA's 2021 Environmental Risk Series of reports
 - Summary of key catastrophe risk articles
 - Relationship between Residential Losses and Hurricane Winds: Role of the Florida Building Code

- *Actuarial Weather Extremes*
 - Monthly reports that identifies and examines unusual or extreme single-day or multi-day weather events across North America
 - <https://www.soa.org/resources/research-reports/2019/weather-extremes/>
 - January 2021: Precipitation / Snow / Ice extremes; Persisting Drought
 - February 2021: Extreme cold

- *Tool for Mapping and Graphing Google's Mobility Dataset*
 - Large focus on change in mobility and movement across all insurance lines of business
 - Google mobility data packed in an easy to use, view and graph format
 - <https://www.soa.org/resources/research-reports/2020/google-mobility-data/>

