ACTUARIAL STANDARDS BOARD

● SECOND EXPOSURE DRAFT ●

Proposed Revision of
Actuarial Standard
of Practice
No. 30

Profit Provisions, Contingency Provisions, and the Cost of Capital in Property/Casualty Risk Transfer and Risk Retention

Comment Deadline:
July 1, 2026

Developed by the
ASOP No. 30 Task Force of the
Casualty Committee of the
Actuarial Standards Board

Approved for Exposure by the
Actuarial Standards Board
December 2025

TABLE OF CONTENTS

SECOND EXPOSURE DRAFT—December 2025

December 2025

TO: Members of Actuarial Organizations Governed by the Standards of Practice of the Actuarial Standards Board and Other Persons Interested in Profit Provisions, Contingency Provisions, and the Cost of Capital in Property/Casualty Risk Transfer and Risk Retention

FROM: Actuarial Standards Board (ASB)

SUBJECT: Actuarial Standard of Practice No. 30

This document contains the second exposure draft of a proposed revision of ASOP No. 30, now titled *Profit Provisions, Contingency Provisions, and the Cost of Capital in Property/Casualty Risk Transfer and Risk Retention*. Please review this exposure draft and give the ASB the benefit of your comments and suggestions. Each comment letter received by the comment deadline will receive consideration by the drafting committee and the ASB.

The ASB appreciates comments and suggestions on all areas of this proposed standard. The ASB requests comments be provided using the Comments Template that can be found here and submitted electronically to **comments@actuary.org**. Include the phrase "ASOP No. 30 COMMENTS" in the subject line of your message. Also, please indicate in the template whether your comments are being submitted on your own behalf or on behalf of a company.

The ASB posts all signed comments received on 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 on 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.

For more information on the exposure process, please see the ASB Procedures Manual.

Deadline for receipt of comments: **July 1, 2026**

History of the Standard

The current standard took effect in July 1997 and was updated for deviation language in May 2011. While the scope of the current standard includes risk retention (self-insurance), the purpose focuses on estimating the cost of capital and evaluating underwriting profit and contingency provisions.

State rate regulation typically does not apply to property and casualty coverage provided by reinsurers, excess or surplus lines insurers, self-insurance arrangements, or captive insurers. Certain pools, associations, or government entities provide specialized property and casualty coverage using rates that may or may not be regulated. The current standard acknowledges that "evaluation of whether the cost of capital is appropriately recognized does not necessarily require these distinctions." To perform actuarial services in such other circumstances, including treatment of profit provisions, contingency provisions, or risk margins, an actuary must apply judgment more broadly than the current guidance in ASOP No. 30.

In addition, actuarial modeling techniques have evolved significantly since the standard took effect, and it is now common in some contexts to include explicit or implicit risk margins in the future cost estimation process. ASOP No. 30 currently requires the actuary to use expected future values for every component of an actuarially determined rate. If the actuary uses a different intended measure to meet legal or regulatory requirements, the actuary should "disclose any material difference between the rate so developed and the actuarially determined rate to the client or employer." ASOP No. 53, *Estimating Future Costs for Prospective Property/Casualty Risk Transfer and Risk Retention*, which took effect in 2018, directs the actuary to determine the intended measure of the future cost estimate based on the purpose or use of the estimate and disclose the intended measure in an appropriate actuarial communication.

This proposed revision of ASOP No. 30 allows ASOP No. 53 to govern with respect to appropriate intended measures.

<u>First Exposure Draft</u>

The first exposure draft was released in July 2024 with a comment deadline of November 1, 2024. Nine comment letters were received and considered in making changes that are reflected in the second exposure draft.

<u>Notable Changes from the First Exposure Draft</u>

Notable changes from the first exposure draft are summarized below. Notable changes do not include changes made to improve readability, clarity, or consistency.

1. The title was changed to *Profit Provisions, Contingency Provisions, and the Cost of Capital in Property/Casualty Risk Transfer and Risk Retention*.

2. "Profit margin" was changed to "profit provision" throughout the standard.

3. References to ASOP No. 7, *Analysis of Life, Health, or Property/Casualty Insurer Cash Flows*, were removed.

4. Definitions of contingency provision, profit provision, and risk margin were modified.

5. In section 3.1, guidance was added regarding the interaction of different provisions, as well as the intended purpose and intended measure of the future cost estimate.

6. Throughout section 3.2, guidance was expanded.

7. In section 3.3, guidance on contingency provisions was modified.

Notable Changes from the Existing Standard

Notable changes from the existing standard are summarized below. Notable changes do not include changes made to improve readability, clarity, or consistency.

1. The title was changed to *Profit Provisions, Contingency Provisions, and the Cost of Capital in Property/Casualty Risk Transfer and Risk Retention*.

2. In section 1.2, the scope was broadened from estimating the cost of capital and evaluating the underwriting profit and contingency provisions to developing overall profit provisions and contingency provisions.

3. In section 2, definitions of profit provision, process risk margin, risk retention, and risk transfer were added, and several definitions were deleted. In addition, the difference between a profit provision and a contingency provision was clarified.

4. Section 2.5 makes it clear that guidance regarding development, review, or evaluation of underwriting profit provisions is included in the larger context of overall profit provisions.

5. Section 3.2 clarifies that the profit provision may be reflected in multiple components of the future cost estimate, including in risk margins in the provisions for loss and loss adjustment expenses, and in other risk margins.

6. In section 3.2, the guidance clarifies that the cost of capital is to be taken into account when developing the profit provision.

7. In section 3.2.4, reference to ASOP No. 20, *Analysis of Property/Casualty Cash Flows, Including Discounting,* was added for guidance when selecting appropriate investment income assumptions.

8. In section 3.3, guidance on contingency provisions was modified.

9. In section 3.4, guidance regarding reliance on another party was added.

10. In section 3.5, the documentation section was updated to coordinate with ASOP No. 41, *Actuarial Communications*, rather than the repealed ASOP No. 9, *Documentation and Disclosure in Property and Casualty Insurance Ratemaking, Loss Reserving, and Valuations*.

11. Section 4 was expanded to align with the new guidance in section 3.

Request for Comments

The ASB appreciates comments and suggestions on all areas of this proposed standard submitted through the Comments Template. Rationale and recommended wording for any suggested changes would be helpful.

The ASB voted in December 2025 to approve this second exposure draft.

The Actuarial Standards Board (ASB) sets standards for appropriate actuarial practice in the United States through the development and promulgation of Actuarial Standards of Practice (ASOPs). These ASOPs describe the procedures an actuary should follow when performing actuarial services and identify what the actuary should disclose when communicating the results of those services.

<u>SECOND EXPOSURE DRAFT—December 2025</u>

PROPOSED REVISION OF
ACTUARIAL STANDARD OF PRACTICE NO. 30

PROFIT PROVISIONS, CONTINGENCY PROVISIONS, AND THE COST OF CAPITAL IN PROPERTY/CASUALTY RISK TRANSFER AND RISK RETENTION

STANDARD OF PRACTICE

Section 1. Purpose, Scope, Cross References, and Effective Date

1.1 Purpose—This actuarial standard of practice (ASOP or standard) provides guidance to actuaries when performing actuarial services with respect to developing or reviewing **profit provisions** and **contingency provisions** that are included in future cost estimates for all forms of prospective property/casualty **risk transfer** and **risk retention**.

1.2 Scope—This standard applies to actuaries when performing actuarial services with respect to developing or reviewing **profit provisions** and **contingency provisions** that are included in future cost estimates for all forms of prospective property/casualty **risk transfer** and **risk retention**.

ASOP No. 53, *Estimating Future Costs for Prospective Property/Casualty Risk Transfer and Risk Retention*, and ASOP No. 20, *Analysis of Property/Casualty Cash Flows, Including Discounting,* provide guidance that may be helpful to the actuary when developing or reviewing **profit provisions** and **contingency provisions** and the **cost of capital** associated with future cost estimates for prospective property/casualty **risk transfer** and **risk retention**.

If the actuary is performing actuarial services that involve reviewing **profit provisions** or **contingency provisions**, the actuary should follow the guidance in this standard to the extent practicable within the scope of the actuary's assignment.

If the actuary determines that the guidance in this standard conflicts with an ASOP that applies to all practice areas, this standard governs.

If a conflict exists between this standard and applicable law (statutes, regulations, and other legally binding authority), the actuary should comply with applicable law. If the actuary departs from the guidance set forth in this standard in order to comply with applicable law, or for any other reason the actuary deems appropriate, the actuary should refer to section 4.

1.3 Cross References—When this standard refers to the provisions of other documents, the reference includes the referenced documents as they may be amended or restated in the future, and any successor to them, by whatever name called. If any amended or restated document differs materially from the originally referenced document, the actuary should follow the guidance in this standard to the extent it is applicable and appropriate.

1.4 Effective Date—This standard is effective for future cost estimates developed or reviewed on or after four months after adoption by the Actuarial Standards Board.

Section 2. Definitions

The terms below are defined for use in this standard and appear in bold throughout the ASOP. The actuary should also refer to ASOP No. 1, *Introductory Actuarial Standard of Practice*, for definitions and discussions of common terms, which do not appear in bold in this standard.

2.1 Capital—The funds available to support payment of obligations from **risk transfer** or **risk retention**, in excess of the funds backing the liabilities.

2.2 Contingency Provision—A provision in the future cost estimate for anticipated shortfalls related to model or parameter risk. A **contingency provision** is not expected to be earned as profit.

2.3 Cost of Capital—The rate of return that **capital** could be expected to earn in alternative investments of equivalent risk; also known as opportunity cost.

2.4 Investment Income—Proceeds (other than the return of principal) derived from the investment of assets minus investment expenses.

2.5 Process Risk Margin—A provision in the future cost estimate for process risk. A **process risk margin** may be implicit or explicit.

2.6 Profit Provision—A provision in the future cost estimate for profit. The **profit provision** is the difference between all cash inflows and all cash outflows in the future cost estimate of the **risk transfer** or **risk retention**. The **profit provision** is also equal to the underwriting profit provision, plus the provision for **investment income**, minus the provision for income taxes, plus any **process risk margins** in the future cost estimate.

2.7 Risk Retention—A risk-management and risk-control strategy for the assessment, management, or financing of retained risk associated with the specific coverage. Examples of **risk retention** include individual and group self-insurance and large deductible programs.

2.8 Risk Transfer—A risk-management and risk-control strategy, involving legally binding agreements, that shifts responsibility from one party to another or indemnifies one party by another party for the financial obligations associated with the coverage. Examples of **risk transfer** include insurance, prospective reinsurance such as quota share or excess of loss treaties, and retroactive reinsurance such as loss portfolio transfers.

Section 3. Analysis of Issues and Recommended Practices

3.1 Intended Purpose and Intended Measure—The actuary should take into account the intended purpose and the intended measure of the future cost estimate when developing **profit provisions** and **contingency provisions**. Examples of intended measures include the mean, the mean plus **process risk margin**, the high or low estimate within a range of reasonably possible outcomes, and a specified percentile of the distribution of reasonably possible outcomes. Other measures may be appropriate based upon the intended purpose of the estimate.

3.2 Profit Provision—The actuary should include a **profit provision** in the future cost estimate associated with the **risk retention** or **risk transfer**. The **profit provision** may be positive, negative, or zero.

3.2.1 Development of the Profit Provision—When developing the **profit provision**, the actuary may use any method that is consistent with the guidance in this standard and should take into account the following as applicable:

a. the intended purpose and intended measure of the future cost estimate;

b. the structure of the **risk transfer** or **risk retention**, including features such as deductibles, limits, insured response behaviors (such as take-up rates and persistency), dividend or return of premium plans, or reinsurance;

c. the type of entity that is accepting the **risk transfer** or retaining the risk, such as a commercial insurance company, government insurance program, risk pool, or self-insurance program; a for-profit vs. nonprofit entity; or a publicly traded vs. privately held entity;

d. the relationship between risk and return;

e. the **cost of capital** and amount of **capital** supporting the **risk transfer** or **risk retention**, whether available, allocated, or notional;

f. the risk tolerance of the entity that is accepting the **risk transfer** or retaining the risk;

g. the legal, regulatory, and economic environment; and

h. any **process risk margins** included in the future cost estimate.

3.2.2 Benchmarking Cost of Capital—When the actuary uses **cost of capital** to develop the **profit provision**, the actuary may benchmark against other entities or industries. When comparing benchmarks created using different accounting methods, the actuary should make any necessary adjustments so that the benchmarks can be properly compared.

3.2.3 Use of Projected Future Costs—When developing **cost of capital**, **investment income**, income taxes, cash flows, leverage factors, and other assumptions used for the **profit provision**, the actuary should estimate future costs that reflect the environment expected to exist in the period for which the actuary is estimating the future costs.

3.2.4 Investment Income—When developing the **profit provision**, the actuary should take into account both **investment income** from the cash flows related to the **risk transfer** or **risk retention** and **investment income** on any **capital** supporting the transaction. The actuary should refer to ASOP No. 20 for guidance in selecting appropriate **investment income** assumptions.

3.2.5 Income Taxes—When developing the **profit provision**, the actuary should take into account the effect of income taxes.

3.2.6 Profit Provision Components—The actuary should identify and evaluate the components of the **profit provision**, including any explicit or implicit **process risk margins**, the underwriting profit provision, expected **investment income** and expected income taxes, and ensure that the total is appropriate for the intended purpose. When doing so, the actuary should take into account the potential for overlap among different provisions, margins, or loads.

3.2.7 Basis—The actuary should present the **profit provision** or its components using a basis that is consistent with the intended purpose of the future cost estimate. Examples of bases include a percentage of **capital**, a percentage of assets, or a percentage of premium.

3.3 Contingency Provision—The actuary should include a **contingency provision** if model or parameter risk is not provided for in other components of the future cost estimate. The actuary should confirm that such **contingency provision** does not overlap with the **process risk margin.**

3.4 Reliance on Another Party—When relying on another party and thereby disclaiming responsibility for

a. data and other information relevant to the use of data, the actuary should refer to ASOP No. 23, *Data Quality*.

b. a model, the actuary should refer to ASOP No. 56, *Modeling*.

c. assumptions and methods prescribed by another party, the actuary should review the assumption or method for reasonableness and consistency with other assumptions and methods to the extent practicable and appropriate within the scope of the actuary's assignment.

d. any other item not addressed above (including assumptions or methods provided, but not prescribed, by another party), the actuary should review the item for reasonableness and consistency to the extent practicable and appropriate within the scope of the actuary's assignment. In addition, the actuary should be reasonably satisfied that the reliance is appropriate, taking into account the following, as applicable:

1. when the other party is an actuary, whether the actuary knows that the other party is appropriately qualified and has followed applicable ASOPs;

2. whether the actuary knows that the other party has expertise in the applicable field;

3. whether the actuary knows the other party's stated purpose for the item and the extent to which it is consistent with the actuary's intended purpose; and

4. whether the actuary knows of differences of opinion within the other party's field of expertise that are material to the actuary's use of the item.

3.5 Documentation—The actuary should prepare and retain documentation to support compliance with the requirements of section 3 and the disclosure requirements of section 4. The actuary should prepare documentation in a form such that another actuary qualified in the same practice area could assess the reasonableness of the actuary's work. The amount, form, and detail of the documentation should be based on the professional judgment of the actuary and may vary with the complexity and purpose of the actuarial services. In addition, the actuary should refer to ASOP No. 41, *Actuarial Communications*, for guidance related to the retention of file material other than that which is to be disclosed under section 4.

Section 4. Communications and Disclosures

4.1 Required Disclosures in an Actuarial Report—When issuing an actuarial report, the actuary should refer to ASOP Nos. 20, 23, 41, 53, and 56. In addition, the actuary should disclose the following in such actuarial reports, if applicable:

a. the methods and assumptions used in determining the **profit provision** (section 3.2);

b. a description of and the rationale for any **contingency provision** (section 3.3); and

c. when assumptions or methods are prescribed or provided by another party, the party that prescribed or provided them, and, to the extent practicable, the reasonableness of the method or assumption.

4.2 Additional Disclosures in an Actuarial Report—The actuary also should include disclosures in an actuarial report in accordance with ASOP No. 41 for any of the following circumstances:

a. if any material assumption or method was prescribed by applicable law;

b. if the actuary states reliance on other sources and thereby disclaims responsibility for any material assumption or method selected by a party other than the actuary; or

c. if in the actuary's professional judgment, the actuary has deviated materially from the guidance of this standard.

4.3 Confidential Information—Nothing in this standard is intended to require the actuary to disclose confidential information.

Appendix 1

Background and Current Practices

Note: This appendix is provided for informational purposes and is not part of the standard of practice.

Background

Historical Procedures—Until the 1970s, it was common practice to include in rate calculations a standard underwriting profit and contingency provision of 2.5% for workers compensation insurance and 5% for other property/casualty lines of insurance (6% for some property lines). These provisions did not explicitly reflect investment income, since there was general agreement at the time that these standard provisions implicitly reflected investment income and insurance risk in a reasonable fashion. However, economic and structural changes in the insurance industry over time began to lead to the explicit recognition of investment income in calculating insurance rates.

In 1997, ASOP No. 30, *Treatment of Profit and Contingency Provisions and the Cost of Capital in Property/Casualty Insurance Ratemaking*, was adopted to address a number of considerations that arise in the development of profit provisions and separate contingencies provisions:

1. how to measure risk and reflect it in the underwriting profit provision;

2. how or whether to measure any systematic variation from expected losses and reflect it in the contingency provision;

3. which accounting rules should be used to measure insurance returns and to compare them with returns in other industries;

4. how or whether to allocate investment income and capital; and

5. how to relate underwriting profit provisions in rates to the cost of capital.

The growth of risk financing mechanisms that are alternatives to rate-regulated insurance, such as risk retention, captive insurance, pools, and associations, have required different approaches. Available capital, risk tolerance, and risk financing goals differ significantly across the spectrum of risk-transfer and risk-retention mechanisms.

Role of Capital—The primary role of capital in risk transfer and risk retention is to assure payment of future costs, over and above those funds backing the liabilities.

Cost of Capital—Capital has a value, even if the capital is notional, and its use has a cost. The cost is the expected return the capital could earn in alternative investments of equivalent risk.

Judicial decisions dealing with the cost of capital and profit provisions (see, for example, *Federal Power Commission v. Hope Natural Gas*, 320 U.S. 591 [1944]) provide background and definitions for the determination of the cost of capital in a regulatory setting. Outside a regulatory setting, the determination of the amount and return on capital is influenced by the type of risk transfer or risk retention and the goals and risk tolerance of the entity receiving or retaining the risk.

The cost of capital recognizes that there is an opportunity cost regardless of the source of capital or the structure of the entity bearing and funding the risks transferred or retained. The methods used for estimating the cost of capital should reflect the risks involved in the risk transfer or risk retention under consideration. These risks may include insurance, investment, inflation, and regulatory risks, as well as diversification, debt structure, leverage, reinsurance, market structure, and other appropriate aspects of the social, economic, and legal environments. Thus, the cost of capital is likely to vary depending on the nature of the risk transfer or risk retention.

<u>Role of the Profit Provision</u>—The profit provision, which may be reflected in various components of the future cost estimate, provides the risk taker with an expected total return.

<u>Role of the Contingency Provision</u>—A common assumption underlying property/casualty insurance ratemaking is that the estimated costs included in the rate calculations will equal the actual costs. While the actuarial literature does not include many examples that specifically address contingency provisions, one such example is *Contingency Margins in Rate Calculations*, authored by Steven G. Lehmann and published by the Casualty Actuarial Society in 1985.[1] This paper notes the shortfall between historical underwriting results for the insurance industry compared to the underwriting profit provisions embedded in the industry rates. The author also notes that contingencies occur for a variety of reasons and recommends taking such contingencies into account as part of the ratemaking process.

Current Practices

A method commonly used to develop or test the profit provision in insurance rates is to estimate the cost of capital and translate that cost into a profit provision. Profit provisions can also be developed using models that do not directly relate the cost of capital to the profit provision. A profit provision may or may not include an explicit underwriting profit provision. This is particularly true, for example, in funding studies that are targeted to provide funding at a specified percentile of the loss distribution, which reflects a process risk margin as a component of the profit provision.

[1] https://www.casact.org/sites/default/files/database/dpp_dpp85_85dpp220.pdf

If there is significant uncertainty in the estimated costs, a contingency provision in the future cost estimate may be appropriate. In practice, many actuaries support contingency provisions by comparing historical underwriting profitability to the profit provisions embedded in the historical rates, similar to the approach described above in *Contingency Margins in Rate Calculations*. Other approaches to support contingency provisions may be considered as well, such as demonstrating the extent to which parameter or model risk could impact the future cost estimate.

Appendix 2

Comments on the First Exposure Draft and Responses

The first exposure draft of the proposed revision of ASOP No. 30, *Profit Margins and Contingency Provisions in Property/Casualty Risk Transfer and Risk Retention*, was issued in June 2024 with a comment deadline of November 1, 2024. 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 ASOP No. 30 Task Force and Casualty Committee of the Actuarial Standards Board (ASB) carefully considered all comments received, and the ASB reviewed (and modified, where appropriate) the changes proposed by the ASOP No. 30 Task Force and Casualty Committee.

Summarized below are the significant issues and questions contained in the comment letters and the responses. Suggestions for minor wording or punctuation changes are not reflected in the appendix, although they may have been adopted.

The term "reviewers" in appendix 2 includes the ASOP No. 30 Task Force and Casualty Committee and the ASB. The section numbers and titles used in appendix 2 refer to those in the first exposure draft, which are then cross referenced with those in the second exposure draft.

GENERAL COMMENTS	
Comment Response	One commentator asked if the draft would result in changes to the typical loss cost multiplier form used in a state rate filing. The reviewers do not anticipate that this ASOP will result in changes to the form but note that each state determines the rules and regulations associated with state rate filings.
Comment Response	One commentator suggested reverting to "profit provision" instead of "profit margin." The reviewers agree and made the change.
Comment Response	One commentator asked for a better indication of which components apply to risk transfer transactions and which apply to risk retention transactions. The reviewers believe the guidance is clear and made no change in response to this comment.
Comment Response	One commentator suggested that disclosures could be contained in formats other than an actuarial report. The reviewers note that ASOP No. 41 provides latitude in what comprises an actuarial report and made no change in response to this comment.
Comment Response	One commentator said that the manner in which profit margins and contingency provisions are commonly used for captive insurance companies should be considered. The reviewers agree and note that the ASOP applies to future cost estimates for all forms of prospective property/casualty risk transfer and risk retention.

Comment Response	One commentator suggested consistency between the language of this ASOP and the risk margin language in ASOP No. 20, *Discounting of Property/Casualty Claim Estimates.* The reviewers agree and believe the revised language is generally consistent.
Comment Response	One commentator said that the terminology in the current ASOP, profit and contingency provisions, should be retained. The reviewers agree and revised the language accordingly.
Comment Response	One commentator suggested that the ASOP acknowledge that profit margins (or some components thereof) and contingency provisions may not apply to risk retention. The reviewers clarified the language in section 3.2.
TRANSMITTAL MEMO QUESTIONS	
Question 1: Are the distinctions and relationships among contingency provision, risk margin, underwriting profit margin, and profit margin clear? If not, please explain and suggest language.	
Comment Response	Several commentators said the contingency provision definition is not clear. The reviewers modified the definition of contingency provision in response to more specific comments (see section 2.2).
Comment	Two commentators said that in general the distinctions are clear.
Comment Response	One commentator said that it may be helpful to discuss when risk margin is a component of expected loss and is not expected to earn a profit. The reviewers clarified the definition of risk margin (now process risk margin).
Question 2: In the context of a contingency provision (both in the definition in section 2.2 and the guidance in section 3.2), is the difference between modeled expected losses and actual expected losses clear? If not, please explain and suggest language.	
Comment Response	One commentator suggested adding more examples in section 3.2 (now section 3.3) and expanding the definition to all costs. The reviewers agree in part and modified the definition in section 2.2.
Comment Response	Several commentators suggested clarifying or removing “actual expected losses.” The reviewers removed the phrase “actual expected losses.”
Comment Response	One commentator suggested including the term “systematic variation.” The reviewers agree in part, modified the definition of risk margin to encompass process risk in section 2.5, and modified the definition of contingency provision to encompass parameter and model risk in section 2.2.
Question 3: Is the level of disclosure required appropriate?	
Comment	Several commentators said yes.
Comment Response	One commentator suggested expanding the disclosures to disclose the intended purpose and use of the profit and contingency provisions. The reviewers note these disclosures are covered by ASOP No. 53, *Estimating Future Costs for Prospective Property/Casualty Risk Transfer and Risk Retention*, and made no change.

TITLE	
Comment	One commentator suggested the following title: *Profit and Contingency Provisions and the Cost of Capital for Property/Casualty Risk Transfer and Risk Retention*.
Response	The reviewers generally agree and made a similar change.
SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECTIVE DATE	
Section 1.2, Scope	
Comment	One commentator suggested limiting the scope to risk transfer subject to rate regulation.
Response	The reviewers disagree and made no change in response to this comment.
Comment	One commentator suggested clarifying that there are situations in which there may be no need for profit margins or contingency provisions.
Response	The reviewers clarified the language on profit provisions, now in section 3.2.
SECTION 2. DEFINITIONS	
Section 2.1, Capital	
Comment	Two commentators suggested an alternative definition that incorporated liquid assets or funds dedicated satisfying the payment obligations from a defined set of liabilities arising from risk transfer or risk retention.
Response	The reviewers disagree and made no change in response to this comment.
Section 2.2, Contingency Provision	
Comment	Two commentators suggested broadening the definition of contingency provision to include costs and not just losses.
Response	The reviewers agree and made changes accordingly.
Comment	One commentator suggested eliminating contingency provision.
Response	The reviewers disagree and made no change in response to this comment.
Comment	One commentator proposed defining a contingency provision as "An element of a future cost estimate which adjusts for persistent differences in such estimates."
Response	The reviewers disagree and made no change in response to this comment.
Comment	One commentator suggested using "costs" instead of "losses," removing the phrase "actual expected losses," and not using the word "model."
Response	The reviewers agree and made changes consistent with the comment.
Comment	Two commentators suggested removing the term "modeled" and the phrase "actual expected losses."
Response	The reviewers agree and made the change.
Comment	One commentator suggested adding "if any."
Response	The reviewers disagree and made no change in response to this comment.

Comment Response	One commentator suggested adding judgment and experience as a consideration. The reviewers disagree and made no change in response to this comment.
Comment Response	One commentator suggested changing "ratemaking" to "future cost estimation" process. The reviewers deleted "ratemaking" and replaced with "future cost estimate."
Sections 2.2, Contingency Provision and 2.6, Risk Margin (now section 2.5, Process Risk Margin)	
Comment Response	One commentator said it was unclear whether contingency provision and risk margin overlap. The reviewers modified the definitions and added guidance to section 3.2.6 and 3.3.
Sections 2.2, Contingency Provision, 2.5, Profit Margin (now section 2.6, Profit Provision), and 2.6 Risk Margin (now section 2.5, Process Risk Margin)	
Comment Response	One commentator suggested adding examples to the definitions of contingency provision, profit margin, and risk margin. The reviewers believe the guidance is sufficient and made no change in response to this comment.
Section 2.4, Investment Income	
Comment Response	One commentator asked if present value of future investment income should be considered. The reviewers believe the language is clear and made no change.
Section 2.5, Profit Margin (now section 2.6, Profit Provision)	
Comment Response	Two commentators suggested clarifying that a profit margin is a provision in the future cost estimates to provide for profit, changing "less" to "minus," and changing the defined term from "profit margin" to "profit provision" throughout the ASOP. The reviewers agree and made changes consistent with the comment.
Section 2.5, Profit Margin (now section 2.6, Profit Provision), and section 2.6, Risk Margins (now section 2.5, Process Risk Margin)	
Comment Response	One commentator questioned the use of "expected." The reviewers deleted "expected" in section 2.5 and revised the language in section 2.6 to eliminate "expected."
Proposed new definitions	
Comment Response	Commentators suggested adding definitions for risk transfer/retention cash flows, cash flow risk, and investment income from risk transfer/retention operations. The reviewers believe these definitions are not needed and made no change in response to these comments.
Section 3. Analysis of Issues and Recommended Practices	
Section 3.1, Overview (now Intended Purpose and Intended Measure)	
Comment Response	One commentator suggested clarifying that the profit provision includes the provision for the cost of capital. The commentator also suggested adding guidance on the cost of capital. The reviewers agree in part, note that section 3.3 (now 3.2) includes cost of capital as a consideration for the profit provision, and made no change in response to this comment.

Comment Response	One commentator suggested changing “are” to “may be” in the first sentence. The reviewers deleted the paragraph in response to other comments.
Section 3.2, Contingency Provision (now section 3.3)	
Comment Response	One commentator suggested including additional examples that could justify the use of contingency provisions. The reviewers agree in part and modified the definition in section 2.2.
Comment Response	One commentator suggested that the concept of a “contingency provision” should be eliminated. The reviewers disagree and made no change in response to this comment.
Comment Response	One commentator suggested using “costs” instead of “losses,” removing the phrase “actual expected losses,” and not using the word “model.” The reviewers agree and made changes consistent with the comment.
Comment Response	One commentator suggested referring to the ratemaking process instead of the future cost estimate process. The reviewers disagree and made no change in response to this comment.
Comment Response	One commentator suggested alternative guidance for the contingency provision, including materiality considerations and the use of judgment on the part of the actuary in determining whether a contingency provision is appropriate. The reviewers note that materiality and professional judgment are covered in ASOP No. 1, *Introductory Actuarial Standard of Practice*, and made no change in response to this comment.
Comment Response	One commentator suggested adding consideration of the intended purpose and intended measure of the future cost estimate. The reviewers agree and added consideration of the intended purpose and intended measure of the future cost estimate in section 3.1.
Section 3.3, Profit Margin (now section 3.2, Profit Provision)	
Comment Response	Two commentators suggested changing “profit margin” to “profit provision.” The reviewers agree and made the change.
Section 3.3.1(d) (now section 3.2.1[e])	
Comment Response	Two commentators suggested adding “supporting the transaction” to (d). The reviewers agree and made changes consistent with the comment.
Section 3.3.2, Profit Provision Components (now section 3.2.6)	
Comment Response	One commentator suggested deleting “any” before “implicit or explicit risk margins.” The reviewers disagree and made no change in response to this comment.

Section 3.3.3, Benchmarking the Cost of Capital (now section 3.2.2)	
Comment Response	One commentator suggested including the actuary's background and experience as a consideration when deciding whether to use benchmarks. The reviewers disagree, note that Precept 2 of the Code of Professional Conduct and the Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States specify education and experience requirements, and made no change in response to this comment.
Comment Response	One commentator suggested including reference to different sources and uses of capital when benchmarking. The reviewers disagree and made no change in response to this comment.
Section 3.3.7, Use of Basis (now section 3.2.7, Basis)	
Comment Response	One commentator suggested including "consistent with the intended purpose and use of the profit provision." The reviewers agree and made changes consistent with the comment.
3.4 Reliance on Another Party	
Comment Response	One commentator suggested several revisions to this section, including the review of assumptions and methods prescribed by another party for consistency with the intended purpose and use of the profit and contingency provision in (c) and deleting (d). The reviewers disagree with the suggestions and made no change in response to this comment.
Proposed new section, Contingency Provision and Risk Margin	
Comment Response	One commentator suggested a new section on the interactions among contingency provisions, risk margins, profit margins, and cost of capital. The reviewers added guidance in section 3.2.6 and 3.3 to address this topic.
Proposed new section, Intended Purpose and Use	
Comment Response	One commentator suggested a new section on the actuary's understanding of the purpose and use of the profit margins and contingency provisions. The reviewers added guidance in section 3.1 to address this topic.
Proposed new section, Basis for Cost of Capital	
Comment Response	One reviewer suggested adding guidance for the cost of capital. The reviewers believe the guidance is appropriate and made no change in response to this comment.
SECTION 4. COMMUNICATIONS AND DISCLOSURES	
4.1 Required Disclosures in an Actuarial Report, (a), (d), (e), (g)	
Comment Response	One commentator suggested that the required disclosures were too broad. The reviewers clarified the language.
Proposed new section, Disclosure of Intended Purpose and Use	

Comment	One commentator suggested a new section to disclose the intended purpose and intended potential uses of the profit margin and contingency provision.
Response	The reviewers disagree and made no change.