



AMERICAN ACADEMY of ACTUARIES

*Objective. Independent. Effective.™*

Commissioner Mike Chaney  
Chair  
Property & Casualty (C) Committee  
National Association of Insurance Commissioners

c/o Eric Nordman and Kris DeFrain

Dear Commissioner Chaney:

On behalf of the American Academy of Actuaries' Price Optimization Task Force, I wish to raise concern with the Price Optimization White Paper just modified by the Casualty and Statistical Task Force (CASTF) on Thursday, November 19.

As drafted, paragraph 48 would seem to conclude that any consideration of price elasticity of demand is inconsistent with the statutory requirement that rates not be unfairly discriminatory. Yet it seems to allow retention adjustments so long as they are not done at the individual level.

We offer two observations:

1. Decisions about retention adjustments are normally based on, or informed by, considerations of price elasticity of demand, including propensity to shop for insurance.
2. Retention adjustments can be said to be applied at the individual level. Even though the adjustment rule is uniform for all members of a group (e.g. cap increases at 20%; move only 70% of the way from the old rate to the new rate), the actual application of the adjustment rule is, in many systems, individual by individual.

Based on the discussions at the CASTF, (and on both paragraph 47 and Appendix B of the White Paper), we believe that many members of the CASTF consider these practices to be acceptable, so long as the price elasticity of demand analysis is not based on individual policyholder characteristics. Therefore, we suggest the following wording in paragraph 48 and the parallel paragraph in Appendix B:

“...the following ratemaking practices, at a minimum, are inconsistent with statutory requirements that ‘rates shall not be...unfairly discriminatory’:

- A. consideration of price elasticity of demand based on individual policyholder characteristics;
- B. propensity of the individual policyholder to shop for insurance;
- C. retention adjustments based on individual policyholder characteristics; or
- D. a policyholder’s propensity to ask questions or file complaints.”

This wording will assure that retention adjustments can be selected based on price elasticity considerations at the class or territory level, and applied policy by policy, which we believe is a common current and longstanding practice.

Since the list of practices inconsistent with the unfair discrimination requirement is a minimum list, regulators will be free to adopt more stringent definitions, including prohibition of price elasticity considerations even at the class level.

We thank you for your consideration and offer our assistance if you have any questions regarding this matter.

Sincerely,

W. James MacGinnitie, MAAA, FCAS, FSA  
Senior Property/Casualty Fellow  
American Academy of Actuaries