

Appendix 2

Comments on the Exposure Draft and Responses

The exposure draft of the proposed revision of ASOP No. 20, *Discounting of Property/Casualty Claim Estimates*, was issued in June 2022 with a comment deadline of September 30, 2022. Five comment letters were received, some of which were submitted on behalf of multiple commentators, such as by firms or committees. For purposes of this appendix, the term “commentator” may refer to more than one person associated with a particular comment letter. The ASOP No. 20 Task Force and the Casualty Committee of the Actuarial Standards Board (ASB) carefully considered all comments received, and the ASB reviewed (and modified, where appropriate) the changes proposed by the ASOP No. 20 Task Force and the Casualty Committee.

Summarized below are the significant issues and questions contained in the comment letters and the responses. Minor wording or punctuation changes that are suggested but not significant are not reflected in the appendix, although they may have been adopted.

The term “reviewers” in appendix 2 includes the ASOP No. 20 Task Force, the Casualty Committee, and the ASB. The section numbers and titles used in appendix 2 refer to those in the exposure draft, which are then cross referenced with those in the final standard.

GENERAL COMMENTS	
Comment	One commentator proposed an alternative way of discounting using specific asset cash flows.
Response	The reviewers note that section 3.4.1.4 allows for the use of alternative reasonable methods for selecting the discount rate and made no change.
Comment	One commentator suggested being careful about not implying actuarial authority to add risk margins where that authority does not exist.
Response	The reviewers agree and note that section 1.2 states, “This standard does not address whether the actuary should include a risk margin in a specific circumstance.” The reviewers added section 3.5.3 to clarify this issue.
SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECTIVE DATE	
Section 1.2, Scope	
Comment	Two commentators suggested clarifying that the proposed ASOP would also apply when an actuary is discounting figures that are not claim estimates or expanding the definition of “claim estimates” to include other loss estimates.
Response	The reviewers modified sections 1.2 and 2.1 to clarify this issue.
SECTION 2. DEFINITIONS	
Section 2.4, Insurance Risk	
Comment	One commentator was concerned that the current language excluded reinsurance premiums paid to others, unless one treats such premiums as an expense.
Response	The reviewers modified the language.

Comment	One commentator recommended changing “level” to “amount.”
Response	The reviewers agree and made the change in sections 2.4 and 2.5.
Section 2.6, Present Value	
Comment	One commentator suggested removing the word “claim.”
Response	The reviewers agree and deleted “claim.”
Section 2.8, Risk Margin	
Comment	Two commentators suggested adding “or a discounted claim estimate” at the end of the first sentence.
Response	The reviewers agree and made the change.
Comment	One commentator said this definition conflicts with section 3.5.
Response	The reviewers added “or a discounted claim estimate” to incorporate risk margins in all contexts.
Section 2.10, Risk Transfer	
Comment	One commentator suggested using a word other than “strategy.”
Response	The reviewers believe the language is appropriate, note that the language is consistent with ASOP No. 53, <i>Estimating Future Costs for Prospective Property/ Casualty Risk Transfer and Risk Retention</i> , and made no change.
SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES	
Section 3.2, Significance of Methods, Models, and Assumptions	
Comment	Two commentators expressed concern regarding situations where the claim estimate was developed by someone other than the actuary.
Response	The reviewers modified the language in section 2.1 and 3.2 to clarify.
Section 3.3, Payment Timing	
Comment	One commentator proposed expanded language based on section 3.6.2 of ASOP No. 43, <i>Property/Casualty Unpaid Claim Estimates</i> .
Response	The reviewers agree, believe the language improves consistency with ASOP Nos. 43 and 53, and made the change.
Section 3.3.1, Unbiased Assumptions	
Comment	One commentator expressed concern about implicit risk margins in the payment pattern resulting in biased assumptions.
Response	The reviewers clarified the language to address this concern.
Comment	One commentator asked whether the section should be limited to unbiased estimators.
Response	The reviewers believe the guidance is appropriate and made no change.
Section 3.3.2, Consistency of Assumptions	
Comment	One commentator suggested adding language to address situations when documentation for the undiscounted value is not available.
Response	The reviewers modified the language.

Section 3.3.3, Consistency of Estimates	
Comment	One commentator said “cumulative payments” was unclear.
Response	The reviewers believe the language is clear and made no change.
Section 3.4.1, Selection of Discount Rates	
Comment	One commentator suggested adding “to the extent consistent with the intended purpose and use” to the first sentence.
Response	The reviewers believe sections 3.1 and 3.4.1 sufficiently address the commentator’s concern and made no change in response to this comment.
Comment	One commentator suggested clarifying 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.
Response	The reviewers believe section (d) (now section 3.4.1.4) allows for other approaches and made no change in response to this comment.
Section 3.4.2, Consideration of Economic Conditions	
Comment	One commentator suggested adding language to clarify that the whole payment period should be considered.
Response	The reviewers agree and made the change.
Comment	One commentator suggested adding more guidance on adjusting discount rates.
Response	The reviewers believe the guidance is sufficient and made no change.
Section 3.5, Risk Margins	
Comment	One commentator suggested reconciling the description and use of risk margins in this ASOP with the description and use of risk margins in ASOP No. 43.
Response	The reviewers note that section 2.8 defines risk margin as “A provision for uncertainty in a claim estimate or a discounted claim estimate. A risk margin may be implicit or explicit” and reconciles with the references to risk margins in ASOP No. 43.
Comment	Several commentators expressed concern about when discounting would be appropriate within the context of applicable law and accounting standards.
Response	The reviewers note that section 1.2 makes it clear that the standard does not require discounting or the introduction of a risk margin. The reviewers moved applicable law and accounting standards to section 3.5.3 for clarity.
Comment	One commentator suggested adding the language “to reduce the risk that the discounted estimate will become inadequate.”
Response	The reviewers note that section 3.5 states, “Discounting a reasonable undiscounted estimate may result in an inadequate discounted estimate, unless appropriate risk margins are included.” As a result, the reviewers made no change.
Comment	One commentator suggested more detail in the discussion of considerations for risk margins.
Response	The reviewers believe the level of detail is appropriate and made no change.
Section 3.5(b), Implicit and Explicit Risk Margins (now section 3.5.2)	

Comment	One commentator suggested avoiding the use of “may” in this section.
Response	The reviewers believe the language is appropriate and made no change.
Comment	One commentator proposed alternative language related to implicit and explicit risk margins.
Response	The reviewers believe the language is clear and made no change.
Section 3.7, Changes in Methods, Models, and Assumptions	
Comment	One commentator suggested clarifying that 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).
Response	The reviewers believe the language is clear, aligns with other standards including ASOP No. 43, and made no change.
APPENDIX 1, BACKGROUND AND CURRENT PRACTICES	
Comment	One commentator requested the addition of “commutations” in the background section.
Response	The reviewers agree and made the change.