

Ratemaking and Product Management Seminar

# Model Validation

## Know Your Audience

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# What Makes a Good Filing?

- Statutory Compliance
- Regulatory Compliance
- Good Documentation
- Actuarial Support

# Statutory Compliance

- Rates shall not be inadequate
- Rates shall not be unfairly discriminatory
- Rates shall not be excessive
  
- Pay attention to statutory restrictions on specific policy or risk characteristics, e.g., inclusion of “Act of God” loss or use of credit

# Regulatory Compliance

- There are unique filing and support requirements by state
- Know state filing procedures
- Provide all state specific forms
- Contact state if in doubt as to state requirements

# Model Documentation in a Filing

- Overview of model process and purpose
- Description of model inputs
- Technical overview of model
- Description of model output
- Explain how the model handles incomplete or missing information
- Explain how model output is used in the company's rating plan

# Actuarial Support and Model Validation

- Describe how the model results were validated
- Discuss underlying data sampling/partitioning
- Provide statistical significance measures
- Demonstrate how model output produces actuarially sound rate classifications/relativities
- Validation requirements may vary by state

# Regulatory “Flags”

- Confusing or unclear documentation
- Lack of actuarial support
- Significant swings in policyholder rates
  - Old rating plan to new rating plan
  - Model version to model version
- Time sensitive rating variables
- Rating characteristics overlap
- Lack of neutral treatment when characteristic is unknown

# Confidentiality

- Confidentiality of filing information depends on the type of model:
  - If it includes credit information: L.R.S. 22:1510
  - Other models/information used to set rates but only if agreed on by LDI: L.R.S. 22:1464(D)
- The ability to keep model information confidential will vary by state