

Title of Exposure Draft: ASOP 30: Profit Provisions, Contingency Provisions, and the Cost of Capital in Property/Casualty Risk Transfer and Risk Retention – Second Exposure Draft

Comment Deadline: July 1, 2026

Instructions: Please review the exposure draft, and give the ASB the benefit of 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:

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.

Restating comments verbatim or with slight variations may slow down the ASB review process. If you wish to reinforce any comments provided in another commentator's submission, please clearly state how your comments agree or differ.

I. Identification:

Susan Kent, 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	Profit Provisions, Contingency Provisions, <u>Risk Margins</u> , and the Cost of Capital in Property/Casualty Risk Transfer and Risk Retention	Add risk margins to the title as it is included in the scope. Risk margins are major components of the future cost estimates for risk retention applications and can be significant components in ratemaking and pricing of increased limits and excess of loss.
History of the Standard	State rate regulation typically does not apply to property and casualty coverage provided by reinsurers, excess or surplus lines insurers, <u>specialty commercial lines insurers</u> , self-insurance arrangements, or captive insurers. <u>In addition, several states have industrial insured exemptions from rate regulations or allow insurers to file rating plans in certain commercial lines allowing "submit to company" for pricing based on the coverage or other criteria in the rating plan.</u>	Add language to recognize some of the nuances in rate regulation where the current ASOP No. 30 is not applicable.

History of the Standard	To perform actuarial services in such other circumstances, including treatment of profit provisions, contingency provisions, <u>the cost of capital</u> , or risk margins, an actuary must apply judgment more broadly than the current guidance in ASOP No. 30.	Add the cost of capital.
History of the Standard	ASOP No. 30 currently <u>is limited to defining a rate as the estimation of the future value of expected costs. The standard does not address other considerations that may affect a price, such as marketing goals, competition, and legal restrictions. requires the actuary to use expected future values for every component of an actuarially determined rate. Under the current ASOP 30, if</u> 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 rated to the client or employer.	Clarified the current definition of a rate and added a sentence on other considerations that are not addressed in the current ASOP No. 30.
1.1	...with respect to developing or reviewing profit provisions, <u>and</u> contingency provisions, <u>risk margins, and the cost of capital that are included in future cost estimates</u>	Add the cost of capital and risk margins. so purpose is consistent with recommended ASOP title. Delete language to clarify that these provisions and the cost of capital may or may not be included in the future cost estimate, consistent with the intended purpose of the future cost estimate.
1.2	...with respect to developing or reviewing profit provisions, <u>and</u> contingency provisions, <u>risk margins, and the cost of capital as may be included in the actuary's</u> future cost estimates for all forms of prospective property/casualty risk transfer and risk retention, _	Add phrase so scope is consistent with ASOP title. Use "may be included in the actuary's future cost estimates" because future cost estimates do not necessarily require estimates of profit, contingencies, risk margins or the cost of capital.
1.2	If the actuary is performing actuarial services that involve reviewing profit provisions, or contingency provisions, <u>risk margins, or the cost of capital</u> .	Add phrase so scope is consistent with ASOP title.
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. The amount of financial assets in excess of the amounts supporting the payment obligations associated with the risk transfer or risk retention. Capital is sometimes referred to as surplus or as policyholders' surplus.	The funds available to support payment of obligations are difficult to determine for many risk retention situations unless there are committed funds segregated and set aside. In many cases, risk financing for risk retention is only an accounting liability, there is no corresponding "capital" or surplus as there is for an insurer or there may be for a self-insurance fund. Policyholders' surplus is commonly used to refer to capital, and it may be beneficial to readers to note this.
2.2	Contingency Provision—A provision <u>to correct for expected deficiencies in the future cost estimate, which are not otherwise accounted for in other components of the future cost estimation process. for anticipated shortfalls related to model or parameter risk. A contingency provision is not expected to be earned as profit.</u>	We recommend returning to language like that in the current standard.

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. This term may also refer to the amount that results from applying the applicable rate of return to the capital amount.	Added language for clarity.
2.5	Process -Risk Margin—A provision in the future cost estimate for process risk. A process risk margin may be implicit or explicit. for the risk that actual cash flows can deviate materially from expected cash flows. A risk margin is typically not a component of the expected cash flows and is therefore expected to be earned as profit. A risk margin is sometimes referred to as a risk load. A process risk margin may be implicit or explicit.	Process, parameter, and model risk are not defined in this ASOP. Actuarial models are quite flexible and there are examples where some of the process risk can be embedded in some of the parameter risk. Also, model risk can be reduced by increasing the number of parameters, thereby increasing the parameter risk and/or the process risk. It is difficult to separate these "risks" which are components of the drivers of variability in the outcomes.
2.6	Profit Provision—A provision in the future cost estimate for profit. The profit provision is the <u>expected</u> 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.	The profit provision is an expected value. See our recommendation for risk margin.
2.8	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.	Simplified examples language that matches ASOP No. 53.
3.1	The actuary should take into account the intended purpose and the intended measure of the future cost estimate when developing <u>or reviewing</u> profit provisions, and contingency provisions, <u>risk margins and cost of capital</u> . Examples of intended measures <u>may</u> include the mean, the mean plus process risk margin, ...	Include reviewing as well as developing. Include risk margins and cost of capital to match title/scope. We recommend not unnecessarily narrowing the example intended measure of mean plus risk margin to only process risk. Mean plus risk margin is used in ASOP No. 53.
3.2	The actuary should <u>may</u> 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.	Changing "should" to "may" allows for the elimination of the second sentence and better recognizes that a profit provision may not be calculated for risk retention.
3.2.1.c	the financial condition and financial resources type of the entity that is accepting the risk transfer or retaining the risk; such as a commercial insurance company, government insurance program, a reinsurer, risk pool, or self insurance program; a for profit vs. Nonprofit entity; or a publicly traded vs. Privately held entity.	The financial condition and financial resources of the entity are more relevant than the examples of entities.
3.2.1.e	the cost of capital and amount of capital supporting the risk transfer or risk retention, and how whether the <u>amount of</u> capital amount is determined available, allocated, or notional;	Simplifies the wording.
3.2.1.h	any process <u>explicit or implicit</u> risk margins included in the future cost estimate.	Implicit risk margins are not in the exposure draft in this section but are mentioned in sections 2.5, 3.2.6 and in the History of the Standard ("it is now common in some contexts to include explicit or implicit risk margins in the future cost estimation process.")
3.2.2	When the actuary uses cost of capital to develop <u>a component of</u> the profit provision,	Adding language for clarity.
3.2.3	When developing <u>or reviewing</u> cost of capital, investment income, income taxes, cash flows, leverage factors, <u>risk margins</u>	Adding "or reviewing" to match scope.

		Adding risk margins for completeness.
3.2.4	When developing <u>or reviewing</u> 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 the amount of capital	Adding "or reviewing" to match scope. Revised language for clarity.
3.2.5	When developing <u>or reviewing</u> the profit provision, the actuary should take into account the effect of income taxes, <u>if applicable</u> .	Adding "or reviewing" to match scope. Adding "if applicable" since income taxes may not be applicable.
3.2.6	The actuary should identify and evaluate the components of the profit provision, which may include including any explicit or implicit process-risk margins, the underwriting profit, provision, expected investment income and expected income taxes, <u>and the actuary</u> should 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 <u>components of the profit</u> provisions, <u>such as cost of capital or risk margins, or loads</u> .	Reword for clarity.
3.2.6	<u>The actuary should present the profit provision and/or its components</u>	Both the provision and its components could be presented.
3.2.7	<u>When using a basis to</u> present a the profit provision or its components, <u>the actuary should use</u> a basis that is consistent with the intended purpose of the future cost estimate.	For many situations, such as reinsurance, surplus lines rates, pools and associations, risk retention funding, there may be little if any need for the actuary to present the profit provision as a percentage of some base. For regulated ratemaking there would generally be such a need. The suggested wording should be appropriate for these different situations.
3.3	Contingency Provision—The actuary should <u>consider including</u> include a contingency provision if model or parameter risk is not provided for in other components of the future cost estimate. The actuary should <u>ensure confirm</u> that such contingency provision does not overlap with the process-risk margin <u>or the profit provision</u> .	Revised to make consistent with our recommendation to remove mentions of model, parameter, and process risk.
3.4.c	material assumptions, and methods, <u>or models</u> prescribed by another party, the actuary should review the assumption, or method, <u>or model</u> for reasonableness and consistency with other assumptions, and methods, <u>or models</u> to the extent practicable and appropriate within the scope of the actuary's assignment.	Make this consistent to other references to <i>material</i> methods and assumptions. Include models.
3.4.d.	Strike "the actuary knows that" from each of the four listed items	Does it relieve the actuary of needing to be reasonably satisfied that the reliance is appropriate if the actuary does not know any of these items?
3.4.e	<u>The actuary should disclose any limitations which, in the actuary's professional judgment, materially affect the actuary's ability to be reasonably satisfied regarding the above items.</u>	Recommend additional section for clarification of how the actuary can comply with the standard via disclosure when any reliance on other parties is material and the actuary's ability to be "reasonably satisfied" is limited.

3.5	The actuary should prepare and retain documentation to support compliance with the requirements of sections 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, <i>Actuarial Communications</i> , for guidance related to preparing documentation for possible assessment by another actuary qualified in the same practice area and for the retention of file material other than that which is to be disclosed under section 4.	All requirements of section 4 are disclosure requirements. Refer to ASOP No. 41 for preparing documentation such that another actuary could assess the reasonableness of the work.
4.2.a	if any material assumption, <u>model</u> , or method...	Include model.
4.2.b	... for any material assumption, <u>model</u> , or method...	Include model.

IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
Add a section on Role of Risk Margins in the Background section.	Risk margins (risk loads) are frequently used on risk transfer future

V. Signature:

Commentator Signature	Date
Susan Kent, MAAA, FCAS Vice President, Casualty, American Academy of Actuaries, on behalf of the Casualty Practice Council	7/8/26