

Appendix 2

Comments on the Second Exposure Draft and Responses

The second exposure draft of ASOP No. 25, *Credibility Procedures*, was issued in June 2013 with a comment deadline of September 30, 2013. Nine comment letters were received, some of which were submitted on behalf of multiple commentators, such as by firms or committees. For purposes of this appendix, the term “commentator” may refer to more than one person associated with a particular comment letter. The Credibility Task Force and the General Committee of the Actuarial Standards Board carefully considered all comments received, and the General Committee and ASB reviewed (and modified, where appropriate) the changes proposed by the Task Force.

Summarized below are the significant issues and questions contained in the comment letters and the responses.

The term “reviewers” in appendix 2 includes the Task Force, General Committee, and the ASB. Also, unless otherwise noted, the section numbers and titles used in appendix 2 refer to those in the exposure draft.

GENERAL COMMENTS	
Comment	One commentator stated that the ASOP does not discuss instances when applicable law requires the actuary to depart from the guidance of the ASOP.
Response	The reviewers made no change and refer the commentator to the last paragraph of section 1.2 and section 4.1(a) as well as ASOP No. 41, <i>Actuarial Communications</i> .
Comment	One commentator suggested that the ASOP should contain more specific discussion on how to consider different data sources, how to assign predictive value and reliance, and other guidance.
Response	The reviewers made no change and note ASOPs are intended to give general guidance rather than specific “how to” instructions.
Comment	One commentator suggested that wording be added to require a disclosure when the credibility of data has not been evaluated.
Response	The reviewers made no change, as they believe this would broaden the ASOP to mean that actuaries always need to consider the use of credibility procedures when the intent of section 1.2 is to limit the applicability of the ASOP to certain situations. Note: ASOP No. 23, <i>Data Quality</i> , provides guidance on selection of data.

ASOP No. 25—December 2013

SECTION 2. DEFINITIONS	
Section 2.3, Full Credibility	
Comment	One commentator suggested specifying that “[a]t full credibility, the relevant experience is assigned no predictive value beyond what is already provided by subject experience.”
Response	The reviewers believe section 2.3 is sufficiently clear and made no change.
Comment	One commentator suggested that there should be a requirement that when the term “fully credible” is used, it should “be appropriately modified by describing the error tolerance and confidence level which was used to test for full credibility.”
Response	The reviewers believe the definition is sufficiently clear and made no change.
Section 2.4, Relevant Experience	
Comment	One commentator suggested defining the phrase “parameter under study.”
Response	The reviewers do not believe it is necessary to define this term.
Section 2.5, Risk Characteristics	
Comment	One commentator suggested changes to the definition.
Response	The reviewers believe that the definition is appropriate and also consistent with ASOP No. 12, <i>Risk Classification</i> , section 2.8, and, therefore, made no change.
Section 2.6, Risk Classification System	
Comment	Two commentators suggested changes to the definition.
Response	The reviewers note that the definition is appropriate and also consistent with ASOP No. 12, section 2.10 and, therefore, made no change.
SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES	
Section 3.1, Purpose and Use of Credibility Procedures	
Comment	One commentator suggested adding more guidance about the use of subject and relevant experience.
Response	The reviewers believe that section 3.3 provides appropriate guidance.
Comment	Two commentators point out that “valuation” is a life insurance term and suggest adding “reserving” to the list.
Response	The reviewers note that the list is not intended to be all inclusive, but note that “reserving” is likely to be correctly interpreted by all. Therefore, the reviewers are replacing the word valuation with reserving.
Comment	One commentator suggested substituting a new term for “expected value” in section 3.1, since the term is undefined and unused in the definition section.
Response	The reviewers agree and replaced the term with wording that is consistent with wording used in the definition section.

ASOP No. 25—December 2013

Section 3.2, Selection of Credibility Procedure	
Comment	One commentator suggests replacing “when blending” with “when blending or grading.” Another commentator suggests moving to “when combining.”
Response	The reviewers disagree and made no change as they believe that grading is the result of blending with factors that vary by duration.
Comment	One commentator believes the wording should be expanded to address predictive modeling.
Response	The reviewers disagree and made no change. The reviewers note that this standard addresses traditional credibility theory. While predictive modeling is addressed in the appendix, it is not explicitly referenced in the standard. To the extent traditional credibility theory per the scope of this standard is used as part of predictive modeling analysis, it is up to the actuary to determine if such work is covered by the standard.
Comment	One commentator suggests a cross reference to section 4.1(a) in regards to when methodology is prescribed by law.
Response	The reviewers note that the scope section includes a reference to section 4 for the case where methodology is prescribed by law, and made no change.
Comment	One commentator suggests moving “the actuary should consider the predictive value of more recent experience” to section 3.3.
Response	The reviewers made no change and note that this guidance applies to both subject experience and relevant experience.
Comment	One commentator suggested adding a sentence describing possible alternatives to credibility procedures, which may include statistical modeling approaches.
Response	The reviewers made no change and note that descriptions of various approaches are in appendix 1.
Section 3.3, Selection of Relevant Experience	
Comment	One commentator suggests adding underwriting to the list of considerations.
Response	The reviewers believe that underwriting is implicitly included in the category of “other determinable risk characteristics” and made no change.
Comment	One commentator questions how predictive modeling fits into the discussion.
Response	The reviewers note that predictive modeling is not explicitly addressed by this standard. However, to the extent credibility procedures within the scope of this standard are used as part of predictive modeling, the standard applies.
Comment	One commentator suggests that relevant experience be required to be fully credible.
Response	The reviewers disagree and note that fully credible experience does not always exist.
Comment	Many commentators addressed the appropriateness of the second paragraph in section 3.3.
Response	The reviewers believe that the consideration is an important one, but have removed specific guidance other than to note that professional judgment is called for.

ASOP No. 25—December 2013

Comment	One commentator suggested defining the word “material,” which appeared in front of the phrase “part of relevant experience.”
Response	The term “materiality” is discussed in ASOP No. 1, section 2.6, and therefore the term was not added to the definitions section in this standard.
Comment	One commentator suggested that wording should be added to “direct the actuary to assess the degree to which the relevant experience is predictive.”
Response	The reviewers disagree and made no change, and refer the commentator to section 3.4.
Section 3.4, Professional Judgment	
Comment	One commentator suggests removing the reference to zero credibility here and from the standard entirely.
Response	The reviewers disagree and note that the scope statement specifically includes certain cases of zero credibility.
Section 3.5, Homogeneity of Data	
Comment	One commentator suggests that additional wording be added to address the balance between the size of the data set and the homogeneity of the data.
Response	The reviewers agree and made the change.
APPENDIX 1	
Comment	One commentator objected to the use of the phrase “greatest accuracy credibility,” suggesting that it was not appropriate language and may sound grandiose to statisticians.
Response	The reviewers made no change to the terminology “greatest accuracy credibility” as this is the primary name given to the credibility approach that is also referred to as the Bühlmann approach (in multiple sections of the American Academy of Actuaries’ July 2008 Credibility Practice Note).
Comment	One commentator recommended changing the title “Emerging Practice Involving Generalized Linear Models” to “Emerging Practice Involving Statistical Models.”
Response	The reviewers agree and made the change.