Title of Exposure Draft:

Profit Margins and Contingency Provisions in Property/Casualty Risk Transfer and Risk Retention

Comment Deadline: November, 1, 2024

Instructions: Please review the exposure draft, and give the ASB the benefit or 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
Michael Suess FCAS: comments below are my own and are not made on behalf of my employer

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

Question No.	Commentator Response
2	The current definition leaves room for interpretation of what reasonable differences between actual and modeled loss could be. Providing more examples in 3.2 may alleviate some discussions on what should / should not be included when estimating a contingency provision. Additionally, the definition is also restrictive to loss while the prior definition was more expansive to all costs. The new definition should include expense as well as loss as both components of estimation could have differences that cannot be eliminated by changing underlying components.

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)
2.2	A provision for the difference between the actuary's modeled expected costs (losses or expenses) and the actual expected costs (losses or expenses) that cannot be eliminated by changes in other components of the ratemaking process. A contingency provision is a component of the expected costs (losses and/or expenses) and is therefore not expected to be earned as profit.	Expenses are a large portion of costs that go into developing future rates. While generally more stable than loss, estimating future expenses can have similar challenges as loss and could result in similar mismatch between estimated expense and actual expense.
3.2	If the actuary reasonably believes that there is a material difference between the modeled expected costs (losses or expenses) and the actual expected costs (losses or expenses) that cannot practicably be eliminated by changes in other components of the future cost estimate process, the actuary should	While including a contingency load is a generally acceptable practice, how to derive the load is not well documented. Providing additional examples of what should be considered as possible reasons to include within a

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	include a contingency provision in the future cost estimate. Examples of differences that may arise include but are not limited to: 1) Modeled Losses not adequately reflecting the tail of the loss distribution 2) Extra Contractual Obligations not recorded with loss. 3) Consistent Model Estimation Error with no clear way to enhance the model. 4) Modeled expense not adequately capturing variable commission rates 5) …	contingency load will give additional needed guidance to actuaries developing these loads.

IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)

V. Signature:

Commentator Signature	Date