

Appendix 2

Comments on the Second Exposure Draft and Responses

The second exposure draft of the proposed revision of ASOP No. 29, *Expense Provisions for Prospective Property/Casualty Risk Transfer and Risk Retention*, was issued in January 2023 with a comment deadline of May 1, 2023. Six 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 were 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 this standard.

SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECTIVE DATE	
Section 1.1, Purpose, and 1.2, Scope	
Comment	Several commentators asked for clarification about how the standard applies to reviewing actuaries.
Response	The reviewers clarified the language regarding the role of a reviewer.
SECTION 2. DEFINITIONS	
Section 2.1, Commission and Brokerage Fees	
Comment	One commentator suggested breaking this section into two sentences to clarify the meaning.
Response	The reviewers agree and made the change.
Section 2.3, Expense Provisions	
Comment	One commentator suggested that the definition in this section should be as complete as the guidance wording from section 3.3(c).
Response	The reviewers agree and made a change consistent with the suggestion.
Section 2.5, Loss Adjustment Expenses	
Comment	One commentator suggested that the definition of loss adjustment expenses in this standard should be the same as in the proposed revision of ASOP No. 36.
Response	The reviewers believe the definition is appropriate for this standard and made no change in response to this comment.

Comment	One commentator suggested including defense and cost containment expenses and adjusting and other expenses as another valid way to split loss adjustment expenses into subcategories.
Response	The reviewers agree and moved the reference to both sets of subcategories to section 3.6.
Section 2.8, Residual Market Expenses	
Comment	One commentator asked whether a negative expense provision was possible in situations where the residual market mechanism was profitable.
Response	The reviewers believe that the standard adequately addresses such situations and made no change.
Section 2.9, Risk Retention	
Comment	One commentator suggested that coinsurance be included as a form of risk retention and that single parent captives are not a form of risk retention.
Response	The reviewers agree in part and removed single parent captives.
Section 2.10, Risk Transfer	
Comment	One commentator suggested alternative wording to clarify the requirement to indemnify losses.
Response	The reviewers believe the guidance is clear and made no change in response to this comment.
Section 2.11, Statutory Assessment Expenses	
Comment	One commentator suggested adding examples of statutory assessments, as they are not commonly used.
Response	The reviewers believe examples are not needed and made no change.
Comment	One commentator suggested adding language to distinguish residual market assessments from statutory assessments.
Response	The reviewers agree and made the change.
SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES	
Section 3.3, Developing Expense Provisions	
Comment	One commentator asked for an example of a “per coverage” expense.
Response	The reviewers believe an example is not needed and made no change in response to this comment.
Section 3.5, Expense Trending	
Comment	One commentator suggested clearer language about varying trends in the second sentence.
Response	The reviewers agree and made changes consistent with the comment.
Section 3.6, Provision for Loss Adjustment Expenses	
Comment	One commentator suggested that the separation of loss adjustment expenses into defense and containment expenses and adjusting and other expenses subcategories should be included here.
Response	The reviewers agree and made changes consistent with the comment.
Section 3.8, Provision for Residual Market Expenses, and 3.9, Provision for Statutory Assessment Expenses	
Comment	One commentator asked whether a negative expense provision was possible in situations with prior excess collections.
Response	The reviewers believe that the standard adequately addresses such situations and made no change.

Comment	One commentator asked whether the time value of money should be considered when analyzing the impact of timing on any expense components from retroactive assessment calculations.
Response	The reviewers believe the guidance is appropriate and made no change.
Section 3.10, Provision for the Cost of Reinsurance	
Comment	One commentator suggested replacing the term “profit sharing agreements” with “premium or commission adjustments.”
Response	The reviewers agree and made the change.
Comment	One commentator suggested adding references for guidance in this area.
Response	The reviewers believe the guidance is appropriate and made no change.
Section 3.11, Reliance on Others for Data, Projections, Models, and Supporting Analysis; and 3.12, Reliance on Intended Measures, Methods, Models, or Assumptions Selected by Another Party	
Comment	Two commentators suggested that sections 3.11 and 3.12 could overlap, and that the differences between them are not clear.
Response	The reviewers believe that these sections would often apply independently, but could coincide or overlap in some situations, and made no changes
Section 3.11, Reliance on Others for Data, Projections, Models, and Supporting Analysis	
Comment	One commentator also thought that section 3.11 required too much effort in reviewing the work of others.
Response	The reviewers note that ASOP No. 1 contains an explanation of "practicable" as it applies in ASOPs and made no change.
Section 3.11, Reliance on Others for Data, Projections, Models, and Supporting Analysis; and 3.13, Reliance on Another Actuary	
Comment	One commentator suggested that section 3.13 was more strict than section 3.11. The commentator asked if section 3.11 only applied to non-actuaries.
Response	The reviewers believe the language is appropriate and made no change.
Section 3.13, Reliance on Another Actuary	
Comment	One commentator said that section 3.13 should contain a reference to ASOP No. 41, similar to sections 3.11 and 3.12.
Response	The reviewers agree and added a reference to ASOP No. 41.
SECTION 4. COMMUNICATIONS AND DISCLOSURES	
Section 4.1, Required Disclosures in an Actuarial Report	
Comment	One commentator suggested eliminating the list of applicable standards of practice.
Response	The reviewers disagree and made no change.
Section 4.1(e) and (f)	
Comment	One commentator suggested clarifying whether the terms “supplied by others” and “selected by others” mean the same thing.
Response	The reviewers made no change in response to this comment.