ACTUARIAL STANDARDS BOARD

● **SECOND EXPOSURE DRAFT** ●

Proposed Revision of
Actuarial Standard
of Practice
No. 29

Expense Provisions for Prospective Property/Casualty Risk Transfer and Risk Retention

Comment Deadline:
May 1, 2023

Developed by the
Task Force to Revise ASOP No. 29 of the
Casualty Committee of the
Actuarial Standards Board

Approved by the
Actuarial Standards Board
December 2022

TABLE OF CONTENTS

APPENDIXES

December 2022

TO: Members of Actuarial Organizations Governed by the Standards of Practice of the Actuarial Standards Board and Other Persons Interested in Expense Provisions for Prospective Property/Casualty Risk Transfer and Risk Retention

FROM: Actuarial Standards Board (ASB)

SUBJ: Proposed Revision of Actuarial Standard of Practice No. 29

This document contains the second exposure draft of a proposed revision of actuarial standard of practice (ASOP) No. 29, *Expense Provisions for Prospective Property/Casualty Risk Transfer and Risk Retention*. Please review this exposure draft and give the ASB the benefit of your comments and suggestions. Each written comment letter or email 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. 29 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 or organization.

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: **May 1, 2023**

History of the Standard

This standard originally was developed by the Subcommittee on Ratemaking of the ASB's Casualty Committee. At that time, the Casualty Actuarial Society's May 1988 *Statement of Principles Regarding Property and Casualty Insurance Ratemaking* identified and described principles applicable to the determination and review of property/casualty insurance rates. Those principles were limited to the portion of the ratemaking process involving the estimation of costs associated with the transfer of risk. For most lines of business, the expense provisions are a significant portion of the rate. For some lines of business, the expense provisions can actually exceed the loss provision. For this reason, it was necessary to have a standard of practice to provide guidance to actuaries when determining expense provisions.

In 2020, the ASB's Casualty Committee reviewed the standard and identified several obsolete references, which necessitated this revision.

This revision uses the phrase "risk transfer or risk retention" throughout the text, with the exception of the title. This differs from the phrase "risk transfer and risk retention," which is used in ASOP No. 53, *Estimating Future Costs for Prospective Property/Casualty Risk Retention and Risk Transfer*. These phrases have the same intention and should not be interpreted to have any different meaning. Both of these standards apply to actuaries performing work that pertains to either risk transfer or risk retention, or both, as part of the same work product. The ASB has concluded that the word "or" is more appropriate.

First Exposure Draft

The first exposure draft was issued in February 2022 with a comment deadline of May 31, 2022. Seven comment letters were received and considered in making changes that are reflected in the second exposure draft.

Notable Changes from the First Exposure Draft

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

1. Distinguished the identification of expense categories from the calculation of expense provisions (future cost estimates) for those categories.

2. Added guidance regarding allocated and unallocated loss adjustment expenses in several sections, including in section 1.2 and the new section 3.6.

3. Added a definition of coverage in section 2.

4. Added a new section 3.2 on intended measure. Intended measure is now also referred to in other sections.

5. Added guidance reflecting the timing of residual market expenses in section 3.8.

6. Added guidance reflecting the timing of statutory assessments in section 3.9.

7. Expanded the guidance in section 3.11 to include models and supporting analysis supplied by others.

8. Expanded the guidance in section 3.12 to include models.

9. Added guidance on reliance on the expertise of others in section 3.14.

10. Deleted exposure draft section 3.11, Conflict with Applicable Law.

11. Updated section 4 to reflect changes to section 3.

Notable Changes from the Existing ASOP

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

1. Changed the scope to apply to risk transfer or risk retention consistent with ASOP No. 53.

2. Distinguished the identification of expense categories from the calculation of expense provisions (future cost estimates) for those categories.

3. Expanded the scope to include applicability to reviewing actuaries in section 1.2.

4. Added guidance regarding allocated and unallocated loss adjustment expenses in several sections, including in section 1.2 and the new section 3.6.

5. Added definitions of coverage, expense provision, risk retention, and risk transfer in section 2.

6. Changed “rates” to “future cost estimates” throughout the standard.

7. Replaced the reference to New York State insurance law with a reference in section 3.1 to 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).

8. Added a new section 3.2 on intended measure. Intended measure is now also referred to in other sections.

9. Added a reference to appropriate methods, models, and assumptions for developing the expense provisions during the period for which the future costs are being estimated, as well as references to ASOP Nos. 53 and 56, *Modeling*, in section 3.3.

10. Removed the reference to the CAS *Statement of Principles Regarding Property/Casualty Ratemaking* in the section on policyholder dividends, now section 3.6.

11. Added guidance reflecting the timing of residual market expenses in section 3.8.

12. Added guidance reflecting the timing of statutory assessments in section 3.9.

13. Added new sections on reliance in sections 3.11, 3.12, 3.13, and 3.14 and included references to ASOP Nos. 23, *Data Quality*, and 41, *Actuarial Communications*, in section 3.11.

14. Deleted exposure draft section 3.11, Conflict with Applicable Law.

15. Added a new section on the preparation and retention of documentation in section 3.15.

16. Expanded the list of required disclosures in section 4.

17. Added a new section regarding the disclosure of confidential information in section 4.

18. Deleted the reference to repealed ASOP No. 9, *Documentation and Disclosure in Property/Casualty Insurance Ratemaking, Loss Reserving, and Valuations*, in section 4.

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 2022 to approve this exposure draft.

ASOP No. 29 Task Force

Alan K. Putney, Chairperson
Margaret Tiller Sherwood

Casualty Committee of the ASB

Gordon K. Hay, Chairperson

Stacey C. Gotham	Norman Niami
David E. Heppen	Margaret Tiller Sherwood
Michelle L. Iarkowski	Jane C. Taylor
Daniel A. Linton	Geoffrey T. Werner

Actuarial Standards Board

Darrell D. Knapp, Chairperson

Elizabeth K. Brill	David E. Neve
Robert M. Damler	Christopher F. Noble
Kevin M. Dyke	Judy K. Stromback
Laura A. Hanson	Patrick B. Woods

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 2022</u>

PROPOSED REVISION OF
ACTUARIAL STANDARD OF PRACTICE NO. 29

EXPENSE PROVISIONS FOR PROSPECTIVE 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 **expense provisions** for prospective property/casualty **risk transfer** or **risk retention**.

1.2 Scope—This standard applies to actuaries when performing actuarial services with respect to developing or reviewing **expense provisions** 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 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.

This standard does not apply to actuaries when estimating **loss adjustment expenses** that are combined with losses in the determination of the provision for losses.

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 consider the guidance in this standard to the extent it is applicable and appropriate.

1.4 Effective Date—This standard is effective for work performed on or after four months after adoption by the Actuarial Standards Board.

Section 2. Definitions

The terms below are defined for use in this ASOP and appear in bold throughout the standard.

2.1 Commission and Brokerage Fees—Compensation associated with the acquisition and service of business paid to agents, brokers, or other parties, including ceding insurance companies.

2.2 Coverage—The terms and conditions of a plan or contract, or the requirements of applicable law, that create an obligation to pay benefits, expenses, or claims associated with contingent events.

2.3 Expense Provisions—Future cost estimates for expenses related to prospective property/casualty **risk transfer** or **risk retention** other than the following: losses, the provision for profit and contingencies, the cost of capital, investment expenses, and federal and foreign income taxes.

2.4 General Administrative Expenses—Operational and administrative expenses (other than investment expenses) not specifically defined elsewhere in this section.

2.5 Loss Adjustment Expenses—The costs of administering, investigating, validating, estimating, settling, or defending claims. It is also known as "claim adjustment expense." **Loss adjustment expenses** are frequently divided into allocated and unallocated subsets.

2.6 Other Acquisition Expenses—Costs, other than **commission and brokerage fees**, associated with the acquisition of business.

2.7 Policyholder Dividends—Nonguaranteed returns of premium or distributions of surplus.

2.8 Residual Market Expenses—Assessments for the entity's share of residual market profits or losses.

2.9 Risk Retention—A risk-management and risk-control strategy for the assessment, management, or financing of risk associated with the **coverage** using the entity's own funds. Examples of **risk retention** include self-insurance, deductibles, and certain types of single parent captives.

2.10 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, reinsurance, and loss portfolio transfers.

2.11 Statutory Assessment Expenses—Any mandated assessments that are permitted by applicable law to be included in the **expense provisions**.

2.12 Taxes, Licenses, and Fees—Taxes, license costs, and miscellaneous fees except federal and foreign income taxes.

Section 3. Analysis of Issues and Recommended Practices

3.1 Categorizing Expenses—The actuary should use expense categories when developing the **expense provisions**. When using expense categories, 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.

Common expense categories include **commission and brokerage fees**, **general administrative expenses**, **loss adjustment expenses**, **other acquisition expenses**, **policyholder dividends**, **residual market expenses**, **statutory assessment expenses**, cost of reinsurance, and **taxes, licenses, and fees**. The actuary may consolidate categories using professional judgment.

3.2 Intended Measure—The actuary should identify the intended measure of each **expense provision** based on its purpose or use. The intended measure may vary for each **expense provision** as needed and appropriate. Intended measures will be affected by the desires or needs of the principal, legal requirements, and the regulatory environments in which the future cost estimate will be used.

Examples of intended measures include the mean, the mean plus 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. There are instances in which other measures may be appropriate based upon the purpose or use of the estimate.

3.3 Developing Expense Provisions—The actuary should develop **expense provisions** for each applicable expense category that:

a. are appropriate for the **coverage** for which the future cost estimates are needed;

b. reflect the environment expected to exist in the period for which the future cost estimates are needed; and

c. include all expenses anticipated to be incurred in connection with the **risk transfer** or **risk retention** other than the following: losses, the provision for profit and contingencies, the cost of capital, investment expenses, federal and foreign income taxes, and **loss adjustment expenses** that are combined with losses in the determination of the provision for losses.

The actuary should select methods, models, intended measures, and assumptions for developing the **expense provisions** that are appropriate for the prospective property/casualty **risk transfer** or **risk retention** during the period for which the future costs are being estimated. When developing or reviewing **expense provisions**, the actuary also should 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.

3.4 Amortized Expenses—The actuary may include amortized expenses in the development of the **expense provisions** using an appropriate amortization period. Examples of expenses that may be amortized include start-up, development, or acquisition costs.

3.5 Expense Trending—The actuary may use expense trending procedures in determining **expense provisions** for expenses that are expected to vary over time. When using trending procedures, the actuary should consider reflecting any trends in expense levels that vary from trends in premiums, losses, or exposure bases. In addition, the actuary should refer to ASOP No. 13, *Trending Procedures in Property/Casualty Insurance Ratemaking.*

3.6 Provision for Loss Adjustment Expenses—When determining an **expense provision** for **loss adjustment expenses**, the actuary should provide for all components of **loss adjustment expenses** that are not combined with losses in the determination of the provision for losses. The actuary should consider using different methods, models, or assumptions in developing the **expense provision** for allocated **loss adjustment expenses** than in developing the **expense provision** for unallocated **loss adjustment expenses**.

3.7 Provision for Policyholder Dividends—If the actuary determines that **policyholder dividends** are reasonably anticipated, the actuary should consider including the anticipated amount of **policyholder dividends** in the **expense provisions**. When determining an **expense provision** for **policyholder dividends**, the actuary should take into account the company's dividend payment history, its current dividend policy or practice, whether dividends are related to loss experience, investment results, the capital and surplus of the company, and other considerations affecting the payment of dividends.

3.8 Provision for Residual Market Expenses—The actuary should include an **expense provision** for **residual market expenses**, if applicable. The provision for **residual market expenses** should reflect the timing of the residual market mechanism. If the residual market assessments are retrospective, the actuary should consider including a component in the **expense provision** to recover any previously unassessed costs or to account for any prior excess collections.

3.9 Provision for Statutory Assessment Expenses—The actuary should include an **expense provision** for **statutory assessment expenses**, if applicable. The provision for **statutory assessment expenses** should reflect the timing of the statutory assessment mechanism. If the statutory assessments are assessed retrospectively, the actuary should consider including a component in the **expense provision** to recover any previously unassessed costs or to account for any prior excess collections.

3.10 Provision for the Cost of Reinsurance—If the actuary includes the cost of reinsurance as an **expense provision**, the actuary should take into account the amount to be paid to the reinsurer, ceding commissions or allowances, anticipated reinsurance recoveries, retrospective profit-sharing agreements, reinstatement premiums between the reinsured and the reinsurer, and other relevant information specifically relating to cost.

3.11 Reliance on Others for Data, Projections, Models, and Supporting Analysis—The actuary may rely on data, projections, models, and supporting analysis supplied by others. When practicable, the actuary should review the data, projections, models, and supporting analysis for reasonableness and consistency. For further guidance, the actuary should refer to ASOP Nos. 23, *Data Quality*, 41, *Actuarial Communications*, and 56, *Modeling*.

3.12 Reliance on Intended Measures, Methods, Models, or Assumptions Selected by Another Party—When relying on intended measures, methods, models, or assumptions selected by another party, the actuary should refer to ASOP No. 41 for guidance.

3.13 Reliance on Another Actuary—The actuary may rely on another actuary who has developed a portion of the **expense provisions**. 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 intended use.

3.14 Reliance on Expertise of Others—An actuary may rely on the expertise of others (including actuaries not performing actuarial services) in the fields of knowledge used in developing **expense provisions**. In determining the appropriate level of such reliance, the actuary should take into account the following:

a. whether the individual or individuals upon whom the actuary is relying has expertise in the applicable field;

b. the extent to which the work product being relied upon has been reviewed or opined on by others with expertise in the applicable field, including any significant differences of opinion commonly known among those with expertise concerning aspects of **expense provisions** that could be material to the actuary's work product; and

c. whether there are legal, regulatory, professional, industry, or other standards that apply to the work product supplied by others with expertise in the applicable field, and whether the work product has been represented as having met such standards.

3.15 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 such documentation in a form such that another actuary qualified in the same practice area could assess the reasonableness of the actuary's work. The degree of such 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 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 to which this standard applies, the actuary should refer to ASOP Nos. 13, 23, 41, 53, and 56. In addition, the actuary should disclose the following in such actuarial reports:

a. a description of the categories used in developing the **expense provisions** (see section 3.1);

b. the **expense provision** for each applicable expense category (see section 3.3);

c. the methods, models, intended measures, and material assumptions used in developing each **expense provision** (see sections 3.2, 3.3, and 3.5-3.10)

d. any amortized expenses and the amortization periods (see section 3.4);

e. the extent of any reliance on data, projections, models, and supporting analysis supplied by others (see section 3.11);

f. the extent of any reliance on methods, models, or assumptions selected by another party (see section 3.12);

g. the extent of any reliance on another actuary (see section 3.13); and

h. the extent of any reliance on the expertise of others (see section 3.14).

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 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; and

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

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

Prior to the relatively high inflation of the 1970s, a predominant ratemaking technique involved including expenses, other than loss adjustment expenses, as a percentage of premium. In doing so, it was assumed that the expense portion of the future cost estimate was subject to the same trend (usually very low) to which the loss and loss adjustment expense portions were subjected. However, higher levels of inflation had a significant impact on the expected change in the various elements of the future cost estimate. By the 1970s, the assumption that the trend in expenses would approximate the trend in losses was being questioned. Although the actuarially determined loss trend may have been applied to the loss and loss adjustment expenses as usual, a separate analysis and trend may have been necessary to properly reflect the anticipated change in certain other expenses.

Recognition of the impact of inflation on expenses that were not varying with premium led to the following additional considerations:

> Expense Flattening—Expense flattening techniques assign expenses to policies or other units of exposure rather than in proportion to premium or losses. Thus, expense flattening is a procedure sometimes used to determine the portion of the future cost estimate that does not vary in direct proportion to premium or losses.
>
> Expense Trending—Expense trending reflects how changes over time affect expenses. Over the years, separate trending of expenses has become a more common technique. However, including expenses as a proportion of premium is still used.

Although the property/casualty actuarial literature is relatively sparse on the topic of expense provisions, techniques for separately trending losses and expenses and alternatives to premium-related expense provisions have been included in such literature. Actuarial literature also includes discussions about how it may be inappropriate to assume proportional expenses for administrative ease when some expense categories do not vary in direct proportion to premium.

Over time, various regulations have required expense limitations by either limiting or disallowing certain expenses or by requiring expense flattening of various types.

The Casualty Actuarial Society adopted the *Statement of Principles Regarding Property and Casualty Ratemaking* in May 1988, rescinded it in December 2020, and reinstated it as a reference for U.S.-regulated ratemaking in May 2021. The *Statement of Principles* has served as a foundational source of information regarding future cost estimation and ratemaking, providing both principles and considerations. The ASB has worked to develop standards that provide appropriate actuarial guidance on topics covered by the *Statement of Principles*, including expenses.

Current Practices

Practice has not changed significantly since ASOP No. 29 and the NAIC's *Instructions for Uniform Classification of Expenses* were first introduced in 1997 and 1998, respectively. The NAIC codified the reporting of expenses in the early 2000s, which changed the categorization of "allocated" and "unallocated" loss adjustment expenses to "defense and cost containment" and "adjusting and other" loss adjustment expenses. The standard uses "allocated" and "unallocated" loss adjustment expense consistent with current practice.

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 Response	One commentator questioned whether this ASOP is needed. The reviewers believe this ASOP is necessary to provide guidance for expense provisions.
Comment Response	One commentator suggested repealing ASOP No. 29 and consolidating it with ASOP No. 53, *Estimated Future Costs for Prospective Property/Casualty Risk Transfer and Risk Retention*. The reviewers believe that ASOP No. 29 provides specific guidance for expenses and that the two standards should not be combined.
Comment Response	One commentator suggested adding definitions and recommended practice for loss cost and loss cost multiplier. 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 Response	One commentator suggested adding a section on risk load, risk charge, risk margin, risk adjustment, or a provision for risk. The reviewers added new guidance on intended measure in response to this comment.
Comment Response	One commentator suggested referencing ASOP No. 30, *Treatment of Profit and Contingency Provisions and the Cost of Capital in Property/Casualty Insurance Ratemaking*, in the background. The reviewers believe a reference to ASOP No. 30 is not necessary.

Comment Response	One commentator suggested defining which types of single-parent captives would be considered risk retention. 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 Response	One commentator suggested clarifying that the term “risk transfer” is not used in an accounting context in this standard. The reviewers believe that the context of the term “risk transfer” is clear and made no change in response to this comment.
Comment Response	One commentator suggested changing the title to “Estimating Expense Provisions for Prospective Property/Casualty Risk Transfer and Risk Retention.” The reviewers made changes consistent with the intent of the commentator’s suggestion.
SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECTIVE DATE	
Section 1.1, Purpose	
Comment Response	One commentator suggested deleting “future cost estimates” because it was redundant. The reviewers agree and made the change.
Section 1.2, Scope	
Comment Response	Several commentators suggested modifying the language regarding loss adjustment expenses. 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 Response	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. 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.
SECTION 2. DEFINITIONS	
Comment Response	One commentator suggested expanding the introduction to section 2 to introduce the concept of expense categories earlier in the standard. The reviewers made numerous changes to clarify and separate the categorization of expenses from the development of expense provisions.
Comment Response	One commentator suggested adding the term “reinsurance” to the list of expense categories defined in section 2. 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.
Section 2.1, Commission and Brokerage Fees	
Comment Response	One commentator suggested adding “service” as another activity supported by commission and brokerage fees. The reviewers agree and made the change.

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

Section 2.8, Risk Retention (now section 2.9)	
Comment Response	Two commentators suggested removing "certain types of single parent captives." The reviewers believe the language is appropriate and made no change in response to this comment.
Comment Response	One commentator suggested adding deductibles as an example. The reviewers added "deductibles" to the list of examples.
Section 2.10, Statutory Assessment Provision (now section 2.11, Statutory Assessment Expenses)	
Comment Response	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. The reviewers made clarifying changes.
Section 2.11, Taxes, Licenses, and Fees (now section 2.12)	
Comment Response	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. The reviewers believe the language is appropriate and made no change.
SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES	
Section 3.1, Categorizing Expenses	
Comment Response	One commentator suggested changing the "expense provisions" to "the entity's expenses" in the first sentence. The reviewers made changes to clarify and separate the categorization of expenses from the development of expense provisions.
Comment Response	One commentator suggested eliminating "but are not limited to" in the second sentence. The reviewers agree and made the change.
Comment Response	One commentator suggested adding the cost of reinsurance to the list of expense categories. The reviewers agree and made the change.
Comment Response	One commentator suggested expanding the commentary on the selection of expense categories. The reviewers agree and added appropriate language.
Section 3.2, Developing Expense Provisions (now section 3.3)	
Comment Response	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. The reviewers clarified the language to address the commentator's concerns.
Comment Response	Several commentators suggested elaborating on the nature of fixed versus variable expenses and adding examples of non-proportional expense approaches. 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 Response	One commentator suggested adding language on the use of experts. The reviewers agree and added section 3.14, Reliance on the Expertise of Others.
Comment Response	One commentator suggested replacing the reference to policies and coverages with "terms and parameters of the risk transfer or risk retention." The reviewers clarified the language in response to the comment.
Comment Response	One commentator suggested changing "expense" to "expense provisions" and deleting the excluded expense categories. The reviewers changed "expense" to "expense provisions" but did not delete the excluded expense categories.
Comment Response	One commentator suggested deleting the references to ASOP Nos. 53 and 56**.** The reviewers believe the references are appropriate and made no change in response to this comment.
Section 3.3, Start-Up Costs (now section 3.4, Amortized Expenses)	
Comment Response	One commentator suggested adding acquisition costs. The reviewers agree and made the change.
Section 3.5, Policyholder Dividends (now section 3.7, Provision for Policyholder Dividends)	
Comment Response	One commentator suggested changing the title to Provision for Policyholder Dividends. The reviewers agree and made the change.
Comment Response	One commentator suggested edits to clarify the section. The reviewers agree and made the changes.
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)	
Comment Response	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." The reviewers did not modify the last sentence but added the suggested sentence.
Section 3.7, Provision for the Cost of Reinsurance (now section 3.10)	
Comment Response	One commentator suggested changing the word "expected" to "the potential for a significant impact from," as the term "expected" can mean "expected value." The reviewers changed "expected" to "anticipated" for clarity.
Comment Response	One commentator suggested additional language regarding other relevant information to address complex reinsurance programs. The reviewers believe the language is appropriate and made no change in response to this comment.

Section 3.10, Reliance on Another Actuary (now section 3.13)	
Comment Response	One commentator suggested removing language requiring the actuary to be reasonably satisfied that the supporting analysis was performed in accordance with applicable ASOPs. The reviewers believe the language is appropriate and made no change.
Comment Response	One commentator suggested changing the disclosure sentence. The reviewers deleted this sentence to conform with ASB style, but note that the disclosure is covered in section 4.
Comment Response	One commentator suggested deleting this section. The reviewers believe the section is appropriate and did not delete it.
Section 3.11, Conflict with Applicable Law (now deleted)	
Comment Response	One commentator suggested deleting the disclosure of “any material difference from the actuarially determined expense provisions.” The reviewers agree and deleted the section, because with the suggested change, it became redundant with section 1.2.
Comment Response	One commentator suggested clarifying the language. The reviewers deleted the section in response to another comment.
SECTION 4. COMMUNICATIONS AND DISCLOSURES	
Section 4.1, Required Disclosures in an Actuarial Report	
Comment Response	One commentator questioned the need for the list of disclosures as it might relate to an actuarial memorandum for a rate filing. The reviewers believe the disclosures are appropriate for an actuarial report and made no change in response to this comment.
Section 4.1(a) (now sections 4.1[a] and [b])	
Comment Response	One commentator suggested adding “amounts” to the disclosure requirement. The reviewers agree with the concept and modified the language accordingly.
Section 4.1(d) (now deleted)	
Comment Response	One commentator suggested adding “expense” before “trending.” The reviewers deleted the disclosure requirement in this ASOP, as it is covered in ASOP No. 13.
Section 4.1(g)	
Comment Response	One commentator suggested adding “costs” after “reinsurance.” The reviewers note the disclosure for the cost of reinsurance is now included in section 4.1(c).
Section 4.1(j) (now section 4.1[f])	
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 Response	One commentator suggested deleting section 4.1(j). The reviewers believe the disclosure is appropriate and made no change in response to this comment.
Section 4.1(k) (now deleted)	
Comment Response	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. The reviewers agree and made the change.
Comment Response	One commentator suggested clarifying the language regarding expense provisions absent the requirements of law. The reviewers deleted the section in response to another comment.
Section 4.2, Additional Disclosures in an Actuarial Report	
Section 4.2(b)	
Comment Response	One commentator suggested replacing “selected” with “chosen or used.” The reviewers disagree and made no change.
Appendix, Background and Current Practices	
Comment Response	One commentator suggested expanding the background section to reference the Casualty Actuarial Society’s *Statement of Principles Regarding Property and Casualty Ratemaking*. The reviewers agree and made appropriate changes.
Comment Response	One commentator suggested changing “inappropriateness” to “appropriateness” in the background section. The reviewers agree with the concept and modified the language accordingly.