Title of Exposure Draft: Proposed Revision of ASOP No. 20 – Analysis of Property/Casualty Cash Flows, Including Discounting

Comment Deadline: August 1, 2025

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
Susan Kent, 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.	

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 Scope	This standard applies to actuaries performing a property/casualty **cash flow analysis** involving **underwriting cash flows, investment cash flows,** and/or **other cash flows.** Examples of uses of cash flow analyses include discounted **claim estimates**, determination of capital adequacy, product development or ratemaking studies, evaluations of investment strategy, financial projections or forecasts, actuarial appraisals, and testing of future charges or benefits that may vary at the discretion of the insurer (for example, policyholder dividends) ~~or policy terms for retrospective premiums)~~. This standard applies to actuaries using **cash flow analysis** when estimating items that may be a function of **cash flows**, including but not limited to loss-based taxes, contingent commissions, and retrospectively rated premiums.	Should be "and/or" as sometimes cash flow analysis does not involve investment cash flows. Retro policy cash flows are not discretionary, so that reference should be deleted. Words added to indicate that this standard applies only when cash flow analysis is part of the work.

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	This standard applies to actuaries using **cash flow analysis** when providing actuarial services with respect to health benefits associated with state or federal workers' compensation statutes and liability policies. This standard applies to future **cash flows** but may also include past **cash flows** when such **cash flows** are included in the scope of the actuarial services.	Clarifying that the standard applies to both future and past cash flows.
2.8 Other Cash Flows	Examples include shareholder dividends, capital contributions, income taxes, and non-risk bearing fee income.	May want to include income taxes as another example.
2.9 Risk Margin	A provision for uncertainty in a **cash flow analysis**. A **risk margin** may be implicit or explicit. A **risk margin** may also be referred to as a risk load or a risk adjustment.	Need to include reference to "risk adjustment" since that is the term used in IFRS 17 which would apply to insurers or reinsurers reporting under that financial reporting standard. Also, risk load is a common, similar term used in pricing or ratemaking.
3.2 Methods, Models, and Assumptions	In determining the methods, models, and assumptions appropriate for the circumstances of the **cash flow analysis**, the actuary should take into account the types of **underwriting cash flows investment cash flows** and/or **other cash flows**.	Should be "and/or" as sometimes cash flow analysis does not involve investment cash flows.
3.3.1 Unbiased Assumptions	The actuary should use assumptions that the actuary expects to have no material bias to underestimation or overestimation of the intended measure ~~**cash flows**~~, prior to consideration of any **risk margins**.	Need to incorporate the concept of "intended measure" here, as the intended measure may be something like a worst case or 75th percentile.
3.3.3 Consistency with Expected Future Conditions	The actuary should determine estimates of the timing of **cash flows** that are consistent with those ~~conditions~~ expected to prevail during the future period. If ~~conditions are~~ expected to be different from those prevailing...	We believe this refers to different future expectations regarding the cash flow timing, as opposed to things such as expectations for a different future inflationary period.
3.3.5 Underwriting Cash Flows	The actuary should use assumptions in estimating the timing of **underwriting cash flows** that are consistent with the assumptions used in developing premiums, underwriting expenses, and **claim estimates**, when the assumptions are available and remain relevant to the **cash flow analysis**.	In estimating the timing of unpaid claim estimate cash flows, the assumptions used in developing the original premium may not always be relevant. This is especially true if a court ruling was not consistent with the assumption underlying the original premium calculation.

3.3.7 Future Other Cash Flows	If the **cash flow analysis** includes **other cash flows**, the actuary should take into account relevant factors, such as historical **other cash flows** or ~~and~~ the entity's policies, that may influence the timing and magnitude of the projected **other cash flows**.	Changed "and" to "or" and inserted the word "may" as these items will not necessarily influence the projected other cash flows.
3.4 Discount Rates	When discounting **cash flows**, the actuary should use a discount rate consistent with the intended usage of the analysis. ~~reasonable discount rates.~~ The actuary may use a discount rate that is a single rate or a series of rates, such as a yield curve, consistent with the intended purpose. The actuary may use a range of discount rates or discount rates that vary by type of **cash flow**.	There needs to be some mention about the purpose or objective of the analysis, as this wording implies that the actuary always has a choice. The assignment may restrict the options of the actuary with regard to using a single rate or a series of rates.
3.4.1 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 ~~use~~ one or more of the following when consistent with the intended purpose:	Agree with the first sentence, but that concept is not carried forward with the second sentence or the subsequent paragraphs under this stem.
3.4.1.1 Risk-Free Approach	Risk-free interest rates may ~~can~~ be amenable to approximation ~~approximated~~ by using rates....	If discounting amounts in a non-U.S. currency, there may not be the type of assets mentioned here.
3.4.1.4 Other Approaches	Other approaches, such as discounting to reflect the cost of capital, or utilizing risk-adjusted interest rates, may be appropriate based on the intended purpose of the **cash flow analysis**.	Adding another possible approach that may be appropriate.
3.4.2 Economic Conditions	When appropriate, when selecting discount rate assumptions, the actuary should take into account economic factors over the expected **cash flow** period including inflation, inflation risk, and macroeconomic conditions. The actuary should consider reflecting short-term versus long-term returns when selecting the discount rate(s), recognizing that long-term returns are generally more uncertain than short-term returns. The actuary should consider adjusting the discount rate(s) to reflect the uncertainty in future economic conditions. Some accounting rules require the use of current yield curves.	It is not always appropriate to take into account economic factors over the expected cash flow period as some accounting rules require the use of current yield curves, regardless of what the actuary thinks may occur over the expected cash flow period.
3.5 Risk Margins	The actuary should consider including **risk margins** in a discounted **cash flow analysis**. The actuary should take into account whether applicable law, accounting standards, or intended purposes impose constraints or requirements related to the use of risk margins. The actuary may consider including **risk margin**s	3.5.3 Applicable Law and Accounting Standards should be in the stem that precedes 3.5.1 and 3.5.2. For example, the IAIS ICS does not allow the actuary to include a risk margin in the ICS

	in a **cash flow analysis** that is not discounted, depending on the intended use of the **cash flow analysis**. When including a **risk margin** in the **cash flow analysis**, the actuary should consider the relevant risks for the intended purpose and use of the **cash flow analysis**. The risks may include uncertainty in the amount and timing of a **cash flow** or with respect to the default, delay or loss of **investment cash flows**. The actuary may consider using different **risk margins** for different elements of the **cash flows**.	template, as the template already adds a risk margin. We have added intended purposes as another item the actuary may need to take into account. Added verbiage gives further explanation of why a risk margin should be considered and that multiple risk margins may be used for different elements of the cash flows.
3.5.2 Considerations for Discounted Cash Flows	~~Discounting a reasonable undiscounted **cash flow** may result in an inadequate **discounted cash flow**, unless appropriate **risk margins** are included.~~ When determining the amount of **risk margin**, the actuary should take into account the increase in uncertainty associated with the discounting calculation due to uncertainties in **cash flow** timing and discount rate selection.	"Inadequate" is not defined and may not have relevance to the intended purpose. Recommend deleting the first sentence here.
3.5.3 Applicable Law and Accounting Standards	~~The actuary should take into account whether applicable law and accounting standards impose constraints or requirements related to the use of **risk margins**.~~	This should be in the stem that precedes 3.5.1 and 3.5.2.
3.7 Changes in Methods, Models, and Assumptions	When the **cash flow analysis** is a known ~~an~~ update of a relevant previous analysis, the actuary should...	As worded, this seems to require the actuary to research whether a previous analysis exists.
4.1.l (Required Disclosures)	If the **cash flow analysis** is a known update of a relevant previous analysis (see section 3.7), changes in methods, models, or assumptions that the actuary believes to have a material impact on the **cash flow analysis** and the reasons for such changes to the extent known by the actuary ~~if the **cash flow analysis** is an update of a previous estimate (see section 3.7)~~; and	See comment on 3.7. As worded, this would require open-ended research as to whether a previous estimate existed, even if not relevant to the scope of the assignment.

IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)

It needs to be clear throughout the ASOP that the actuary's options are limited by the intended purpose; the existing wording does not always make that clear.	This exposure draft doesn't stress a central issue in discounting cash flows: the restrictions set by the context of the discounting assignment. For example, discounting under IFRS 17 is restricted by the IFRS 17 rules, yet the draft ASOP No. 20 says in several places that the actuary "may" do many things when discounting cash flows. Only at the end of one paragraph does it mention that those options may be restricted by the context of the assignment. We have added verbiage in several places to address this concern.
Wording should be as consistent as possible between ASOPS.	Consistent wording between ASOPs will aid in understanding.

V. Signature:

Commentator Signature	Date
Susan Kent, MAAA, FCAS Vice President, Casualty, American Academy of Actuaries, on behalf of the Casualty Practice Council	07/31/2025