Title of Exposure Draft: Proposed Revision of Actuarial Standard of Practice (ASOP) No. 20

Comment Deadline: September 30, 2022

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
Lauren Cavanaugh, MAAA, FCAS Vice President, Casualty, American Academy of Actuaries, on behalf of the Casualty Practice Council

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

Question No.	Commentator Response

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)
1.2	Recommend deleting "an actuary's" from the last two sentences as follows: "Unpaid **claim estimates** represent ~~an actuary's~~ estimates of the obligation for future loss and loss adjustment expense payments resulting from claims due to past events. Future **claim estimates** represent ~~an actuary's~~ estimates of loss and loss adjustment expenses associated with prospective property/casualty **risk transfer** or **risk retention**."	The recommendation is to delete the words "an actuary's" as they unduly narrow the scope of the proposed ASOP. An actuary may discount unpaid claim or future claim estimates that are not actuarial, such as when an actuary discounts case reserves.
2.1	Recommend deleting "actuary's" from the definition of "claim estimate" as follows: "An ~~actuary's~~ estimate on an undiscounted basis of the obligation for future loss and loss adjustment expense payments resulting from claims due to past events or an ~~actuary's~~ estimate of loss and loss	Same rationale as above.

	adjustment expenses associated with prospective property/casualty **risk transfer** or **risk retention**.”	
2.8	Recommend expanding the first sentence in the definition of “risk margin”: “A provision for uncertainty in a **claim estimate**.” As follows: “A provision for uncertainty in a **claim estimate** or **discounted claim estimate**.”	The proposed ASOP later describes risk margins as a provision to be added to a discounted claim estimate and discounting a claim estimate introduces additional elements of uncertainty. The recommended addition seeks to make clear that a risk margin could be a provision for uncertainty of either an undiscounted or discounted claim estimate.
3.4.1	Recommending rewording the introduction to “Selection of Discount Rates”: “The actuary should select discount rates that are appropriate for the intended purpose. When selecting discount rates, the actuary should consider using one or more of the following approaches:” as follows: “The actuary should select discount rates that are appropriate for the intended purpose. ~~When selecting discount rates, the actuary should consider using one or more of the following approaches~~ Some common approaches to selecting discount rates are:”	The recommended language is intended to make it clear that the actuary needs to first know what is allowed and appropriate for the intended use and the context (e.g., the accounting standards, the nature of the assignment), and to then select the discount rate within those parameters.
3.5	Recommend rewording the introduction to section 3.5: “The actuary should consider including **risk margins** in a **discounted claim estimate**. Discounting a reasonable undiscounted estimate may result in an inadequate discounted estimate, unless appropriate **risk margins** are included. The actuary should take into account the following regarding the inclusion of **risk margins** consistent with applicable law and accounting standards:” As follows: “When consistent with applicable law and accounting standards, the~~The~~ actuary should consider including **risk margins** in a **discounted claim estimate**. ~~Discounting a reasonable undiscounted estimate may result in an inadequate discounted estimate, unless appropriate **risk margins** are included.~~ ~~The actuary should take into account the following~~	The recommended language is intended to make it clear that the actuary needs to first know what is allowed and appropriate for the intended use and the context (e.g., the accounting standards, the nature of the assignment), and to then select the discount rate within those parameters.

	~~regarding the inclusion of **risk margins** consistent with applicable law and accounting standards:~~”	
3.5.b	Recommend rewording the discussion of implicit and explicit risk margins: “Implicit and Explicit Risk Margins—The actuary may introduce implicit **risk margins** in the selection of the **claim estimate**, the payment pattern, or the discount rate. The actuary may include explicit **risk margins** as an absolute amount (for example, stated percentile of distribution, a fixed amount, or stated percentage load above expected) or through an explicit adjustment to the selected discount rate(s). The resulting adjusted discount rate may also include an implicit **risk margin** contemplating **investment risk** or **insurance risk**.” As follows: “Implicit and Explicit Risk Margins—Possible ways to introduce implicit **risk margins** include~~The actuary may introduce implicit **risk margins** in~~ the selection of the **claim estimate**, the payment pattern, and~~or~~ the discount rate. Possible ways to introduce explicit risk margins include the addition of~~The actuary may include explicit **risk margins** as~~ an absolute amount (for example, stated percentile of distribution, a fixed amount, or stated percentage load above expected) or through an explicit adjustment to the selected discount rate(s). The resulting adjusted discount rate may also include an implicit **risk margin** contemplating **investment risk** or **insurance risk**.”	The proposed language “the actuary may …” makes it sound as if the actuary may judgmentally select when and where to include an implicit or explicit risk margin. The recommended changes to section 3.5 and section 3.5.b are intended to make clear that the inclusion of risk margins depends on the intended measure and the relevant accounting standard. Once those are known, section 3.5.b provides potential ways of including a risk margin.

IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
Section 1.2 states: **“**This standard applies to actuaries when performing actuarial services that involve the discounting of **claim estimates** for property/casualty **coverages** to a **present value**. **Claim estimates** include unpaid **claim estimates** and future **claim estimates**.” Recommend considering expanding this or clarifying that the proposed ASOP would also apply when an actuary is discounting figures that are not claim estimates. Alternatively,	An actuary may be requested to discount ultimate losses and loss adjustment expenses (e.g., to the beginning of a policy period to measure profitability). As ultimate losses include both payments and claim estimates, it is unclear whether the proposed ASOP is intended to apply. We believe it should, as although the payments (and their timing) are known, the guidance in the proposed ASOP with respect to the selection of the interest rate for discounting would be valuable to such an exercise.

recommend expanding the definition of "claim estimates" to include other loss estimates, such as estimated ultimate losses, case reserves, and estimated incurred but not reported reserves.	
Recommend rewording section 3.3.3: "The actuary should use cumulative payments for discounting that are consistent with the **claim estimate**, even if the **claim estimate** has not been derived by techniques based on payment data."	The intended meaning of this point is not clear. In particular, the meaning of the term "cumulative payments" is unclear. Does this mean "projected" cumulative payments? Is this simply stating that the projected cumulative payments should equal the claim estimate?
Section 3.4.2 states: "If appropriate, the actuary should consider adjusting the discount rate(s) in order to reflect the uncertainty in future economic conditions." Recommend considering whether more guidance is needed on how an actuary would adjust the discount rate(s) in this circumstance.	
Section 3.7 states: "In the case when the **discounted claim estimate** is an update of a previous estimate, the actuary should identify changes in methods, models, or assumptions that the actuary believes to have a material impact on the **discounted claim estimate** and the reasons for such changes to the extent known by the actuary. And section 4.1.j states that the actuary should disclose: "changes in methods, models, or assumptions that the actuary believes to have a material impact on the **discounted claim estimate** and the reasons for such changes to the extent known by the actuary, if the **discounted claim estimate** is an update of a previous estimate (see section 3.7);"	Section 2.3 defines "discounted claim estimate" as: "The actuary's estimate of the **present value** of the **claim estimate**." And section 2.6 defines "present value" as: "The value at a given date of a future claim payment or series of future claim payments, discounted to reflect the time value of money." Thus, the proposed ASOP defines "discounted claim estimate" as the discounted value of a claim estimate <u>at a given date</u>. Taken literally then, the "update of a previous estimate" referred to in section 3.7 and section 4.1.j would be read to mean an update using data and information evaluated as of a different date, but still for the same underlying obligations, discounted back to the same given date. We believe this is not the intent of section 3.7 and section 4.1.7. Rather, we believe the intent is for the actuary to disclose changes in methods, models, or assumptions that the actuary believes to have a material impact on the discounted claim estimate, when comparing one discounted claim estimate to another (which may reflect different evaluation dates, valuation dates, present value dates, and so on). We recommend rewording sections 3.7 and 4.1.j accordingly.

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V. Signature:

Commentator Signature	Date
Lauren Cavanaugh, MAAA, FCAS	September 29, 2022