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AMERICAN ACADEMY of ACTUARIES

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November 21, 2019

Kris DeFrain, FCAS, MAAA, CPCU  
Director of Research and Actuarial Services  
National Association of Insurance Commissioners (NAIC) Central Office

Via Email

Re: CASTF Regulatory Review of Predictive Models White Paper

Dear Kris,

As the American Academy of Actuaries'<sup>1</sup> senior property/casualty fellow, I appreciate this opportunity to comment further on the Casualty Actuarial and Statistical Task Force (CASTF) draft white paper discussing best practices for the Regulatory Review of Predictive Models (RRPM). My comments herein relate to the discussion draft released on October 15, 2019.

Throughout the RRPM paper, the philosophical benefits of predictive analytics and big data are well documented. Additionally, the paper describes well the challenges inherent in reviewing the models and regulating rates resulting from these models. The American Academy of Actuaries remains committed to effective actuarial practice in this area. It was our great pleasure to once again host a day-long session on predictive modeling at the NAIC Insurance Summit this past June. I will also point out anew that in 2018, the Academy produced a monograph, *Big Data and the Role of the Actuary*, which includes extensive sections on regulatory and professionalism considerations. My comments here will be brief, and it is my hope that they will be helpful to you and the CASTF members.

First, I will focus on a technical point. In Section VI, we see that the wording has been modified to emphasize the concept that input characteristics and rating factors are related to the expected loss or expense differences in risk. I strongly agree with this shift from the earlier version. However, I note that in A.4.b and B.3.d, the wording of “rational relationship” and “rational explanation” are less precise. I was not certain if this was intentional or an oversight. The current Section VI wording would seem to lead to better actuarial practice.

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<sup>1</sup> The American Academy of Actuaries is a 19,500+ member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

My second point is more philosophical than technical. It is one that I have raised before, and I suspect that you have received similar feedback from others. In short, the new requirements of the RRPM process have the potential to become unwieldy. Rate filers and regulatory reviewers will have to perform considerably more detailed work as a result. I certainly note throughout the document that you reference the fact that the RRPM structure is meant as guidance to regulators and is not binding. I also note considerable conciliatory language throughout. Knowing many of the CASTF members personally, I have no doubt that this is genuine.

Finally, I note that you have somewhat scaled back the list of potential request items and in some cases reduced the Level of Importance. All of this notwithstanding, one can hope that the near-term learning curve that will result will be brief and that delays will not be onerous.

In closing, I wish to reiterate that the American Academy of Actuaries remains committed to working with CASTF on this matter.

If you have any questions about these comments, contact me ([gibson@actuary.org](mailto:gibson@actuary.org)) or Marc Rosenberg, senior casualty policy analyst, at 202-785-7865 or [rosenberg@actuary.org](mailto:rosenberg@actuary.org).

Sincerely,

Richard Gibson, MAAA, FCAS  
Senior Casualty Fellow  
American Academy of Actuaries