Title of Exposure Draft: Analysis of Life, Health, or Property/Casualty Insurance Cash Flow Risk (ASOP 7)

Comment Deadline: June 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. Does the guidance appropriately cover each practice area (life, health, property/casualty)? If not, please recommend clarifications. a. For the P/C practice area: The proposed scope includes P/C investment cash flow **risk but not most analyses involving underwriting and reserving risk**. Previously, ASOP No. 7 applied to actuaries "when performing the analysis of cash flows involving both invested assets and liabilities for property/casualty insurers.	Emphasis added. The text in bold suggests that this standard would apply to some P/C underwriting or reserving risk cash flow analysis. Please see my response in ii. below.
i. Should P/C actuaries be subject to this standard?	I think so but this should be directed to asset cash flow work as done for ERM or capital adequacy studies.
ii. Is the guidance in proposed section 1.2, Scope, and section 3.1, When to Perform a Cash Flow Analysis, appropriate for P/C actuaries? Please explain	As applied to P/C cash flow risks, if the Drafting Committee intends the ASOP to apply to only P/C investment cash flows and nothing else then the language is appropriate. §1.2 clearly states the scope is restricted to P/C cash flow risks specific to investments – full stop. There is no mention in §1.2 of P/C cash flow risks for P/C underwriting or P/C reserving risk. However, question 1.a above suggests the Drafting Committee thinks there is room in this ASOP to apply to P/C underwriting or P/C reserving risk cash flows. This could come from §3.1 (as mentioned in question 1.a.ii) or §3.2. §3.1 might be seen as bringing in such P/C cash flow analysis if it is "relevant to the actuary's assignment or findings" (I also suggest changing the "or" to "and"). §3.2 states the actuary "should take into account the intended purpose" in determining if both assets and liabilities should be included. In either case I don't think these sections can expand the scope as stated in §1.2. §1.2 lays out the broad framework and applicability of the ASOP so I interpret the ASOP as presented in this draft as not applying to any P/C underwriting or P/C reserving risk. If the Drafting Committee thinks there are circumstances where both P/C assets and P/C liabilities should be included then §1.2 should be changed.
iii. Is there current actuarial practice with respect to underwriting or reserving risk that would benefit from expanding the scope for P/C actuaries to include liability cash flow risk?	There may be cases where reserving risk could benefit from cash flow analysis but I recall reading many reserve studies where the authors explicitly disavowed any opinion on asset adequacy. If the Drafting Committee does expand the scope to include P/C loss reserve liabilities the current draft ASOP §3.5 (Projection of Liability Cash Flows) is incomplete with respect to P/C loss reserve liabilities. §3.2 and §3.3 of ASOP 20 (Discounting of Property/Casualty Claim Estimates) contains helpful guidance which might be included in this ASOP by reference. I don't think it would be appropriate to just incorporate all of ASOP 20 because not all P/C loss reserves are discounted.

III. Specific Recommendations:

Section #	Commentator Recommendation (Please provide recommended wording for any suggested changes)	Commentator Rationale (Support for the recommendation)
1.2	Scope—This standard applies to actuaries when performing actuarial services involving life or health cash flow risks. This standard also applies to actuaries when performing actuarial services involving property/casualty cash flow risks specific to investments but this does not apply to ceded reinsurance contracts,	If a P/C actuary is estimating net claim liability cash flows there may be some reinsurance (an asset) to consider and I don't think this should apply to such standard work. I don't know if this ASOP should apply to newer reinsurance-like contracts such as catastrophe bonds or parametric reinsurance.
2.2	Cash Flow—Any receipt, disbursement, or transfer of cash or **[?] asset equivalents [?]**; includes policy cash flows and cash flows that are not policy related, such as cash flows from assets, corporate expenses, letters of credit, ~~off-balance sheet items,~~ and litigation costs.	Using the definition of asset in this ASOP, I think "asset equivalents" are just assets. So either delete "equivalents" and change "asset" to "assets" or change "asset" to "cash". §3.2.2 c. lists letters of credit as an off-balance sheet liability so I don't think "off-balance sheet" needs to be in the definition. The definition uses "such as" which is equivalent to "including but not limited to" so the examples do not need to be exhaustive.
3.1	When to Perform Cash Flow Analysis—The actuary must perform cash flow analysis when required by law. The actuary should consider performing cash flow analysis when cash flow risk is relevant to the actuary's assignment ~~or~~ and findings.	Using "or" could expose the actuary to this ASOP if such analysis might be relevant to the findings but not within scope of the assignment.
3.2	When determining which assets or liabilities to include in the cash flow analysis, the actuary should take into account the intended purpose of the cash flow analysis, the characteristics of the cash flows, and the potential for cash flow risk. ~~volatility~~	"Cash flow volatility" is not defined, "cash flow risk" is.
3.2.1 a.	whether subject assets are used in ~~prior or related~~ other cash flow analyses;	I'm not sure if prior use is important and I think the Drafting Committee is concerned about double use of assets.
3.2.1 b.	notional assets~~, not owned by the organization,~~ that change the risk characteristics of either the assets or liabilities (for example, for synthetic guaranteed investment contracts);	I don't think the lack of actual ownership needs to be mentioned – it is the contract that is important.
3.2.1	The actuary should determine whether certain items (for example, non-admitted, below investment grade, or illiquid resources) should be included or excluded from the cash flow analysis under applicable law or guidance, or based on professional judgment.	I suppose it's possible for this to go both ways.

IV. Signature:

Commentator Signature	Date
	5-31-2024