Actuarial Standard of Practice No. 13

10m

The ***Actuarial Standard of Practice (ASOP) No. 13***, titled "Trending Procedures in Property/Casualty Insurance," provides guidance on what actuaries should consider, document, and disclose when applying trending procedures to estimate future values for all property/casualty coverages. This standard specifies that the process of development (as covered in Section 2.3) is not considered a trending procedure.

Coach's Remarks

It is not necessary to memorize ASOP No. 13 for the exam. Instead, focus on being able to discuss the key factors to consider when applying trending procedures to estimate future values and how those factors could influence the estimates.

Below is a summary of the key findings in ASOP No. 13.

Definitions

The following are terms defined in ASOP No. 13:

- ***Experience period***: the time period in which the historical data occurs.
- ***Forecast period***: the future time period to which historical data is projected.
- ***Social influences***: the impact on insurance costs of changes in claim consciousness, court practices, legal precedents, and other non-economic factors.
- ***Trending period***: the time over which the trend is applied when projecting from the experience period to the forecast period.
- ***Trending procedure***: a process that involves estimating future values by analyzing changes between exposure periods that can impact claim costs and frequencies, exposures, premiums, expenses, retention rates, marketing/solicitation response rates, and economic indices.

Note that these terms will be covered in more detail later in this section.

Purpose or Use

The actuary should identify the purpose or use of the trending procedure, such as for ratemaking, reserving, valuations, underwriting, or marketing, in order to determine appropriate techniques to use. If multiple purposes are intended, potential conflicts should be considered, and adjustments made if appropriate. The purpose or use should also be considered when determining how to present the trend estimate, such as with a point estimate, a range of estimates, a point estimate with a margin for adverse deviation, or a probability distribution of the trend estimate.

Historical Data

When selecting appropriate historical insurance and non-insurance data to use for trending, the actuary should consider:

- the credibility assigned to the data
- the time period for which the data is available
- the relationship to the items being trended
- the effect of known biases or distortions on the data (e.g., seasonality, coverage changes, nonrecurring events, etc.)

Economic and Social Influences

When selecting the data, trending calculation, and trending procedure, the actuary should consider any economic and social influences that could significantly impact trends, along with the timing of those influences.

Selection of Trending Procedures

When selecting trending procedures, the actuary should consider:

- procedures commonly used in the actuarial profession
- procedures used previously in analyses
- procedures that predict insurance trends based on insurance, econometric, and other non-insurance data

- the context in which the trend estimate will be used in the overall analysis

Determining Trending Period

To determine the trending period, the actuary should consider the lengths of the experience and forecast periods, along with any changes in the mix of data between these periods. The actuary should also consider the timing relationships among any non-insurance data used, historical insurance data, and the future values being estimated.

Evaluation of Trending Procedures

The results of the selected trending procedures should be evaluated for reasonableness and revised when appropriate.

Documentation

The actuary should prepare and retain documentation that details the methods, assumptions, procedures, and sources of data used for trending, along with any necessary disclosures.

Actuarial Communication

When issuing an actuarial communication, in addition to communicating the actuarial findings and opinions, the actuary should disclose:

- the intended purpose or use of the trending procedure,
- any significant adjustments to the data,
- assumptions that may have a material impact on the result or conclusions of the analysis,
- any material assumption or method that was prescribed by applicable law or selected by a party other than the actuary, and
- any material deviance by the actuary from the guidance of this ASOP.

In certain cases, the actuary may need to make additional disclosures.

- If the actuary specifies a range of trend estimates, they should disclose the basis of the range provided.
- If the trending procedure used is an update of a previous procedure, the actuary should disclose changes in assumptions, procedures, methods, or models and the reasons for such changes.