

**Title of Exposure Draft: Profit Margins and Contingency Provisions in Property/Casualty Risk Transfer and Risk Retention (ASOP 30)**

**Comment Deadline: November 1, 2024**

**I. Identification:**

Name of Commentator / Company
Daniel Lyons, MAAA, FCAS / Retired / I am submitting these comments on my own behalf.

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

Question No.	Commentator Response
1. Are the distinctions and relationships among contingency provision, risk margin, underwriting profit margin, and profit margin clear? If not, please explain and suggest language.	No. In attempting to expand this ASOP to include ASOP 53's "intended measure" scope, you have the challenge of limiting the use of "expected losses" since this term suggests the actuary's intended measure is the mean, and this might not be the case. In ASOP 53, "expected loss" is only used once in §3.13, Treatment of Infrequent Events. In the draft ASOP 30, "expected loss" or "expected" is used several times. Does the Drafting Committee intend that the mean should always be used regardless of the intended measure of future cost estimates?
2. In the context of a contingency provision (both in the definition in section 2.2 and the guidance in section 3.2), is the difference between modeled expected losses and actual expected losses clear? If not, please explain and suggest language.	No. I think it's a problem to modify "expected losses" with "actual". Are there non-actual expected losses? Since ASOP 30 is connected to ASOP 53, the more significant issue is what's the relationship or hierarchy between "future cost estimate", "expected loss", "actual expected loss", and "modeled expected loss"?  In addition, "actual" suggests a retrospective look back might be appropriate, but it is not.  I suggest the following (the use of "methods, models, or assumptions" is intended to link this definition to ASOP 53 §3.5):  Contingency Provision – A provision in the future cost estimate for expected losses that have not otherwise been provided for in the methods, models, or assumptions that have been applied to date. An example would be an actuarial work product based on data sets without large losses (individual per policy losses or catastrophe losses) where the trend and loss development factors do not make a provision for the missing large losses. A contingency provision is a component of the future cost estimate and is not expected to be earned as profit.
3. Is the level of disclosure required appropriate?	It seems like a lot, but I cannot suggest any reductions.

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**III. Specific Recommendations:**

Section #	Commentator Recommendation (Please provide recommended wording for any suggested changes)	Commentator Rationale (Support for the recommendation)
1.1 and 1.2	This applies to “all forms” of prospective p/c risk transfer, and I suggest it be limited to risk transfer subject to rate regulation.	The reinsurance and excess/surplus lines markets have bespoke characteristics, and I don’t think this level of detail is needed. It will only generate more work for the practicing actuary and not add value to their work product.
2.4	Investment Income – should the present value of future II be considered or mentioned?	The nominal future investment income is not comparable to the current period premium or expected losses.
2.5 and 2.6	Profit Margins and Risk Margins. As mentioned above, is “expected,” as used in these definitions, to be interpreted as the mean?	The actuary may be expected to decompose the future cost estimate into the mean (i.e., expected losses) and the amount needed to get to the “intended measure” amount. This may be difficult if the risk margin is “implicit” as is possible under §2.6.

**IV. General Recommendations (If Any):**

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
	If the Drafting Committee changes the definition of Contingency Provision and incorporates “future cost estimate” in other definitions as appropriate, I suggest releasing a second draft for review. The terms used in this draft ASOP have many dependencies and relationships, and it isn't easy to review them all until this core definition is settled.

**V. Signature:**

Commentator Signature	Date
	10-31-2024