

**Title of Exposure Draft: Expense Provisions for Prospective Property/Casualty Risk Transfer and Risk Retention
(ASOP 29)**

Comment Deadline: May 1, 2023

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: <http://www.actuarialstandardsboard.org/email/2020/ASB-Comment-Template-Sample.docx>

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.

I. Identification:

Name of Commentator / Company
Daniel Lyons, MAAA, FCAS / Retired / These comments are submitted on my own behalf.

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

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)
3.10	<p><u>Provision for the Cost of Reinsurance</u>—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, <u>contract terms which provide for retrospective-profit-sharing agreements, premium or commission adjustments</u>, reinstatement premiums between the reinsured and the reinsurer, and other relevant information specifically relating to cost.</p> <p><u>The anticipated reinsurance recoveries mentioned above may be determined using appropriate methods and models as specified in ASOP 53 §3.14 or the actuary may rely on other sources as specified in §3.11 to §3.14 below.</u></p>	<p>I think that removing “profit sharing” and using premium or commission adjustments provides greater clarity.</p> <p>The general problem with adding reinsurance to ASOP 29 is that reinsurance incorporates estimated future costs (“anticipated reinsurance recoveries” in this draft) and this is covered in ASOP 53.</p> <p>ASOP 53 §3.14 (Reinsurance) specifies “[T]he actuary should select appropriate methods or models, along with reasonable assumptions, for estimating the cost associated with reinsurance arrangements expected to apply during the period for which the future costs are being estimated. If the cost of reinsurance is treated as an expense, the actuary should refer to ASOP No. 29 for additional guidance.”</p> <p>I suggest adding language at the end of this section to remind the actuary of what is entailed in calculating estimated reinsurance recoveries.</p>

Comments of Daniel Lyons

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IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
3.8 and 3.9 (Provisions for Residual Market and Statutory Assessment Expenses)	<p>This is not a recommendation per se, but a question on whether or not the Drafting Committee would like to provide additional clarification. Sections 3.8 and 3.9 state that timing should be considered and if the assessments are retrospective then it may be appropriate to recover any previously unassessed costs or to account for prior excess collections.</p> <p>Because “timing” is now used in these sections is it permissible to add a component for the time value of money? If yes, should ASOP 29 include guidance about selecting the interest rate? If a company understated last year’s assessment by \$100 is it permissible to add \$105 to this year’s assessment?</p>

V. Signature:

Commentator Signature	Date
	April 29, 2023