

Title of Exposure Draft: Analysis of Property/Casualty Cash Flows, Including Discounting (ASOP 20)

Comment Deadline: August 1, 2025

I. Identification:

Name of Commentator / Company
Daniel Lyons, MAAA, FCAS / Retired / I am submitting these comments on my behalf.

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

III. Specific Recommendations:

Section #	Commentator Recommendation (Please provide recommended wording for any suggested changes)	Commentator Rationale (Support for the recommendation)
1.2	... 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).	Retrospective premiums are contractual, not discretionary.
1.2	This standard does not require the actuary to use discounted cash flows or a risk margin in all circumstances.	The last three words suggest the standard requires discounted cash flows or a risk margin in some circumstances, which is not the case.
1.2	If the actuary determines that the guidance in this standard conflicts with an ASOP that applies to all practice areas, this standard governs	ASOP 58 (Enterprise Risk Management) became effective on 5-1-2025. My concern is that some ERM work products might be interpreted as violating this draft ASOP. For example, §3.3.1 requires “The actuary should use assumptions that the actuary expects to have no material bias to underestimation or overestimation of the cash flows ...” and §3.4 requires “... the actuary should use reasonable discount rates.” Some parameter selections for some ERM scenarios could be biased or unreasonable without regard to context. Please see my comments in the Commentator Rationale section for §3.1.
2.9	Risk Margin—A provision for uncertainty in a cash flow analysis. A risk margin may be implicit or explicit.	Does the risk margin in this definition only come from the cash flow work, or can it come from the item undergoing the cash flow analysis? For example, if the intended measure of the unpaid claim estimate is “120% of expected”, is the extra 20% considered a risk margin for the cash flow analysis? Or is the relevant ASOP 20 risk margin just from, for example, accelerating the payment pattern? Can the Drafting Committee clarify this?

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Section #	Commentator Recommendation (Please provide recommended wording for any suggested changes)	Commentator Rationale (Support for the recommendation)
3.1	Intended Purpose and Identification of Cash Flows—The actuary should identify the intended purpose of the cash flow analysis. <u>It is important to understand the context in which the cash flow analysis will be used. An assumption could be unreasonable relative to an expected value estimate, but the same assumption could be reasonable if used, for example, in an Enterprise Risk Management scenario.</u> The actuary should identify the cash flows and accounting date(s) to be used in the cash flow analysis consistent with the intended purpose. The actuary should identify the date(s) to which the cash flow analysis is discounted, if applicable.	<p>This draft ASOP uses “intended purpose” throughout to make the point, I think, that context is essential when performing cash flow analysis.</p> <p>The importance of context is illustrated in ASOP 43 (Property/Casualty Unpaid Claim Estimates) §3.6.2, which states in part (emphasis added), “The actuary should use assumptions that, in the actuary’s professional judgment, have no known significant bias to underestimation or overestimation of the identified intended measure and are not internally inconsistent. Note that bias with regard to an expected value estimate would not necessarily be bias with regard to a measure intended to be higher or lower than an expected value estimate”.</p> <p>This draft does not define “intended purpose,” and I don’t think one should be added. Still, I recommend adding language to the draft to emphasize the importance of context when interpreting how “reasonable” and “bias” are to be understood in ASOP 20. I have inserted suggested language in §3.1, but it could go in other sections, perhaps in §3.3.1.</p>
3.3	Cash Flow Timing and Amount—The actuary should use reasonable assumptions regarding the timing and amount of cash flows <u>that are appropriate for the intended purpose</u> . Assumptions may be implicit or explicit and may involve interpreting past data or projecting future trends.	The added language is from §3.2 and clarifies that the amount of cash flows under review may not need to be revisited. Adding this might be considered redundant since it is used in §3.2, but it’s also better to repeat it here.
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 cash flows, prior to consideration of any risk margins.	As was mentioned above (Commentator Rationale for §2.9), is this just an ASOP 20 risk margin, or does it include a margin arising from the selection of an intended measure?
3.5	Risk Margins—The actuary should consider including risk margins in a discounted cash flow analysis. The actuary may consider including risk margins in a cash flow analysis that is not discounted, depending on the intended <u>purpose use</u> of the cash flow analysis.	“Intended purpose” is used throughout the ASOP, and it is appropriate to use it here.
3.5.2	(Emphasis added) Considerations for Discounted Cash Flows—Discounting a reasonable undiscounted cash flow may result in an unreasonable inadequate discounted cash flow, unless appropriate risk margins are included. [The remainder of this section is not reproduced here, and I have no suggested changes.]	Using “reasonable” and “inadequate” is a mismatch of terms. I suggest “reasonable” and “unreasonable” because “adequacy” is probably best determined after the fact.


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3.8 d. 1.	when the other party is an actuary, whether the actuary knows that the other party is appropriately qualified and has followed applicable ASOPs;	The presumption is that the actuary followed applicable ASOPs, which would be hard to know.
3.8 d. 3.	whether the actuary knows the other party's intended stated purpose for the item and the extent to which it is consistent with the actuary's intended purpose (in cases where the other party provides the unpaid claim estimate, the intended purpose includes the intended measure of the claim estimate); and	"Intended purpose" is used throughout the ASOP, and it is appropriate to use it here. The added language requires documentation of the other party's intended measure, which may provide insight into whether the unpaid claim estimate includes a margin.
4.1	Required Disclosures in an Actuarial Report—When issuing an actuarial report, the actuary should refer to ASOP Nos. 23, 29, 30, 39, 41, 43, 53, and 56, and 58.	This adds a reference to the new ERM ASOP.
4.1 j.	whether the cash flow analysis includes a risk margin, and the basis for any explicit risk margin (see section 3.5)	As was mentioned above (Commentator Rationale for §2.9), is this just an ASOP 20 risk margin, or does it include a margin arising from the selection of an intended measure?

IV. General Recommendations (If Any):

V. Signature:

Commentator Signature	Date
	7-31-2025