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
Amy Angell, 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
1.a.i.	Short answer: No. This standard is written from the perspective of asset/liability management, with much of the guidance covering the interaction and the relative timing of assets with liabilities. The guidance in the exposure draft (ED) does not appear to be relevant to an analysis solely of investment cash flows, although this guidance is what would be needed for property and casualty (P&C) actuaries, based on our interpretation of the Scope restriction for P&C practice. Consequently, the wording in the ED is irrelevant and would be very confusing for P&C work. Nonetheless, a practicing actuary would be obligated to spend time and effort to interpret the standard and possible application to P&C work. Such efforts would be inefficient and fail any cost/benefit analysis. For example, the following parts of the draft ASOP, section 3, are confusing and seem to be irrelevant for P&C practice: • 3.1.a,c,d,e,g • 3.2 • 3.2.1.a (doesn't make any sense for P&C work, which would only look at current investments), c,d,e • 3.2.2 • 3.3.b,c,d,e • 3.4.1,c,g • 3.5 Where some of the sections are possibly relevant, the wording is foreign to a P&C actuary. Many of the terms and examples used would be unfamiliar to many/most P&C actuaries, with no explanation. For example, while section 3.6 might conceivably apply to P&C actuaries, references to projected lapse rates are not relevant to nearly all P&C practice. As another example, the list of "types of cash flow analysis" in paragraph 2.3 includes many terms that are opaque to P&C actuaries, or terms that have a very different meaning in the P&C practice area, such as "loss ratio methods" and "risk theory techniques." So overall, the exposure draft would not be beneficial, or even useful, to P&C actuaries who may be involved in analyzing investment risk.

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1.a.iii	The current ASOP No. 7 and the exposure draft are heavily oriented to life and health insurance products—in particular, to long-duration contracts. For any application to P&C liability cash flows, there would need to be a major rewrite for the standard to make sense to a P&C actuary. In addition, there already are several P&C specific standards (e.g., ASOP No. 43) that make far more sense as the basis to provide guidance, should any P&C cash flow risk analyses be needed. Attempting to include the P&C practice area in a general ASOP No. 7 just does not make much sense.
2	The term "reinsurance" needs to be defined as "insurance" where the standard applies to self-insurance. This should be handled via a new definition in section 2.
3	As mentioned above, the wording and application of this standard is not appropriate for P&C cash flow analysis, when an actuary might perform such an analysis.

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	Add a definition of "investments"	If the ASOP continues to apply to P&C actuaries solely for investment risk, it will be important to identify what is meant by "investments." For the other disciplines, much of the ASOP appears to include analyses of other assets. It is also unclear what the purpose of an investment only cash flow analysis might be. Such "investment only cash flow analyses" are very rare in P&C actuarial work, so actuaries might be confused that the standard might require some sort of actuarial analysis.
2.1	Define "risk adjustment payments receivable"	Not clear what "risk adjustment payments receivable" are. If "risk adjustment payments receivable" are specific to certain laws or government insurance programs or related requirements, such as health insurance coverage under ACA, then that term should be specifically defined and limited to that use. The term "risk adjustment" is used more generally in actuarial work and now has a specific meaning under international financial reporting standards (IFRS), which applies to insurance contracts. The IFRS definition excludes investment cash flows. Hence, the actuarial standard should not use the term as a general term.
2.3	Better define the items listed in the "types" of cash flow analysis	Some of these terms have no meaning in the P&C context or are very ambiguous for that context. For example, what is meant by "loss ratio methods" and "risk theory techniques"? These might have a specific meaning in life or health insurance, but have very different interpretations for P&C.
2.4	Clarify or delete "cash flow risk"	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. The standard as worded provides no guidance in that area for P&C claim estimates.

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3.1	Expand to provide guidance on when P&C actuaries should consider performing a cash flow analysis of investments	Much of the current language appears to be irrelevant to the limited scope for P&C actuaries.
3.2.1.a	Delete, or explain why it should be considered	In the P&C context, it is not clear why the previously held assets are relevant to any new investment risk analysis. If this is describing the types of assets (rather than the individual securities previously held) then it may have more relevancy, but even then, the focus should be on the types of assets in the scope of the work engagement, and not what prior engagements involved.
3.3	Define the terms included in the list of types of analyses	It is not clear what is meant by “loss ratio methods” and “risk theory techniques,” at least for the P&C practice area in the context of this standard.
3.3	Change “could differ materially” to “have a material risk of significant differences”	The word “could” is 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 would expose actuaries to untenable situations in a litigation environment. This is a significant concern and we cannot overemphasize our very strong recommendation that the phrase be changed to avoid creating an untenable issue for P&C actuaries.
3.5.1.d	Clarify what “maintaining” liabilities is referring to	It is not clear what is meant by “maintaining liabilities.”
3.5.2.f	Incorporate this thought into the stem of this section, and then delete item f. For example, say to “take into account management policies that may impact cash flows, including the following”	Current wording here is inefficient and seems counter to prior practice of incorporating an overall thought in a stem, and then including a non-complete list.
3.6	Delete first sentence in this section?	It is not clear what “an appropriate … of scenarios” means. That sentence doesn’t seem to provide any guidance to an actuary.
3.6.a	Reword	The wording here is not clear. Is it trying to say that the assumptions used in the scenarios should not be inconsistent?
3.6.b	Clarify or remove	How would an actuary know that the cash flows are highly sensitive unless they already tested alternate models/assumptions/data? This is not helpful to actuaries in a litigation setting.
3.8.a	Delete the phrase after “qualified”	How would an actuary know that the other actuary (being relied upon) had followed applicable ASOPs, unless they peer reviewed that work? That seems to be inconsistent with the concept of relying on that other actuary’s work.
4.1.b.3	Add reference to “insurance” in the case of a self-insured	Many self-insurers do buy insurance for tail or large loss risk. In that case, their insurance operates in the same manner as reinsurance for an insurer. If this standard is meant to apply to self-insurers, it should also include any insurance the self-insurer purchases for losses beyond their self-insured tolerance.

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IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
Remove P&C from the scope and title of the standard and exposure draft.	Rationale included in commenter responses to 1.a.i and 1.a.iii.

V. Signature:

Commentator Signature	Date
Amy Angell, MAAA, FCAS Vice President, Casualty, American Academy of Actuaries, on behalf of the Casualty Practice Council	May 31, 2024