



AMERICAN ACADEMY *of* ACTUARIES

December 10, 2010

Mr. Mike Boa
Casualty Actuarial Society
4350 North Fairfax Drive, Suite 250
Arlington, Virginia 22203

Re: *Exposure Draft of Proposed CAS Foundational Statements*

Dear Mr. Boa:

The Casualty Practice Council of the American Academy of Actuaries (CPC) offers the following comments with respect to the captioned Exposure Draft.

With the release of the Exposure Draft of the Casualty Actuarial Society (CAS) Foundational Statements, notice was made of the intent for the Foundational Statements, when published, to replace the existing *Statements of Principles*. The CPC believes that the elimination of the published *Statement of Principles Regarding Property and Casualty Insurance Ratemaking* (hereinafter referred to as the *Ratemaking Principles*) would leave a substantial void in the resources available for practicing actuaries. This could lead actuaries and other users to default to other sources that may be in conflict with some of the key concepts contained in the current *Ratemaking Principles*.

The *Ratemaking Principles* have been in effect since 1988. Regulators, actuaries, and other interested parties have come to rely on the *Ratemaking Principles* in their ratemaking endeavors. In fact, the current *Ratemaking Principles* have been incorporated by reference in whole or in part into various regulations, statutes, and administrative procedures applicable to the promulgation, review, and/or regulation of rates. Elimination of this resource as a CAS publication will render these important references obsolete, require legislative and regulatory remediation, and will likely invite replacement by some source(s) other than the CAS. The work product(s) thus inserted into the ratemaking process subsequent to the elimination of the *Ratemaking Principles* may be less clear and less useful to actuaries than the existing documents. A proliferation of different surrogates for the *Ratemaking Principles* might vary from jurisdiction to jurisdiction, and the replacements could very well be authored by lay persons not trained in actuarial matters. This would be a significant loss of accepted and authoritative references and would create problems, particularly for those engaged in the preparation and filing of rates in multiple jurisdictions.

The *Ratemaking Principles* provide reference to many actuarial concepts and considerations that have been and remain germane to the establishment of appropriate and supportable rates. Among the many factors pertinent to ratemaking, the current Actuarial Standards of Practice (ASOPs) supplement only a portion of the considerations listed in the *Ratemaking Principles*. Elements of the *Ratemaking Principles* that are addressed in Standards of Practice include documentation and disclosure, classification, trending, treatment of catastrophe losses, and expenses. Considerations from the *Ratemaking Principles* that are presently not addressed in the context of ratemaking by the Standards include exposure unit, organization of data, policy provisions, mix of business, reinsurance, operational changes, and numerous factors grouped under “other influences.” The ASOP concerning documentation and disclosure, ASOP No. 9, includes as appendices all of the existing *Statements of Principles*, but ASOP No. 9 itself is pending repeal.

The nine proposed Foundational Statements address general considerations of uncertainty encountered in performing and using actuarial analyses. The Foundational Statements do not adequately, or even in substantial part, provide the guidance and consistency historically and currently provided for by the *Ratemaking Principles*. Also, we view the nine proposed Foundational Statements as potentially applicable to all areas of actuarial practice, rather than being limited to the practice of casualty actuaries.

There may be valid concerns about conflicts of the current *Statements of Principles* with Standards of Practice and terminology, and we would expect that a document of more than 20 years’ vintage could benefit from being updated in at least some respects. To the extent that issues arise at present with regard to the *Ratemaking Principles*, however, the CPC urges that they can and should be addressed by editing the *Ratemaking Principles* as needed. Eliminating the *Ratemaking Principles* could lead actuaries and others to default to other sources that may be in conflict with some of the key concepts contained in the current *Ratemaking Principles*. Also, its elimination could cost the actuarial profession an opportunity to maintain a valuable, widely-recognized, and commonly-used reference in the important actuarial practice area of ratemaking.

For the reasons enumerated above, we strongly oppose the proposed effort to replace the current CAS *Ratemaking Principles* with the proposed Foundational Statements.

The CPC appreciates the opportunity to comment on the Exposure Draft and would be pleased to provide further information and/or answer questions about our comments at your option.

Sincerely,

Tim Wisecarver
Vice-President, Casualty Practice Council
American Academy of Actuaries