

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 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
ERM/ORSA Committee / American Academy of Actuaries

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

Question No.	Commentator Response
1.a.i.	<p>According to the current scope for the P&C practice area, the ASOP No. 7 draft is not adequate and provides incomplete guidance on cash flow analysis for the P&C practice. Given the breadth of use of cash flow analysis by P&C actuaries, a comprehensive standard addressing assets other than investments, as well as liabilities, or expansion of this topic in other applicable ASOPs should be considered. Omitting these non-investment aspects of cash flow analysis may send a message to P&C actuaries that non-investment aspects are unimportant when cash flow analysis is a material component of P&C ratemaking/pricing, reserving, and enterprise risk analysis.</p> <p>Additionally, given that the scope of the standard for the P&C practice area is limited to investments, many of the sub-sections of Section 3 lack relevance for the P&C practice. For example, the following parts of the draft ASOP, Section 3, do not appear to be applicable to P&C and would provide an incomplete cash flow analysis for the P&C practice given the limited scope.</p> <ul style="list-style-type: none">• 3.1.a,c,d,e,g• 3.2• 3.2.1.a,c,d,e• 3.2.2• 3.3.b,c,d,e• 3.4.1.c,g• 3.5 <p>Finally, given that much of the guidance covers the interaction and the relative timing of assets with liabilities, it seems to conflict with the scope for the P&C practice area since that is limited to investment cash flow risk only.</p>
1.a.ii	<p>According to current scope, the answer is no for section 1.2 due to its inclusion of investments only. For section 3.1, the answer is yes, except in governing ASOPs. Given the limited scope of this ASOP No. 7 draft, more complete guidance on cash flow analysis appears in other ASOPs.</p>
1.a.iii	<p>Examples of current actuarial practice with respect to underwriting or reserving risk that would benefit from expanding the scope of this ASOP for P&C actuaries to include liability cash flow risk include:</p>

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	<ul style="list-style-type: none"> • tabular and non-tabular discounting in reserving, • insurance portfolio/line of business/account level rate of return analysis, and • developing pricing targets/profit loads in underwriting. <p>Extensive expansion of ASOP No. 7 draft would be required to provide comprehensive guidance for P&C cash flow analysis. In addition, there are several specific P&C standards (e.g., ASOP No. 43 – Property/Casualty Unpaid Claim Estimates) that can be leveraged to address P&C cash flow risk items.</p>
2, 3	Please reference responses to question 1.

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)
2.0	Include P&C or pension examples.	Examples in this section include only life and health practice areas.
2.4	If “cash flow risk” is defined to include risk in the amount of the claim payment, then the standard should provide guidance in that area for all practice areas including P&C.	The standard as worded doesn’t appear to provide guidance in that area for P&C claim estimates since the scope is limited to cash flow risks specific to investments.
3.1	Include examples as to when cash flow testing is not necessary.	This was included in the old section 3.2.2. If added, it would provide a frame of reference of when no analysis or other approaches are best.
3.2	Provide examples of when asset only or liability only cash flow analysis is in order.	Unclear when testing of only one side of the balance makes sense.
3.3.a	Consider changing “could differ materially” to “have a material risk of significant differences.”	The word “could” may be problematic here, as it focuses on the non-zero possibility of material differences. There will always be scenarios where the cash flows “could” differ materially. For example, another world war, major asteroid hit, etc., but many of those scenarios are remote. The existing wording could expose actuaries to untenable situations in a litigation environment.
3.3.e	Change “insensitive” to “sensitive.”	The concern is to be aware of sensitivities not insensitivities. The use of sensitivity would be consistent with language in 3.4.1.a.

IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
Expand Section 2. Definitions sections to define terminology that are not applicable to every practice area.	Multiple practice areas are subject to this standard and may not be familiar with the terminology and its applicability to their practice area. Examples are “gross premium evaluation methods,” “risk adjustment payments receivable,” and “risk theory techniques.”
Provide examples specifically related to self-insurance.	Including examples would highlight aspects of cash flow analysis that may be different from (re)insurance. Examples would also reinforce the inclusion of self-insurance in the standard.

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V. Signature:

Commentator Signature	Date
On behalf of the ERM/ORSA Committee, Respectfully submitted, Charles V. Ford, MAAA, FSA, CFA, Chairperson	5/29/2024