

Ratemaking and Product Management Seminar

## Model Validation - Seconds Anyone?

A Regulator's Perspective  
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## What Makes a Good Filing?

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

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## 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" claim or use of credit

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## 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

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## 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

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## Actuarial Support

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

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### Actuarial Support ... Why a Second Time Around?

- Explain, in detail, what changed from the previously approved model version
- Describe, again, how the revised model was validated
- Did the previous model iteration work as expected? No? Then what went wrong?
- Provide historical results for the previous model
- Demonstrate how revised model output produces actuarially sound rate classifications/relativities

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### Regulatory "Flags"

- Lack of actuarial support
- Confusing or incomplete documentation
- Significant swings in policyholder rates
- Time sensitive rating variables
- Rating characteristics that overlap
- Lack of neutral treatment when characteristic is unknown

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### Lastly ... Confidentiality

- Confidentiality of filing information ... check state regulations or department policy
  - La.R.S. 22:1510 – credit information/models
  - La.R.S. 22:1464 – other models
- The ability to keep model information confidential will vary by state

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