



Lights! Camera! Professionalism!

Ratemaking, Product and
Modeling (RPM) Seminar

March 19-21, 2018



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The views expressed by the panelists are their own and may not necessarily reflect those of their respective employers.





Agenda

- Professional Guidance
- Skit
- Small Group Discussion
- Large Group Discussion
- Takeaways





Skit on Predictive Modeling

Committee on Professionalism
Education



Professional Guidance

- Precept 1 of the Code of Conduct: “An Actuary shall act honestly, with integrity and competence, and in a manner to fulfill the profession's responsibility to the public and to uphold the reputation of the actuarial profession.”



Professional Guidance

- Precept 10 of the Code of Conduct: “An Actuary shall perform Actuarial Services with courtesy and professional respect and shall cooperate with others in the Principal's interest.”



Professional Guidance

- Estimating Future Costs for Prospective P/C Risk Transfer and Risk Retention (ASOP 53): “The actuary should use methods or models, along with reasonable assumptions, that, in the actuary’s professional judgment have no known significant bias in the aggregate relative to the intended measure.”



Professional Guidance

- On Risk Classification (AAA Monograph):
 - Risk classification facilitates the estimation of the expected cost of coverage (and fluctuations in the expected cost) and ... increases understanding of the level of financial resources needed to fulfill the security system's promises. (A)n effective risk classification system increases the likelihood that the financial or personal security system will fulfill its promises.



Professional Guidance

- On Risk Classification (AAA Monograph) continued:
 - Any risk classification system should be designed with awareness of the values of the society in which it is to operate.
- How could this document guide the actuaries in this situation?



Skit Background

- New Fellow (NF) is a newly-credentialed actuary, having earned his fellowship within the past year. He majored in statistics in college and is very interested in using that knowledge in his job.
- NF's boss, old-timer actuary (OTA) has been a fellow for over 20 years. He is in charge of personal lines pricing for We Care, a mid-size mutual insurer.



Skit Background

- NF has spent the past few months working on a personal auto class plan review. We Care has used traditional actuarial methods in the past, but NF was charged with enhancing the review by incorporating predictive modeling.





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Lights, Camera, Action!



General Questions

- Is OTA justified in making a business decision and ignoring the GLM results?
- Does anything in the ASOPs even require OTA to consider the GLM results?
- What are NF's obligations?





Small Group Discussion



Discussion of General Questions

- Is OTA justified in making a business decision and ignoring the GLM results?
- Does anything in the ASOPs even require OTA to consider the GLM results?
- What are NF's obligations?





Large Group Discussion





Key Takeaways

- New techniques can cause new and interesting professionalism conflicts
- Know the Standards that apply to the work you are doing





Professionalism Skit: Lack of Documentation



Professional Guidance

- CAS Statement of Principles Regarding P&C Insurance Ratemaking
 - *Regardless of the ratemaking methodology utilized, the material assumptions should be documented and available for disclosure.*
 - Individual Risk Rating
 - *“When an individual’s risk’s experience is sufficiently credible, the premium for that risk should be modified to reflect the individual experience.”*



Professional Guidance

- CAS Statement of Principles Regarding P&C Insurance Ratemaking
 - Actuarial Judgment
 - *“Informed actuarial judgments can be used effectively in ratemaking. Such judgments may be applied throughout the ratemaking process and should be documented and available for disclosure”*



Professional Guidance

- Precept 1 of the Code of Conduct:
 - An Actuary shall act honestly, with integrity and competence, and in a manner to fulfill the profession's responsibility to the public and to uphold the reputation of the actuarial profession.
 - Annotation 1-1 -- An Actuary shall perform Actuarial Services with skill and care.



Professional Guidance

- Precept 10 of the Code of Conduct:
 - An Actuary shall perform Actuarial Services with courtesy and professional respect and shall cooperate with others in the Principal's interest.
 - ANNOTATION 10-1. Differences of opinion among actuaries may arise, particularly in choices of assumptions and methods. Observations made by an Actuary to a Principal on the work of another actuary, should be conducted objectively and with courtesy and respect.



Professional Guidance

- Precept 10 of the Code of Conduct:

- Annotation 10-3 An Actuary in the course of an engagement or employment may encounter a situation *such that the best interest of the Principal would be served by the Actuary's setting out an alternative opinion to one expressed by another actuary, together with an explanation of the factors that lend support to the alternative opinion. Nothing in the code should be construed as preventing the Actuary from expressing such an alternative opinion to the Principal.*



Professional Guidance

- ASOP 13 – Trending Procedures in Property/Casualty Insurance

- 3.4 The actuary should select procedures after appropriate consideration of available data.

Considerations may include:

- procedures established by precedent or common usage
 - *procedures used in previous analyses;*
 - procedures that predict insurance trends based on insurance, econometric, and other non-insurance data;
 - the context in which the trend estimate is used in the overall analysis.



Professional Guidance

- ASOP 13 – Con't

- 3.8 Documentation - *The actuary should prepare and retain appropriate documentation regarding the methods, assumptions, procedures, and the sources of the data used.*
 - In a form such that another actuary qualified in the same practice area could assess the reasonableness of the actuary's work
 - Sufficient to comply with the disclosure requirements in section 4.



Professional Guidance

- ASOP 13 – Continued

- 4.1 Actuarial Communication - Disclosures:

- a. intended purpose or use of the trending procedure
 - b. significant adjustments to the data or assumptions
 - c. if any material assumption or method was prescribed by applicable law (ASOP 41 Section 4.2);
 - d. Reliance on other sources (disclaims responsibility for any material assumption or method selected – ASOP 41 Section 4.3)
 - e. If the actuary has otherwise deviated materially from the guidance of this ASOP (ASOP 41 section 4.4)



Professional Guidance

- ASOP 30 Treatment of Profit and Contingency
 - 4.3 Actuarial Communication – Add'l Disclosures:
 - a. if any material assumption or method was prescribed by applicable law (ASOP 41 Section 4.2);
 - b. Reliance on other sources (disclaims responsibility for any material assumption or method selected – ASOP 41 Section 4.3)
 - c. If the actuary has otherwise deviated materially from the guidance of this ASOP (ASOP 41 section 4.4)



Professional Guidance

- ASOP 41 – Actuarial Communications
 - 3.4 The actuary should review the list of required disclosure items included in section 4 of this ASOP & other relevant ASOPs. Further discussion regarding some of these disclosure items follows:
 - 3.4.4 Responsibility for Assumptions and Methods—An actuarial communication should identify the party responsible for each material assumption and method. *Where the communication is silent about such responsibility, the actuary who issued the communication will be assumed to have taken responsibility for that assumption or method.*



Skit Background

- *Michelle Actuary, FCAS is the regional actuary in the Western region for ABC insurance company.*
- *She is mainly involved in reviewing pricing decisions for some accounts, working on large accounts pricing with the underwriters and interpreting the “home office” actuarial reports and what they mean for her region.*
- *She has been in this position for a couple of months but was doing similar Commercial pricing work for another carrier for over ten years.*



Skit Background

- *The former Western regional actuary, Mary, left ABC insurance and now works for a competitor.*
- *Michelle gets a call from Joe, one of the underwriters, who asks her to please review the renewal pricing for a \$3.5M account that is coming up for renewal in six months.*





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General Questions

- Is Mary's documentation "up to code"?
- How do things change if Mary had documented her selections, but Michelle didn't agree with them?
- Did Michelle communicate her findings in a professional manner?
- Should Michelle call the ABCD? Another colleague?





Small Group Discussion



General Questions

- Is Mary's documentation "up to code"?
- How do things change if Mary had documented her selections, but Michelle didn't agree with them?
- Did Michelle communicate her findings in a professional manner?
- Should Michelle call the ABCD? Another colleague?





Large Group Discussion



Possible Courses of Action

Michelle's Options

- Alternative 1 – Michelle should stick to her guns and stay with her assumptions, letting UW select a different rate if he chooses.
- Alternative 2 – Michelle should use Mary's assumptions. Michelle is newer and Mary obviously had some reason for using them.
- Alternative 3 – Michelle should work with the UW. There is a lot of room for judgment.





Skit on Cost of Reinsurance

Committee on Professionalism
Education



Professional Guidance

- Precept 1 of the Code of Conduct: “An Actuary shall act honestly, with integrity and competence, and in a manner to fulfill the profession's responsibility to the public and to uphold the reputation of the actuarial profession.”

– Are Fran or Jim in violation of this Precept?



Professional Guidance

- Precept 10 of the Code of Conduct: “An Actuary shall perform Actuarial Services with courtesy and professional respect and shall cooperate with others in the Principal's interest.”
 - Are Jim or Fran in violation of this Precept?



Professional Guidance

- Principle 3 of the Statement of Principles Regarding Property and Casualty Insurance Ratemaking:
 - “A rate should provide for all costs associated with the transfer of risk.”
 - “Consideration should be given to the effect of reinsurance agreements”



Professional Guidance

- ASOP 29 – Expense Provisions in Property/Casualty Ratemaking
 - Section 3.1- Categorizing Expenses
 - Section 3.2 – Determining Expense Provisions
 - Section 3.7 – Provisions for Reinsurance
- Any other applicable ASOPs?

