

Title of Exposure Draft: ASOP 20 – Discounting of Property/Casualty Claim Estimates

Comment Deadline: September 30, 2022

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:

Ralph Blanchard, FCAS, MAAA

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 Scope	Delete the word “actuary’s” in the phrase “Unpaid claim estimates represent an actuary’s estimate of the obligation ...”.	As worded, this ASOP would not cover an actuary trying to determine the discounted value of someone else’s estimate. For example, the booked reserve estimates under GAAP and statutory accounting represent “management’s best estimate” and not necessarily an actuary’s estimate. If an actuary was asked to estimate the discounted value of that estimate, this ASOP would not apply given the current wording. Similarly, this ASOP would not apply if the actuary was asked to produce the discounted value of a claim adjuster’s claim estimate.
2.1 Claim Estimate	Same comment as for the Scope. Delete the word “actuary’s” in the phrase “An actuary’s estimate ...”	Same rationale as for the scope suggested change.
2.4 Insurance Risk	The current wording seems to exclude reinsurance premiums paid to others, unless one treats such premiums as an expense. This could be fixed by adding wording similar to the “funds” wording, such as “and other cash outflows arising from insurance operations”. An alternative would be to explicitly	Ceded premiums, including reinstatement premiums for cat reinsurance, can be a material portion of insurance cash flows.

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	mention ceded premiums in the payments section of this definition.	
2.8 Risk Margin	Add “or a discounted claim estimate” at the end of the first sentence. Otherwise this wording only allows for risk margins covering amount but not timing risk.	The current wording does not allow for risk margins (or portions thereof) that cover timing risk.
2.10 Risk Transfer	Choose another word than “strategy”. Perhaps “program”	The word “strategy” can imply something that is a notion but not a detailed program. There is strategy and then there are tactics.
3.2	This wording doesn’t work if the claim estimate comes from other than an actuarial exercise. For example, the claim estimate may come from management or a claim adjuster. In those cases the underlying models and methods may not be available.	
3.3.2 Consistency of Assumptions	This wording doesn’t work if the actuary doesn’t have backup for the undiscounted estimate, and the word “when appropriate” doesn’t address this situation. Add mention of when the underlying analysis is available?	Current wording assumes that the backup for the undiscounted value will always be available.
3.4.1 Selection of Discount Rates	There needs to be a better tie of the list to the intended purpose and context. Perhaps add at the end of this stem the words “to the extent consistent with the intended purpose and use”?	The intended purpose and/or use may conflict with some the suggested approaches.
3.5 Risk Margins	The wording in the first sentence is problematic unless it ties the consideration to the intended purpose/use. Suggest adding at the end of the first sentence “when consistent with the intended purpose/use of the discounted claim estimate”.	I was attending an FASB meeting when the FASB board members were debating whether to join the IASB on their insurance project. The FASB board members felt that including risk margins in a discounted estimate was not US GAAP. So the accounting context can dictate whether or not risk margins are allowed. The actuary should NOT consider including risk margins when inconsistent with the intended purpose/use.
3.5 Risk Margins	The wording in the step may be interpreted by some as implying that the items below are always consistent with applicable law and standards. Suggest eliminating this by saying “when consistent with applicable ...”	
3.5.b Implicit and Explicit Risk Margins	Avoiding using the word “may” in this paragraph. For the first sentence this can be done by saying “Possible approaches to introduce risk margins, depending on the context, include ...” In the last sentence consider replacing “may” with “might”.	I have seen an actuary refer to wording like this (i.e., the word “may” in a standard) when insisting he had the authority to add a risk margin even when it violated the accounting policy of the entity that would have to book the reserve. So there needs to be a tie to the context of the assignment, and not what may be interpreted as blanket permission for the actuary to add a risk margin.
Background	You might want to consider adding “commutations” as another area where actuaries may currently performing discounting calculations.	

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IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
Be very careful about not implying actuarial authority to add risk margins where that authority does not exist.	

V. Signature:

Commentator Signature	Date
Ralph S. Blanchard, III	7/28/2022