

**Title of Exposure Draft: Discounting of Property/Casualty Claim Estimates (ASOP 20)**

**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](mailto: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
Daniel Lyons, FCAS / Retired

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

**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)
2.4	Insurance Risk—The extent to which the <del>level</del> <u>amount</u> or timing of actual insurance cash flows may differ from what is expected.	"Amount" seems to be a better word here.
2.8	Risk Margin—A provision for uncertainty in a claim estimate. A risk margin may be implicit or explicit.	I'm not able to provide recommended wording because I'm not sure what the intent of the drafting committee is with respect to risk margins. This definition clearly conflicts with draft §3.5 b. which states "The actuary may introduce implicit risk margins in the selection of the claim estimate, the payment pattern, or the discount rate." So does the definition change to include payment patterns and discount rates or does §3.5 b. change?
3.3	Payment Timing—The actuary should use reasonable <del>implicit or explicit</del> assumptions regarding the timing of future payments to derive a discounted claim estimate. <u>Assumptions may be implicit or explicit and may involve interpreting past data or projecting future trends.</u>	The recommended addition comes from ASOP 43 §3.6.2.

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Section # (e.g. 3.2.a)	Commentator Recommendation (Please provide recommended wording for any suggested changes)	Commentator Rationale (Support for the recommendation)
3.3.1	Unbiased Assumptions—The actuary should use payment pattern assumptions that the actuary expects to have no material bias to underestimation or overestimation of the discounted estimate.	As in my comments for §2.8, I’m not able to provide recommended wording because I’m not sure what the intent of the drafting committee is with respect to risk margins. Section 3.3.1 clearly conflicts with draft §3.5 b. which states “The actuary may introduce implicit risk margins in ... the payment pattern...” How can an unbiased assumption contain an implicit risk margin?
3.4.2	Consideration of Economic Conditions—When selecting the discount rate assumption, the actuary should take into account various economic conditions <u>over the payment period</u> including, but not limited to, inflation, inflation risk, and macroeconomic conditions.	This is intended just to make clear that the whole payment period should be considered.


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**IV. General Recommendations (If Any):**

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
<p>3.5 Risk Margins</p> <p>In general I recommend the drafting committee broadly reconcile the description and use of risk margins in this ASOP with the description and use of risk margins in ASOP 43 (Unpaid Claim Estimates).</p>	<p>As stated in the Specific Recommendations table I think the draft has significant problems concerning the use of risk margins.</p> <p>For reference, ASOP 43 only mentions “margin” on pages 4 (§3.3. a. 1. – intended measure) and 8 (§3.7.3 - Presentation). It is not described as explicit or implicit.</p> <p>ASOP 43 §3.3. a. 1. states: “Examples of various types of measures for the unpaid claim estimate include, but are not limited to, high estimate, low estimate, median, mean, mode, actuarial central estimate, mean plus risk margin, actuarial central estimate plus risk margin, or specified percentile.”</p> <p>So it seems that an Unpaid Claim Estimate (UCE) may contain implicit or explicit risk margins as long as they are part of the intended measure. An example of a possible clash - If the UCE intended measure is “high estimate” I assume such a UCE contains an implicit margin so can the discounted UCE value contain yet another (i.e., different) UCE margin per ASOP 20 draft §3.5 b?</p> <p>I also note that ASOP 43, Appendix 3 page25 states: “The subcommittee also believes that the actuary should clearly disclose the basis of the unpaid claim estimate regarding all the items listed in section 3.3. Hence, in those instances where the unpaid claim estimate includes a margin for adverse deviation, the presence of such margin should be explicitly disclosed.” But Appendix 3 is provided for informational purposes and is not part of the standard of practice.</p> <p>Note I have not done an exhaustive search of the meaning and interpretation of “risk margin” in the ASOPs or in other articles so it is possible my comments above are not appropriate or are missing appropriate context. However, it looks like there are at least some gaps in “risk margin” treatment between the ASOP 20 draft and the current ASOP 43.</p>

**V. Signature:**

Commentator Signature	Date
	9-22-2022