

## Appendix 2

### Comments on the Exposure Draft and Responses

The exposure draft of the proposed revision of ASOP No. 29, *Expense Provisions for Future Cost Estimates for Prospective Property/Casualty Risk Transfer and Risk Retention*, was issued in February 2022 with a comment deadline of May 31, 2022. Seven 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. 29 Task Force and the 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 Casualty Committee.

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

The term “reviewers” in appendix 2 includes the ASOP No. 29 Task Force, the Casualty Committee, and the ASB. The section numbers and titles used in appendix 2 refer to those in the exposure draft, which are then cross referenced with those in the new exposure draft.

GENERAL COMMENTS	
Comment	One commentator questioned whether this ASOP is needed.
Response	The reviewers believe this ASOP is necessary to provide guidance for expense provisions.
Comment	One commentator suggested repealing ASOP No. 29 and consolidating it with ASOP No. 53, <i>Estimated Future Costs for Prospective Property/Casualty Risk Transfer and Risk Retention</i> .
Response	The reviewers believe that ASOP No. 29 provides specific guidance for expenses and that the two standards should not be combined.
Comment	One commentator suggested adding definitions and recommended practice for loss cost and loss cost multiplier.
Response	The reviewers note that the ASOPs are principle-based and believe the current language covers these issues at an appropriate level of detail. Therefore, the reviewers made no change in response to this comment.
Comment	One commentator suggested adding a section on risk load, risk charge, risk margin, risk adjustment, or a provision for risk.
Response	The reviewers added new guidance on intended measure in response to this comment.
Comment	One commentator suggested referencing ASOP No. 30, <i>Treatment of Profit and Contingency Provisions and the Cost of Capital in Property/Casualty Insurance Ratemaking</i> , in the background.
Response	The reviewers believe a reference to ASOP No. 30 is not necessary.

Comment	One commentator suggested defining which types of single-parent captives would be considered risk retention.
Response	The reviewers believe that whether an item is risk transfer or risk retention, or a combination, does not change the need to estimate expense provisions. Therefore, the reviewers made no change in response to this comment.
Comment	One commentator suggested clarifying that the term “risk transfer” is not used in an accounting context in this standard.
Response	The reviewers believe that the context of the term “risk transfer” is clear and made no change in response to this comment.
Comment	One commentator suggested changing the title to “Estimating Expense Provisions for Prospective Property/Casualty Risk Transfer and Risk Retention.”
Response	The reviewers made changes consistent with the intent of the commentator’s suggestion.
<b>SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECTIVE DATE</b>	
<b>Section 1.1, Purpose</b>	
Comment	One commentator suggested deleting “future cost estimates” because it was redundant.
Response	The reviewers agree and made the change.
<b>Section 1.2, Scope</b>	
Comment	Several commentators suggested modifying the language regarding loss adjustment expenses.
Response	The reviewers added language in sections 1.2 and 2.5 and added section 3.6 to address the treatment of loss adjustment expenses.
Comment	One commentator suggested alternative language regarding the relationship between ASOP No. 53 and this standard and moving the reference to ASOP No. 56 to the scope section.
Response	The reviewers note that the reference to ASOP No. 53 has been deleted from the scope section and that both ASOPs are referenced in section 3.3.
<b>SECTION 2. DEFINITIONS</b>	
Comment	One commentator suggested expanding the introduction to section 2 to introduce the concept of expense categories earlier in the standard.
Response	The reviewers made numerous changes to clarify and separate the categorization of expenses from the development of expense provisions.
Comment	One commentator suggested adding the term “reinsurance” to the list of expense categories defined in section 2.
Response	The reviewers note that the treatment of the cost of reinsurance is covered in section 3.7 (now section 3.10) and made no change.
<b>Section 2.1, Commission and Brokerage Fees</b>	
Comment	One commentator suggested adding “service” as another activity supported by commission and brokerage fees.
Response	The reviewers agree and made the change.

<b>Section 2.2, Expense Provision (now section 2.3, Expense Provisions)</b>	
Comment	One commentator suggested the term “provision” has a different meaning than “future cost estimate” and that additional definitions were needed.
Response	The reviewers disagree but clarified the language in several places.
Comment	One commentator proposed changing the exclusionary language regarding losses and other items.
Response	The reviewers believe the language is appropriate and made no change.
<b>Section 2.3, General Administrative Expenses (now section 2.4)</b>	
Comment	One commentator suggested including cost of capital in the list of excluded expenses.
Response	The reviewers agree and added cost of capital to the list of exclusions in the definition of expense provisions (now section 2.3).
Comment	One commentator suggested defining the excluded items—losses (loss costs or loss provision), investment expenses, profit (profit provision or loading), contingencies (contingency provision), cost of capital, federal or foreign income taxes.
Response	The reviewers disagree and made no change.
Comment	One commentator proposed changing the exclusionary language regarding investment expenses.
Response	The reviewers believe the language is appropriate and made no change.
<b>Section 2.4, Loss Adjustment Expenses (now section 2.5)</b>	
Comment	One commentator suggested replacing “even if it is ultimately determined that the claim is invalid” with more general language.
Response	The reviewers agree and modified the language accordingly.
<b>Section 2.5, Other Acquisition Expenses (now section 2.6)</b>	
Comment	One commentator suggested adding an example.
Response	The reviewers believe an example is not needed and made no change.
<b>Section 2.6, Policyholder Dividends (now section 2.7)</b>	
Comment	One commentator suggested changing the title to “provision for policyholder dividends.”
Response	The reviewers did not change the defined term but changed the title of section 3.7 to “Provision for Policyholder Dividends.”
Comment	One commentator suggested that “return of premium or distribution of surplus” could be incorrect and potentially misleading.
Response	The reviewers disagree and made no change.
<b>Section 2.7, Residual Market Provision (now section 2.8, Residual Market Expenses)</b>	
Comment	One commentator suggested changing the definition to clarify that such anticipated costs may or may not be the result of a direct actuarial estimation or recommendation.
Response	The reviewers disagree but made other clarifying changes.

<b>Section 2.8, Risk Retention (now section 2.9)</b>	
Comment	Two commentators suggested removing “certain types of single parent captives.”
Response	The reviewers believe the language is appropriate and made no change in response to this comment.
Comment	One commentator suggested adding deductibles as an example.
Response	The reviewers added “deductibles” to the list of examples.
<b>Section 2.10, Statutory Assessment Provision (now section 2.11, Statutory Assessment Expenses)</b>	
Comment	One commentator suggested changing the definition to clarify that such anticipated costs may or may not be the result of a direct actuarial estimation or recommendation.
Response	The reviewers made clarifying changes.
<b>Section 2.11, Taxes, Licenses, and Fees (now section 2.12)</b>	
Comment	One commentator suggested changing the definition to clarify that such anticipated costs may or may not be the result of a direct actuarial estimation or recommendation.
Response	The reviewers believe the language is appropriate and made no change.
<b>SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES</b>	
<b>Section 3.1, Categorizing Expenses</b>	
Comment	One commentator suggested changing the “expense provisions” to “the entity’s expenses” in the first sentence.
Response	The reviewers made changes to clarify and separate the categorization of expenses from the development of expense provisions.
Comment	One commentator suggested eliminating “but are not limited to” in the second sentence.
Response	The reviewers agree and made the change.
Comment	One commentator suggested adding the cost of reinsurance to the list of expense categories.
Response	The reviewers agree and made the change.
Comment	One commentator suggested expanding the commentary on the selection of expense categories.
Response	The reviewers agree and added appropriate language.
<b>Section 3.2, Developing Expense Provisions (now section 3.3)</b>	
Comment	One commentator suggested that the expenses should reflect conditions expected in the time period for which the future cost estimates are needed. The same commentator suggested reordering the guidance in this section.
Response	The reviewers clarified the language to address the commentator’s concerns.
Comment	Several commentators suggested elaborating on the nature of fixed versus variable expenses and adding examples of non-proportional expense approaches.
Response	The reviewers believe the language is appropriate and made no change in response to these comments.
Comment	One commentator suggested adding language referring to intended measure.

Response	The reviewers agree, added section 3.3 on intended measure, and made other modifications in section 3.2.
Comment	One commentator suggested adding language on the use of experts.
Response	The reviewers agree and added section 3.14, Reliance on the Expertise of Others.
Comment	One commentator suggested replacing the reference to policies and coverages with “terms and parameters of the risk transfer or risk retention.”
Response	The reviewers clarified the language in response to the comment.
Comment	One commentator suggested changing “expense” to “expense provisions” and deleting the excluded expense categories.
Response	The reviewers changed “expense” to “expense provisions” but did not delete the excluded expense categories.
Comment	One commentator suggested deleting the references to ASOP Nos. 53 and 56.
Response	The reviewers believe the references are appropriate and made no change in response to this comment.
<b>Section 3.3, Start-Up Costs (now section 3.4, Amortized Expenses)</b>	
Comment	One commentator suggested adding acquisition costs.
Response	The reviewers agree and made the change.
<b>Section 3.5, Policyholder Dividends (now section 3.7, Provision for Policyholder Dividends)</b>	
Comment	One commentator suggested changing the title to Provision for Policyholder Dividends.
Response	The reviewers agree and made the change.
Comment	One commentator suggested edits to clarify the section.
Response	The reviewers agree and made the changes.
<b>Section 3.6, Residual Market and Statutory Assessment Provisions (now section 3.8, Provision for Residual Market Expenses, and section 3.9, Provision for Statutory Assessment Expenses)</b>	
Comment	Several commentators suggested deleting or clarifying the last sentence, and one commentator suggested adding “The provisions should reflect the timing of the residual market or statutory assessment mechanism.”
Response	The reviewers did not modify the last sentence but added the suggested sentence.
<b>Section 3.7, Provision for the Cost of Reinsurance (now section 3.10)</b>	
Comment	One commentator suggested changing the word “expected” to “the potential for a significant impact from,” as the term “expected” can mean “expected value.”
Response	The reviewers changed “expected” to “anticipated” for clarity.
Comment	One commentator suggested additional language regarding other relevant information to address complex reinsurance programs.
Response	The reviewers believe the language is appropriate and made no change in response to this comment.

<b>Section 3.10, Reliance on Another Actuary (now section 3.13)</b>	
Comment	One commentator suggested removing language requiring the actuary to be reasonably satisfied that the supporting analysis was performed in accordance with applicable ASOPs.
Response	The reviewers believe the language is appropriate and made no change.
Comment	One commentator suggested changing the disclosure sentence.
Response	The reviewers deleted this sentence to conform with ASB style, but note that the disclosure is covered in section 4.
Comment	One commentator suggested deleting this section.
Response	The reviewers believe the section is appropriate and did not delete it.
<b>Section 3.11, Conflict with Applicable Law (now deleted)</b>	
Comment	One commentator suggested deleting the disclosure of “any material difference from the actuarially determined expense provisions.”
Response	The reviewers agree and deleted the section, because with the suggested change, it became redundant with section 1.2.
Comment	One commentator suggested clarifying the language.
Response	The reviewers deleted the section in response to another comment.
<b>SECTION 4. COMMUNICATIONS AND DISCLOSURES</b>	
<b>Section 4.1, Required Disclosures in an Actuarial Report</b>	
Comment	One commentator questioned the need for the list of disclosures as it might relate to an actuarial memorandum for a rate filing.
Response	The reviewers believe the disclosures are appropriate for an actuarial report and made no change in response to this comment.
<b>Section 4.1(a) (now sections 4.1[a] and [b])</b>	
Comment	One commentator suggested adding “amounts” to the disclosure requirement.
Response	The reviewers agree with the concept and modified the language accordingly.
<b>Section 4.1(d) (now deleted)</b>	
Comment	One commentator suggested adding “expense” before “trending.”
Response	The reviewers deleted the disclosure requirement in this ASOP, as it is covered in ASOP No. 13.
<b>Section 4.1(g)</b>	
Comment	One commentator suggested adding “costs” after “reinsurance.”
Response	The reviewers note the disclosure for the cost of reinsurance is now included in section 4.1(c).
<b>Section 4.1(j) (now section 4.1[f])</b>	
Comment	One commentator suggested changing this section to “reliance on another actuary or on an expert.”

Response	The reviewers made no change to this section but added a separate disclosure requirement for reliance on the expertise of others.
Comment	One commentator suggested deleting section 4.1(j).
Response	The reviewers believe the disclosure is appropriate and made no change in response to this comment.
<b>Section 4.1(k) (now deleted)</b>	
Comment	One commentator suggested deleting the requirement to disclose any material difference between the expense provisions developed in accordance with the law and the actuarially determined expense provisions.
Response	The reviewers agree and made the change.
Comment	One commentator suggested clarifying the language regarding expense provisions absent the requirements of law.
Response	The reviewers deleted the section in response to another comment.
<b>Section 4.2, Additional Disclosures in an Actuarial Report</b>	
<b>Section 4.2(b)</b>	
Comment	One commentator suggested replacing “selected” with “chosen or used.”
Response	The reviewers disagree and made no change.
<b>Appendix, Background and Current Practices</b>	
Comment	One commentator suggested expanding the background section to reference the Casualty Actuarial Society’s <i>Statement of Principles Regarding Property and Casualty Ratemaking</i> .
Response	The reviewers agree and made appropriate changes.
Comment	One commentator suggested changing “inappropriateness” to “appropriateness” in the background section.
Response	The reviewers agree with the concept and modified the language accordingly.