

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

Comment Deadline: June 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
Christopher J. Monsour, FCAS, CSPA, MAAA (comments submitted on my own behalf)

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

Question No.	Commentator Response
1ai	Yes, this standard should apply to property/casualty practice.
1aii (sec 1.2)	The current standard mentions analyses that involve both assets and liabilities in order to exempt: (a) liability-only analyses, which in property-casualty tend to be used to determine target loss ratios, target rates, or adequate reserves and do not require the level of rigor involved in this standard and are adequately covered by ASOPs 20, 30, 36, 43, and 53; (b) pure investment portfolio analysis, when it has no nexus with property/casualty risk. The proposed wording (property/casualty cash flow risks specific to investments) could be taken to mean this standard does not apply to the cash flow analysis underlying a dividend or a capital funding model for property/casualty risk. It could also be interpreted to include (b) above. Neither of these outcomes is desirable. The current wording could be taken to exclude cash flow considerations in the analysis of insurance-linked securities, which is also not desirable. See suggested language below in section III
1aii (sec 3.1)	In section 3.1, items (a) “reserve adequacy” and (c) “product development or ratemaking” would rarely require cash flow testing in the property/casualty case, and this should be noted.
1aiii	Liability cash flow (underwriting and reserving) risk should be in scope in situations such as capital models, funding studies, and ERM models of property/casualty risk—but not for typical underwriting or reserving analysis undertaken in line with ASOPs such as 43 and 53.
2	Yes, it is welcome and appropriate that this standard now applies equally to insurance companies, risk retention groups, self-insured entities, and “organizations” generally.

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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1.2	Replace “This standard also applies to actuaries when performing actuarial services involving property/casualty cash flow risks specific to investments” with “This standard also applies to actuaries when performing actuarial services involving property/casualty cash flow risks and not specifically governed by an ASOP specific to the casualty practice area”	There is no need for this ASOP to govern the simple cash flow analyses that may be required by ASOPs 20, 30, 36, 43, and 53. Alternatively, those five ASOPs could be listed explicitly as the carve-out.
2.2	Replace “transfer of cash or asset equivalents” with “transfer of cash” and provide an adequate definition of cash elsewhere. Move any discussion of “equivalents” to section 3.	The issue of what assets can be treated as equivalent to cash in a particular instance is too subtle to bury in a definition. In particular, “cash” needs a definition that works when multiple currencies are in play.
2.3	Regarding the sentence “Types of cash flow analysis include cash flow testing, gross premium valuation methods, loss ratio methods, risk theory techniques, and profitability projections”, either provide descriptions of each item in this section or provide each with its own definition in a subsection.	Highly technical names alone are not very helpful as examples and are easily misinterpreted in practice. Additionally, some of these names are ambiguous as to their referent. This would also improve the clarity of 3.3
3.1	Identify that, due to separate standard, this ASOP does not apply to most property/casualty assignments in categories (a) and (c)	See comments on section 1.2 above.
3.1	In item (b), cross-reference ASOP 55	For a capital adequacy study, ASOP 55 explicitly requires cash flow analysis and has additional requirements around it.
4.1b	To the numbered list, add “projection period” as an item.	This is a key aspect of scope.

IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
Clarify the wording in the following paragraph or (preferably) eliminate “ERM” from the ASOPs menu on the ASB website move the ERM standards under “General ASOPs”. 1.2 paragraph “If the actuary determines that the guidance in this standard conflicts with another practice-area ASOP, the other practice-area ASOP governs”	The AAA defines the practice areas as casualty, health, life, and pension in sec 1.4 of the USQS. The ASB website appears to list ERM as a practice area (which it currently is not). This is needlessly confusing. In particular, in this instance it creates confusion as to whether this ASOP or ASOP 55 on Capital Adequacy Assessment take priority.
This standard needs to cover foreign exchange risk explicitly. In particular, a definition of “cash” is needed.	This is a key issue for international entities.
Consider retaining a definition of “applicable law”.	One would think this was defined in ASOP 1 or ASOP 41, but it is not.
In future, please include the date the draft was exposed, and not only the date it was approved for exposure, in the transmittal memo.	These often differ by several months, and this creates a false impression about the length of the exposure period.

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	In this instance, the approval was Sept 2023, but the draft was not exposed (per the website) until Dec 21, 2023.
Work with the AAA Casualty Committee to arrive at consistent terminology between “property/casualty” and “casualty”.	The words are currently used as synonyms, but the existence of “property/casualty” tends to imply that “casualty” is narrower, and in other contexts, it is often used in a narrower sense.
3.2.1 and 3.2.2 Either omit these lists, make them more extensive, or insert “ <i>inter alia</i> ” between “should” and “consider”	These lists are not close to comprehensive, and they omit items like contingent commissions that can be quite material in some contexts.
3.5.1e “the risk of insolvency or other nonperformance by providers of services, including reinsurers and other counterparties;”	Move this to 3.4.1. Collectible reinsurance and prepaid services are assets , not liabilities .
Section 3 should have subsections restored regarding sensitivity testing and interdependency of risks. These may refer to the corresponding sections of ASOP 56, but they should be more detailed for the case of cash flow analysis.	ASOP 56 is a very general standard on assumptions. For example, it is not sufficiently clear that “consistency of assumptions” means that the actuary needs to take interdependencies of asset returns or of liability risks into account in a cash flow analysis. ASOP 7 is the place to be more specific.

V. Signature:

Commentator Signature	Date
Christopher J. Monsour	31 May 2024