Title of Exposure Draft: Proposed Revision of Actuarial Standard of Practice (ASOP) No. 29

Comment Deadline: May 31, 2022

Instructions: Please review the exposure draft and give the ASB the benefit or your recommendations by completing this comment template. Please fill out the tables within the section below, adding rows as necessary. Sample for completing the template provided at the following link: http://www.actuarialstandardsboard.org/email/2020/ASB-Comment-Template-Sample.docx

Each completed comment template received by the comment deadline will receive consideration by the drafting committee and the ASB. The ASB accepts comments by email. Please send to comments@actuary.org and include the phrase 'ASB COMMENTS' in the subject line. Please note: Any email not containing this exact phrase in the subject line will be deleted by our system's spam filter.

The ASB posts all signed comments received to its website to encourage transparency and dialogue. Comments received after the deadline may not be considered. Anonymous comments will not be considered by the ASB nor posted to the website. Comments will be posted in the order that they are received. The ASB disclaims any responsibility for the content of the comments, which are solely the responsibility of those who submit them.

I. Identification:

Name of Commentator / Company
Lauren Cavanaugh, MAAA, FCAS Vice President, Casualty, American Academy of Actuaries, on behalf of the Casualty Practice Council

II. ASB Questions (If Any). Responses to any transmittal memorandum questions should be entered below.

Question No.	Commentator Response

III. Specific Recommendations:

Section # (e.g. 3.2.a)	Commentator Recommendation (Please provide recommended wording for any suggested changes)	Commentator Rationale (Support for the recommendation)
Title	Recommend replacing the title: "**EXPENSE PROVISIONS FOR FUTURE COST ESTIMATES FOR PROSPECTIVE PROPERTY/CASUALTY RISK TRANSFER AND RISK RETENTION**" With "**ESTIMATING EXPENSE PROVISIONS FOR ~~FUTURE COST ESTIMATE FOR~~ PROSPECTIVE PROPERTY/CASUALTY RISK TRANSFER AND RISK RETENTION**"	The proposed title is simpler and consistent with the title for ASOP No. 53.
1.1	Recommend replacing the Purpose from the draft ASOP: "This actuarial standard of practice (ASOP or standard) provides guidance to actuaries when performing actuarial services with respect to developing or reviewing **expense provisions** for	The recommendation is to delete the words "for future cost estimates" as it seems repetitive and unnecessary to include both "future cost estimates" and "prospective … risk retention".

	future cost estimates for prospective property/casualty **risk transfer** or **risk retention**." With the following alternative: "This actuarial standard of practice (ASOP or standard) provides guidance to actuaries when performing actuarial services with respect to developing or reviewing **expense provisions** ~~for future cost estimates~~ for prospective property/casualty **risk transfer** or **risk retention.**"	
1.2	Recommend replacing the sentence: "This standard of practice applies to actuaries when developing or reviewing **expense provisions** for future cost estimates for prospective property/casualty **risk transfer** or **risk retention**." With the following alternative: "This standard of practice applies to actuaries when developing or reviewing **expense provisions** ~~for future cost estimates~~ for prospective property/casualty **risk transfer** or **risk retention**."	The recommendation is to delete the words "for future cost estimates" as it seems repetitive and unnecessary to include both "future cost estimates" and "prospective … risk retention".
1.2	Recommend expanding the first paragraph: "Scope—This standard of practice applies to actuaries when developing or reviewing expense provisions for future cost estimates for prospective property/casualty risk transfer or risk retention. This includes expense provisions developed or reviewed for insurance, reinsurance, self-insurance, loss portfolio transfers, or any other mechanisms for prospective property/casualty risk transfer or risk retention. If the actuary's actuarial services involve reviewing expense provisions developed by another party, the actuary should use the guidance in this ASOP to the extent practicable.: As follows: "Scope—This standard of practice applies to actuaries when developing or reviewing expense provisions for future cost estimates for prospective property/casualty risk transfer or risk retention. This includes expense provisions developed or reviewed for insurance, reinsurance, self-insurance, loss portfolio transfers, or any other mechanisms for prospective property/casualty risk transfer or risk retention. Depending on the terms of the risk transfer or risk retention, portions of loss adjustment expenses may be estimated with losses. This ASOP applies to the estimation of loss adjustment expenses not separately estimated with the	

	provision for losses. If the actuary's actuarial services involve reviewing expense provisions developed by another party, the actuary should use the guidance in this ASOP to the extent practicable."	
1.2	Recommend replacing the sentence: "The actuary also should refer to ASOP No. 53, *Estimating Future Costs for Prospective Property/Casualty Risk Transfer and Risk Retention*, when developing or reviewing **expense provisions** for prospective property/casualty **risk transfer** or **risk retention**." With the following paragraph: "ASOP No. 53, *Estimating Future Costs for Prospective Property/Casualty Risk Transfer and Risk Retention*, provides guidance when developing or reviewing future cost estimates, including **expense provisions,** for prospective property/casualty **risk transfer** or **risk retention**. This ASOP provides additional guidance to the actuary when developing or reviewing expense provisions for prospective property/casualty **risk transfer** or **risk retention**, and when treating reinsurance as an expense. The actuary should also refer to ASOP No. 53 and ASOP No. 56, *Modeling*, when developing or reviewing **expense provisions**."	It feels circular to refer the actuary to ASOP No. 53, as when one then reads ASOP No. 53, it refers the actuary to ASOP No. 29 for additional guidance when estimating expense provisions and when treating reinsurance as an expense. The proposed language more clearly delineates the relationship between the two ASOPs and the scope of ASOP No. 53. In addition, we moved the reference to ASOP No. 56 from Section 3.2 to Section 1.2.
2	Recommend expanding the introduction to Section 2: "The terms below are defined for use in this actuarial standard of practice and appear in bold throughout the ASOP." By adding the following paragraph: "Common expense categories are defined for use in this actuarial standard of practice and appear in bold throughout the ASOP. In practice, the actuary will categorize expenses in accordance with the requirements prescribed in applicable law and consistent with the entity's own methods of classifying and assigning expenses."	The expanded language is intended to introduce the concept earlier in the ASOP of categorizing expenses consistent with the nature of the project, rather than strictly in accordance with the ASOP definitions.
2.5	Recommending expanding the definition of "Other Acquisition Costs": "Costs, other than commission and brokerage fees, associated with the acquisition of business." as follows:	

	"Costs, other than commission and brokerage fees, associated with the acquisition of business, such as underwriter salaries."	
3.1	Recommend expanding Section 3.1: "The actuary should consider categorizing the **expense provisions** by type of expense. Common expense categories include but are not limited to **commission and brokerage fees**, **general administrative expenses**, **loss adjustment expenses**, **other acquisition expenses**, **policyholder dividends**, **residual market provision**, **statutory assessment provision**, and **taxes, licenses, and fees**. When categorizing the expenses, the actuary should be familiar with the pertinent requirements for defining the types of expenses prescribed in applicable law and, if applicable, the *Instructions for Uniform Classification of Expenses* published by the National Association of Insurance Commissioners (NAIC). The actuary also should be familiar with the entity's own methods of classifying and assigning expenses." To include a reference to the potential treatment of reinsurance as an expense, as follows: "The actuary should consider categorizing the **expense provisions** by type of expense. Common expense categories include but are not limited to **commission and brokerage fees**, **general administrative expenses**, **loss adjustment expenses**, **other acquisition expenses**, **policyholder dividends**, **reinsurance, residual market provision**, **statutory assessment provision**, and **taxes, licenses, and fees**. When categorizing the expenses, the actuary should be familiar with the pertinent requirements for defining the types of expenses prescribed in applicable law and, if applicable, the *Instructions for Uniform Classification of Expenses* published by the National Association of Insurance Commissioners (NAIC). The actuary also should be familiar with the entity's own methods of classifying and assigning expenses. Depending on the circumstances, the actuary may categorize the **expense provisions** differently from the common categories defined in this ASOP. All expenses pertinent to the **risk transfer** or **risk retention** should be considered, and care should be taken so that expenses are not double-counted, either in the development of the expense provisions or in the development of other future cost estimates."	ASOP No. 53 specifically refers the actuary to ASOP No. 29 for additional guidance when treating reinsurance as an expense. In addition, we recommend expanding the commentary on the selection of expense categories.
3.2	Recommend replacing the wording below for 3.2: "When developing **expense provisions**, the actuary should develop **expense provisions** that are	The phrase "policies to be written and coverages to be provided" effectively excludes self-insurance or funding for uninsured exposures, as there are no policies written in those circumstance. The proposed

	appropriate for the policies to be written or coverages provided during the period for which the future costs are being estimated, that reflect the environment expected to exist in the period for which the future costs are being estimated, and that include all expenses expected to be incurred in connection with the transfer or retention of risk other than losses, the provision for profit and contingencies, investment expenses, and federal and foreign income taxes." with the following: When developing **expense provisions**, the actuary should develop **expense provisions** that are appropriate ~~for the policies to be written or coverages to be provided during the period~~ for the terms and parameters of the **risk transfer** or **risk retention** for which the future costs are being estimated, that reflect the environment expected to exist in the period for which the future costs are being estimated, and that include ~~all expenses expected to be incurred in connection with the transfer or retention of risk other than losses, the provision for profit and contingencies, investment expenses, and federal and foreign income taxes~~ **expense provisions** expected to be incurred in connection with the transfer or retention of risk."	language is intended to be broader to include all forms of risk transfer and risk retention. The phrase "all expenses expected to be incurred in connection with the transfer or retention of risk other than losses, the provision for profit and contingencies, investment expenses, and federal and foreign income taxes" is not necessary, as the term expense provisions has already been defined. The proposed change is to utilize the defined term.
3.2	Recommend replacing the wording below for 3.2: "The actuary should select appropriate methods, models, and assumptions for developing the **expense provisions** during the period for which the future costs are being estimated. When developing or reviewing **expense provisions** for prospective property/casualty **risk transfer** or **risk retention**, the actuary should also refer to ASOP No. 53 and ASOP No. 56, Modeling. The actuary should consider developing **expense provisions** for expenses that do not vary in direct proportion to premium on a basis that is not directly proportional to premium, such as per policy, per coverage, a percentage of claim losses, per unit of exposure, or some other manner that is consistent with how they are incurred." with the following: "The actuary should select appropriate methods, models, and assumptions for developing the **expense provisions** during the period for which the future costs are being estimated. ~~When developing or reviewing **expense provisions** for prospective~~	Certain costs (e.g., overhead) will be incurred regardless of how many policies are written and regardless of the volume of premium written. The phrase "as they are incurred" does not fit overhead costs. In addition, we deleted the references to ASOP No. 53 and ASOP No. 56 as these are already included in Section 1.2.

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	~~property/casualty **risk transfer** or **risk retention**, the actuary should also refer to ASOP No. 53 and ASOP No. 56, Modeling.~~ The actuary should consider developing **expense provisions** for expenses that do not vary in direct proportion to premium on a basis that is not directly proportional to premium, such as per policy, per coverage, a percentage of claim losses, or per unit of exposure~~, or some other manner that is consistent with how they are incurred~~."	
3.6	Recommend changing the last sentence in Section 3.6: "The actuary should include a residual market provision or a statutory assessment provision, or both, if applicable. If the residual market expenses or statutory assessments are assessed retrospectively, the actuary should consider including a provision to recover any previously unassessed costs or to account for any prior excess collections." To read as follows: "The actuary should include a residual market provision or a statutory assessment provision, or both, if applicable. ~~If the residual market expenses or statutory assessments are assessed retrospectively, the actuary should consider including a provision to recover any previously unassessed costs or to account for any prior excess collections.~~ The provisions should reflect the timing of the residual market or statutory assessment mechanism."	Trying to recover previously unassessed costs or reducing the provision to account for prior excess collections is inconsistent with the principle of including expenses associated with the coverage period.
3.10	Recommend deleting Section 3.10: "~~The actuary may rely on another actuary who has developed a portion of the expense provision. However, the relying actuary should be reasonably satisfied that the other actuary is qualified to perform such work, the supporting analysis was performed in accordance with applicable ASOPs, and the analysis is appropriate for the project's objective. The actuary should disclose the extent of any such reliance.~~"	Reliance on another actuary is no different from, and is already captured in, Section 3.8 (Reliance on Data or Information Supplied by Others) and Section 3.9 (Reliance on Assumptions or Methods Selected by Another Party). In addition, it is unclear how the actuary would verify that the supporting analysis was performed in accordance with applicable ASOPs. ASOP No. 53, the over-arching ASOP on developing and reviewing future cost estimates, does not include similar language, and it seems inappropriate to require a more stringent standard for the ASOP on expense provisions.
3.11	Recommend removing the requirement to disclose any material difference between the actuarially determined expense provisions and those required by law in Section 3.11: "When legislative or regulatory rules disallow or limit	The requirement places an unnecessary burden on the actuary.

	certain categories of expenses in expense provisions, the actuary should develop the expense provision in accordance with the law and disclose any material difference from the actuarially determined expense provisions." By replacing 3.11 as follows: "When legislative or regulatory rules disallow or limit certain categories of expenses in expense provisions, the actuary should develop the expense provision in accordance with the law ~~and disclose any material difference from the actuarially determined expense provisions~~."	
4.1.j	Recommend deleting the required disclosure 4.1.j: "~~j. the extent of any reliance on another actuary (see section 3.10); and~~"	Reliance on another actuary is already captured in the required disclosures in Section 4.1.h and Section 4.1.i.
4.1.k	Recommend deleting the required disclosure 4.1.k: "~~k. any material difference between the expense provisions developed in accordance with the law and the actuarially determined expense provisions (see section 3.11).~~"	The requirement places an unnecessary burden on the actuary.

IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
Recommend adding the term "reinsurance" to the list of expense categories defined in Section 2.	ASOP No. 53 specifically refers the actuary to ASOP No. 29 for additional guidance when treating reinsurance as an expense.
In Section 2.8, the proposed ASOP defines risk retention as "including certain types of single-parent captives" without explaining what types.	This raises the question of which types of single-parent captives would be considered risk retention. It also raises the question of whether any types of single-parent captives would be considered risk retention. Recommend additional language to define which types of single-parent captives would be considered risk retention.
The term "risk transfer" has a formal meaning in the accounting context. Recommend clarifying that the term "risk transfer" as used in the ASOP is not intended to define or delineate which types of insurance policies, reinsurance policies, loss portfolio transfers, and self-insurance, might satisfy risk transfer requirements under accounting principles.	

V. Signature:

Commentator Signature	Date
Lauren Cavanaugh, MAAA, FCAS	May 31, 2022