

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
Robert Miccolis, MAAA, FCAS, FCA Miccolis Consulting LLC

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	<p>This standard applies to actuaries performing a property/casualty cash flow analysis, <u>such as involving underwriting cash flows, investment cash flows, or other cash flows</u>. <u>Other examples where cash flow analyses may be used could include discounted claim estimates, determination of capital adequacy analysis, 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 based on policy or contract terms or at the discretion of the insurer (for example, policyholder dividends or policy/contract terms for retrospective premiums or reinsurance adjustments).</u></p> <p>This standard applies to actuaries cash flow analysis is <u>used to develop estimates that are a</u></p>	<p>Th inclusive "or" is more appropriate.</p> <p>Examples should be reworded - Not all capital adequacy analyses involve cash flow analysis. For example, analysis of catastrophe reinsurance does not typically depend on cash flow analysis.</p> <p>Retro premiums are not discretionary, so that reference should be deleted. Suggest rewording as shown.</p>

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	function of cash flows , such as contingent commissions, retrospectively rated premiums or <u>reinsurance reinstatement premiums</u> .	
2.8 Other Cash Flows	All cash flows not related to <u>underwriting risk transfer, risk retention</u> or investments. Examples include shareholder dividends, capital contributions, <u>income taxes</u> , and non-risk bearing fee income.	Wording should refer to risk retention and risk transfer rather than underwriting and add income taxes.
2.9 Risk Margin	A provision for uncertainty in a cash flow analysis . <u>A risk margin may also be referred to as a risk load or a risk adjustment.</u> <u>A risk margin may reflect the uncertainty in the amount or timing of cash flows.</u> A risk margin may be implicit or explicit.	The reference to “risk adjustment” is important because that term is used the IFRS 17 financial reporting standard for insurers or reinsurers reporting under that financial reporting standard. Only the first 2 sentences are needed in the definition, but the remaining suggested wording should be included in section 3 in an existing section or a new section.
2.12 <u>Underwriting Risk Transfer or Risk Retention</u> Cash Flows	All cash flows related to the expenses associated with <u>underwriting risk transfer or risk retention</u> , including premiums, self-insured risk funding, claims, claims expenses, and underwriting and <u>other related</u> expenses. For example, underwriting expenses for insurance policies and self-insurance administrative <u>expenses</u> .	Underwriting operations are associated with risk transfer, such as for insurance, but are not applicable for risk retention. The wording should be applicable to either risk transfer, i.e., insurance or reinsurance, or self-insurance, i.e., risk retention.
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 risk transfer or risk retention 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. Replace underwriting with risk transfer, risk retention.
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 <u>intended measure</u> associated with the cash flow analysis . However, the intended measure may reflect a risk margin . The actuary should consider the purpose of the risk margin in the cash flow analysis .	Need to incorporate the concept of “intended measure” here, as the intended measure may be something like a worst case or 75th percentile. Should add a definition of intended measure.
3.3.5 <u>Underwriting Risk Transfer</u> and <u>Risk Retention</u> Cash Flows	The actuary should use assumptions in estimating the timing of <u>relevant cash flows</u>	For example, in estimating the timing of unpaid claim estimate cash flows, the assumptions used

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	that are consistent with <u>the purpose and use of the cash flow analysis</u>	in developing the original premium may not always be relevant. This is especially true if a regulatory or court ruling concerning the premiums was not consistent with the original premium calculations.
3.4 Discount Rates	<p><u>The actuary should use discounted cash flows to compute the present value of the cash flows by adjusting the cash flow values for the time value of money.</u></p> <p><u>If the discount rate includes an adjustment that reflects the uncertainty in the amount or timing of the cash flows or in the uncertainty of future interest rates, then the actuary should consider the intended purpose of the discounted cash flows in selecting the applicable intended measure.</u></p>	Risk adjusted discount rates are sometimes used in financial analyses. The actuary should be consistent when using discount rates that already reflect an adjustment for risk in the amount or timing of the cash flows or for a selection or an adjustment in interest rates that may reflect interest rate risk in the time value of money.
3.4.1.1 Risk-Free Approach	Risk-free interest rates may can be an <u>approximation approximated by using</u> based on rates....	Currency risk may also be a factor in selecting risk-free interest rates.
3.4.1.4 Other Approaches	The actuary should select an approach which is consistent with the intended measure for the cash flow analysis.	Add reference to the intended measure.
3.5 Risk Margins	<p><u>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.</u></p> <p><u>The actuary should also take into account the intended purpose of the cash flow analysis.</u></p> <p><u>A risk margin may reflect the uncertainty in the amount or timing of cash flows or with respect to the default, delay or loss of investment cash flows. A risk margin may be implicit or explicit. The actuary may consider including risk margins in a cash flow analysis that is not discounted, depending on the intended use of the cash flow analysis.</u></p> <p><u>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 actuary may consider using different risk margins for different elements of the cash flow analysis.</u></p>	<p>The intended purpose should be taken into account.</p> <p>Should include further explanation of a risk margin and that multiple risk margins may be used for different elements of the cash flows.</p>

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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.
It should be made clear that cash flow analysis for investments may need to reflect the terminal value of the investment, which is not actually a cash flow.	Mixing investment cash flows with premium and loss cash flows can be tricky. Cash outflows from risk transfer and risk retention would be expected to be carried out until all obligations have been satisfied. However, investments can have a terminal value that needs to be considered in the cash flow analysis, depending on the purpose and use of the cash flow analysis.

V. Signature:

Commentator Signature	Date
Robert S. Miccolis, MAAA, FCAS, FCA	08/01/2025