

January 30, 2015

Ratemaking (Exposure Draft)
Actuarial Standards Board
1850 M Street, NW, Suite 300
Washington, DC 20036

The Canadian Institute of Actuaries appreciates the opportunity to comment on the Actuarial Standards Board Proposed Actuarial Standard of Practice on Property/Casualty Ratemaking. The CIA's Committee on Property & Casualty Insurance Pricing (hereafter the Committee) discussed the proposed changes on conference calls on November 20 and December 18, 2014. The Committee's responses to the ASB's questions follow.

Are there any conflicts between the proposed ASOP and existing practice?

The Committee does not find this to be the case.

Is it sufficiently clear in section 1.2, Scope, that this proposed ASOP will apply to all activities regarding the estimation of future costs for property/casualty insurance, applications of self-insurance, risk-funding or retention mechanisms, or other risk-transfer mechanisms for policies not yet written?

The Committee believes so. However, the Committee notes that the proposed ASOP refers to "policies not yet written" which does not necessarily apply to situations involving risk-funding or retention mechanisms or other risk-transfer mechanisms. The Committee suggests the task force consider replacing "policies not yet written" with a phrase that more generally speaks to future exposure. The Committee agrees that section 1.2 clearly distinguishes between ratemaking and pricing and that the ASOP addresses ratemaking only.

Are there any considerations from the current Statement of Principles Regarding Property/Casualty Ratemaking that are not sufficiently covered in this proposed ASOP? Are there any other issues not mentioned that need to be addressed in this proposed ASOP?

The Committee does not believe so.

This proposed ASOP references other ASOPs. This does not mean that other ASOPs not specifically mentioned do not apply; it means that the specific ASOPs cited were incorporated to provide a complete set of issues and recommended practice for ratemaking without repeating extensive guidance that already exists in other ASOPs. Is this appropriate and sufficiently clear?

The Committee finds this appropriate and clear. However the Committee feels that this ASOP cannot be finalized until all ASOPs referenced within the standard are finalized.

Do you think that this proposed ASOP provides adequate guidance for actuaries performing property/casualty ratemaking services? If not, what changes would you suggest?

3.7.1 – This section focuses on adjusting data for past rate changes. However, premium can be also subject to development. Section 3.7.2, which addresses development, does so for losses and loss adjustment expenses only. More and more now insurers are “capping” rate changes to minimize premium dislocation. The Committee suggests that premium development and the capping of rate changes be identified as a consideration in adjusting premium.

3.7.2 – The way this section reads makes it sound as though losses and loss adjustment expenses need to be considered together. Perhaps a sentence that states that losses and loss adjustment expenses (particularly unallocated loss adjustment expenses) may require different methods is needed for clarification. The Committee suggests replacing “consider adjusting historical data using” in the fifth line by “consider addressing changes in circumstances using” (see also 3.7.3 below).

3.7.3 – The Committee suggests that rather than the ASOP referring to “adjustments to historical data” that it refer to “changes in circumstances” that the actuary should consider. Addressing such changes in circumstances might well be done by appropriate modelling rather than making physical adjustments to the historical data. The Committee also suggests adding to the list of examples: underwriting practice, underwriting cycle, distribution system, data processing, infrastructure, climate, economy, and social conditions.

3.13 – This section and ASOP #39 adequately address catastrophic events. However, they do not seem to adequately cover other unusual events, such as large individual losses. Does the task force find that such events are addressed under 3.1.b of ASOP #39 or under 3.5.b of ASOP 23?

General – The ASOP is titled, “Property/Casualty Ratemaking,” and although it is stated that it includes the evaluation of future costs for other risk retention/transfer mechanisms, it is written as if it pertains only to property/casualty insurance ratemaking (i.e., the use of terms such as policy, policyholder, premium, coverage, contract, etc.).

In section 3.2, Organization of Data, the proposed ASOP refers to several methods for the aggregation of data (Accident Period, Calendar Period, Report Period, and Policy Period). These methods are presumed to be well understood and are not defined. Are these methods sufficiently understood or do you think these methods need to be defined?

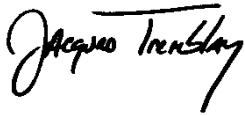
The Committee agrees that these methods are well understood and do not need to be defined. However, the Committee notes that data may well be aggregated additionally in other ways to estimate rate components, such as by geography, gross vs. net, size of claim, etc.

Section 4, Communications and Disclosures, of this proposed standard does not require disclosures beyond those required by ASOP No. 41. Do you think any additional disclosures are needed?

The Committee does not think any additional disclosures are required.

The Canadian Institute of Actuaries trusts that the comments provided above will be of value. We thank you for offering us the opportunity to respond.

Yours truly,

A handwritten signature in black ink that reads "Jacques Tremblay". The signature is written in a cursive, flowing style.

Jacques Tremblay, FCIA
President