

Title of Exposure Draft: Proposed Revision of ASOP No. 30: 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 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
Pinnacle Actuarial Resources, Inc.

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 the definition of risk margin under 2.6, it states, "A risk margin is typically not a component of the expected losses and is therefore expected to be earned as a profit" (emphasis added) and in the definition of profit margin under 2.5, it states "plus any risk margin". It may be helpful to discuss when risk margin is a component of expected loss and is not expected to earn a profit.
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, we do not believe it is clear. Suggested wording: "A provision for the difference between the actuary's modeled expected losses and the actual expected losses that cannot be eliminated by changes in other components of the ratemaking process. Without a contingency provision, the modeled expected losses will not be adequate as they do not properly reflect systematic variation. A contingency provision is a component of the expected losses and is therefore not expected to be earned as profit." Systematic variation is specifically called out in the background section related to the contingency provision but the term is not used or defined anywhere in the ASOP. Defining and using the term "systematic variation" may help clarify the difference between modeled and expected losses and the need for a contingency provision.
3. Is the level of disclosure required appropriate?	Yes

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)

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IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
The ASB should consider how profit margins and contingency provisions are commonly used for captive insurance companies.	The ASOP will apply to work in alternative marketplaces such as self-insureds or captive insurance companies. Funding studies for these entities do not always use the same approach and terminology as traditional ratemaking analyses.
We recommend the working group ensures the proposed language is consistent with the risk margin language in ASOP 20.	

V. Signature:

Commentator Signature	Date
The comments above are the collected comments of the actuaries employed or affiliated with Pinnacle. If you have any questions regarding our comments, please contact Laura Maxwell, Pinnacle's Professional Standards Officer, at lmaxwell@pinnacleactuaries.com . Laura A. Maxwell, FCAS, MAAA, CSPA	11/1/2024