Title of Exposure Draft: Expense Provisions for Future Cost Estimates for Prospective Property/Casualty Risk Transfer and Risk Retention

Comment Deadline: May 31, 2022

I. Identification:

Travelers Insurance Actuarial Staff. Principal POC: Chris Olson

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

Question No.	Commentator Response
N/A	

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)
3.2	Remove ~~strike-through~~ wording: 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.~~	Overhead costs are incurred whether the policy or policies are sold or not. These are generally fixed costs that must be recovered in some fashion in the pricing. There needs to be much better guidance in this area. Expense Flattening is specifically mentioned in the Appendix but not addressed at all in the ASOP. It would be good to address it in the ASOP, possibly as an approach for fixed overhead expenses.
3.6	Remove sentence "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."	It says to include a residual market provision, but it seems to say to recover past costs that weren't fully recognized in the price, and to reduce future premiums for previous amounts where there was overcollection. That is not the way things work in a competitive market.
3.10	Remove ~~strike-through~~ wording: 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.	They say that you can rely on another actuary for part of the expense provisions, but you should be "reasonably satisfied" that the other actuary's work "was performed in accordance with applicable ASOPs". I view that as not realistic, as it would require auditing their documentation before you can rely on their work. It should be sufficient to know whether that other actuary is qualified or not.
3.3	Remove ~~strike-through~~ and add red wording: The actuary may amortize start-up, ~~or~~ development, or acquisition costs using an appropriate amortization period.	Amortizing expenses should also be addressed from perspective of high initial policy acquisition costs in addition to company start-up costs. Common industry practice today includes this amortization and would be good to

		recognize the consideration for an appropriate time period.

IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
Loss Adjustment Expense: There is no mention of differences between Allocated LAE vs. Unallocated LAE, but how these expenses are handled can be very different, particularly for Loss Sensitive policies.	

V. Signature:

Commentator Signature	Date