

Appendix 2

Comments on the Exposure Draft and Responses

The exposure draft of the proposed revision of ASOP No. 20, *Analysis of Property/Casualty Cash Flows, Including Discounting*, was issued April 30, 2025, with a comment deadline of August 1, 2025. Seven 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 task force and committee.

Summarized below are the significant issues and questions contained in the comment letters and the responses. Suggestions for minor wording or punctuation changes 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 ASB 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	Two commentators said that it should be clear throughout the ASOP that the actuary’s options are limited by the intended purpose.
Response	The reviewers believe that sections 1.1 and 1.2 are clear and made no change in response to these comments.
Comment	Two commentators said language should be as consistent as possible across ASOPs to aid understanding.
Response	The reviewers agree and believe the language is generally consistent.
Comment	One commentator said it should be clear that cash flow analysis for investments may need to reflect the terminal value of the investment, which is not actually a cash flow.
Response	The reviewers believe that the language regarding underwriting and investment cash flows is reasonable and appropriate and made no change in response to this comment.
SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECTIVE DATE	
Section 1.2, Scope	
Comment	One commentator suggested deleting “or policy terms for retrospective premiums.”
Response	The reviewers modified the language.
Comment	One commentator suggested deleting “in all circumstances.”
Response	The reviewers agree and made the change.

Comment	One commentator expressed concerns about conflicts between this standard and ASOP No. 58, <i>Enterprise Risk Management</i> .
Response	The reviewers believe the language is appropriate and made no change in response to this comment.
Comment	Two commentators suggested changing “and” to “and/or.”
Response	The reviewers changed “and” to “or” and note that “or” includes “and.”
Comment	One commentator suggested adding “using cash flow analysis.”
Response	The reviewers agree and made the change.
Comment	One commentator suggested adding past cash flows to the scope of the standard.
Response	The reviewers note that the commentator’s concern is addressed in section 2.2 and made no change in response to this comment.
Comment	One commentator suggested revising the examples.
Response	The reviewers believe the examples are appropriate and made no change in response to this comment.

SECTION 2. DEFINITIONS

Comment	One commentator said methods and models should be defined in this ASOP.
Response	The reviewers believe these definitions are unnecessary and made no change.
Comment	One commentator suggested adding a definition of “intended measure.”
Response	The reviewers believe a definition is unnecessary and made no change.

Section 2.2, Cash Flow

Comment	One commentator suggested that the definition include the total estimate amount and the timing of cash flow.
Response	The reviewers believe the definition is appropriate and made no change.

Section 2.8, Other Cash Flows

Comment	Two commentators suggested adding income taxes as an example.
Response	The reviewers agree and made the change.
Comment	One commentator suggested changing “underwriting” to “risk transfer, risk retention.”
Response	The reviewers note this definition is consistent with sections 2.7 and 2.12 and made no change.

Section 2.9, Risk Margin

Comment	Two commentators suggested adding “A risk margin may also be referred to as a risk load or a risk adjustment.”
Response	The reviewers modified the language.
Comment	One commentator suggested moving language from the end of the definition to section 3.
Response	The reviewers believe the language is appropriately placed and made no change in response to this comment.

Comment	One commentator asked whether the risk margin could come from the item undergoing the cash flow analysis (for example, if the intended measure of an unpaid claim estimate is 120% of expected, can the extra 20% be considered to be a risk margin under this standard).
Response	The reviewers believe that the language covers this issue at an appropriate level of detail in section 3.5. Therefore, the reviewers made no change in response to this comment.

Section 2.10, Risk Retention

Comment	One commentator suggested using the definition as it appears in ASOP No. 53, <i>Estimating Future Costs for Prospective Property/Casualty Risk Transfer and Risk Retention</i> .
Response	The reviewers believe the definition is appropriate and made no change.

Section 2.12, Underwriting Cash Flows

Comment	One commentator suggested titling the section “Risk Transfer or Risk Retention Cash Flows” and a few other edits to reflect that underwriting operations are associated with risk transfer, such as for insurance, but are not applicable for risk retention.
Response	The reviewers believe the definition is appropriate and made no change.

SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES

Section 3.1, Intended Purpose and Identification of Cash Flows

Comment	One commentator suggested adding language to emphasize context when referencing intended purpose.
Response	The reviewers believe the language on intended purpose is appropriate and made no change.

Section 3.2, Methods, Models, and Assumptions

Comment	Two commentators suggested changing “and other cash flows” to “or other cash flows.”
Response	The reviewers changed “and” to “or.”
Comment	One commentator suggested replacing “underwriting cash flows” with “risk transfer or risk retention cash flows.”
Response	The reviewers believe the language is appropriate and made no change in response to this comment.
Comment	One commentator said the ASOP should consider interactivity between the discounted and undiscounted cash flow analysis and suggested changing “versus” to “and.”
Response	The reviewers agree and changed “versus” to “and.”

Section 3.3, Cash Flow Timing and Amount

Comment	One commentator suggested adding “that are appropriate for the intended purpose.”
Response	The reviewers note the commentator’s concern is addressed in section 3.2 and made no change.

Section 3.3.1, Unbiased Assumptions

Comment	One commentator suggested changing “Unbiased” to “Best Estimate” in the title and suggested an edit in the text, both aimed at clarifying what is meant by bias in this context.
Response	The reviewers believe the language is appropriate and made no change.

Comment	Two commentators suggested incorporating the concept of “intended measure.”
Response	The reviewers believe the language is appropriate and made no change.
Section 3.3.3, Consistency with Expected Future Conditions	
Comment	One commentator suggested modifying the language to clarify that the section refers to different future expectations regarding the cash flow timing, as opposed to things such as expectations for a different future inflationary period.
Response	The reviewers believe the language is appropriate and made no change in response to this comment.
Section 3.3.5, Underwriting Cash Flows	
Comment	One commentator suggested adding “expected recoverables” in the first paragraph and deleting the third paragraph.
Response	The reviewers believe the language is appropriate and made no change in response to this comment.
Comment	One commentator suggested modifying the language to indicate that there may be good reasons to use different assumptions for different purposes (for example, reserving vs ratemaking vs cash flow analysis).
Response	The reviewers believe the language is appropriate and made no change.
Comment	Two commentators suggested modifying the language to accommodate situations when the assumptions used in developing the original premium are no longer relevant.
Response	The reviewers agree and made the change.
Section 3.3.6, Investment Cash Flows	
Comment	One commentator suggested the second sentence was not correct in all circumstances and suggested replacing it with “Where the projected cash flows include flows from future investments, those flows should be consistent with the future investment strategy of the entity to the extent known by the actuary.”
Response	The reviewers agree and modified the language accordingly.
Section 3.3.7, Future Other Cash Flows (now Other Cash Flows)	
Comment	One commentator suggested changing “and” to “or” and adding “may” as these items will not necessarily influence the projected other cash flows.
Response	The reviewers agree and made the change.
Section 3.4, Discount Rates	
Comment	One commentator suggested adding reference to the intended purpose of the analysis.
Response	The reviewers note intended purpose is included in section 3.4.1 and made no change.
Comment	One commentator suggested adding language regarding risk-adjusted discount rates.
Response	The reviewers believe this is addressed in section 3.5 and made no change.
Section 3.4.1, Selection of Discount Rates	
Comment	One commentator suggested changing “should use” to “should consider using.”
Response	The reviewers believe the language is appropriate and made no change.

Comment	Two commentators suggested adding intended purpose in the second sentence.
Response	The reviewers believe the language is appropriate and made no change.
Section 3.4.1.1, Risk-Free Approach	
Comment	Two commentators suggested edits to address currency risk.
Response	The reviewers believe the language is appropriate and made no change.
Section 3.4.1.4, Other Approaches	
Comment	One commentator suggested adding “or utilizing risk-adjusted interest rates.”
Response	The reviewers note that risk margins are addressed in section 3.5 and made no change.
Comment	One commentator suggested adding reference to the intended measure.
Response	The reviewers believe the language is appropriate and made no change.
Section 3.4.2, Economic Conditions	
Comment	One commentator suggested adding “when appropriate” and stating that some accounting rules require the use of current yield curves.
Response	The reviewers note that this is addressed by the applicable law paragraph in section 1.2 and made no change.
Section 3.4.3, Changing Conditions	
Comment	One commentator suggested deleting the reference to claim estimates.
Response	The reviewers believe the language is appropriate and made no change.
Section 3.5, Risk Margins	
Comment	Several commentators suggested changing “intended use” to “intended purpose.”
Response	The reviewers agree and made the change.
Comment	Two commentators suggested moving section 3.5.3 into the stem of section 3.5.
Response	The reviewers disagree and made no change in response to this comment.
Comment	One commentator suggested adding language explaining why a risk margin should be considered and that multiple risk margins may be used for different elements of the cash flows.
Response	The reviewers agree and modified the language accordingly.
Comment	One commentator suggested that the actuary should consider including risk margins in discounted and undiscounted cash flows and deleting the last sentence.
Response	The reviewers believe the language is appropriate and made no change in response to this comment.
Section 3.5.2, Considerations for Discounted Cash Flows	
Comment	One commentator suggested changing “inadequate” to “unreasonable.”
Response	The reviewers disagree and made no change.

Comment	One commentator suggested deleting the first sentence, as “inadequate” is not defined and may not be relevant to the intended purpose.
Response	The reviewers believe the language is appropriate and made no change.

Section 3.5.3, Applicable Law and Accounting Standards (now section 3.6)

Comment	One commentator suggested deleting the section and moving it into the stem of section 3.5.
Response	The reviewers disagree and made no change in response to this comment.
Comment	One commentator suggested changing “should” to “must” with reference to applicable law and accounting standards.
Response	The reviewers believe the language is appropriate and made no change in response to this comment.

Section 3.7, Changes in Methods, Models, and Assumptions (now section 3.8)

Comment	One commentator said this section seems to require the actuary to research whether a previous analysis exists and suggested adding “known.”
Response	The reviewers believe the language is appropriate and made no change.

Section 3.8(d)(1), Reliance (now section 3.9[d][1])

Comment	One commentator suggested deleting “and has followed applicable ASOPs.”
Response	The reviewers disagree and made no change.

Section 3.8(d)(3), Reliance (now section 3.9[d][2])

Comment	One commentator suggested adding “intended” before “purpose” for consistency.
Response	The reviewers believe the language is appropriate and made no change.
Comment	One commentator suggested adding language to require documentation of the other party’s intended measure.
Response	The reviewers believe the language is appropriate and made no change.

SECTION 4. COMMUNICATIONS AND DISCLOSURES

Section 4.1, Required Disclosures in an Annual Report

Comment	One commentator suggested adding a reference to ASOP No. 58.
Response	The reviewers believe a reference to ASOP No. 58 is unnecessary and made no change.

Section 4.1(i)

Comment	One commentator suggested using “discount rate(s).”
Response	The reviewers agree and made the change.

Section 4.1(j)

Comment	One commentator raised concerns about an implicit risk margin in the intended measure.
Response	The reviewers believe the language is appropriate and made no change.