

Appendix 2

Comments on the Exposure Draft and Responses

The exposure draft of the proposed revision of ASOP No. 7, *Analysis of Life, Health, or Property/Casualty Insurance Cash Flow Risk*, was issued in December 2023 with a comment deadline of June 1, 2024. Nine 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. 7 Task Force of the Actuarial Standards Board (ASB) carefully considered all comments received, and a joint life and health review committee and the ASB reviewed (and modified, where appropriate) the changes proposed by the ASOP No. 7 Task Force.

Summarized below are the significant issues and questions contained in the comment letters and the responses. 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. 7 Task Force, the joint life and health review 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.

TRANSMITTAL MEMORANDUM	
Question 1(b): For the life and health practice areas, is the guidance clear for cash flow analysis based on assets, liabilities, or both assets and liabilities?	
Comment	Three commentators said they believed the guidance appropriately covers the life practice area.
Question 2: Is the guidance appropriate for an actuary performing cash flow analysis for a noninsurance entity that self-insures or takes on insurance risk? If not, please recommend clarifications.	
Comment	One commentator said it is welcome and appropriate that this standard now applies equally to insurance companies, risk retention groups, self-insured entities, and “organizations” generally.
Comment	One commentator said that the term “reinsurance” needs to be defined as “insurance” where the standard applies to self-insurance.
Response	The reviewers changed “reinsurance” to “reinsurance or other risk transfer transactions” to include insurance for self-insured entities.
Question 3: Is the guidance appropriate for all types of cash flow analysis? Does it provide sufficient guidance when determining which type of cash flow analysis to use? If not, please recommend clarifications.	
Comment	One commentator said that for life asset adequacy analysis, it was sufficient in conjunction with ASOP No. 22, <i>Statements of Actuarial Opinion Based on Asset Adequacy Analysis for Life Insurance, Annuities, or Health Insurance Reserves and Other Liabilities</i> , but guidance was insufficient for determining which type of analysis to use for life pricing.
Response	The reviewers note that the ASOPs are principle-based and believe the current language provides the appropriate level of guidance. Therefore, the reviewers made no change in response to this comment.

GENERAL	
Comment	One commentator suggested adding a reference to ASOP No. 11, <i>Treatment of Reinsurance or Similar Risk Transfer Programs Involving Life Insurance, Annuities, or Health Benefit Plans in Financial Reports</i> .
Response	The reviewers believe a reference to ASOP No. 11 is unnecessary and made no change.
Comment	One commentator suggested adding examples related to self-insurance.
Response	The reviewers believe the guidance is appropriate for any organization as defined in the standard, including an organization that self-insures, and made no change.
Comment	One commentator suggested that the standard cover foreign-exchange risk explicitly, including a definition of “cash.”
Response	The reviewers believe a definition was unnecessary but added references to currency exchange rates in sections 3.4.1(a) and 3.5.1(b) (now 3.5.1[c]).
Comment	One commentator suggested adding more detailed guidance on sensitivity testing and interdependency of risks than exists in ASOP No. 56, <i>Modeling</i> .
Response	The reviewers added language on interdependency in section 3.6 but believe sensitivity is adequately addressed.
SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECTIVE DATE	
Section 1.2, Scope	
Comment	One commentator suggested that ERM is not listed in the USQS as a practice area and asked for clarification of the following sentence: “If the actuary determines that the guidance in this standard conflicts with another practice-area ASOP, the other practice-area ASOP governs.”
Response	The reviewers note that the use of the term practice area includes ERM for purposes of standard setting and made no change in response to this comment.
Comment	One commentator suggested including a definition of “applicable law.”
Response	The reviewers note that “applicable law” is described in the last paragraph of section 1.2.
SECTION 2. DEFINITIONS	
Comment	Several commentators suggested defining terms that are not applicable to every practice area.
Response	The reviewers acknowledge that practitioners may not be familiar with terminology used outside their area of practice but made no change.
Section 2.1, Asset	
Comment	One commentator suggested defining “risk adjustment payments receivable.”
Response	The reviewers deleted the lists of examples in sections 2.1 and 2.5 but added “health” to clarify the term “risk adjustment” in section 3.4.1.
Comment	One commentator asked for an example of intangible assets to be added.
Response	The reviewers changed the language to be consistent with the current ASOP No. 7 in section 2.1 (asset) and section 2.5 (liability).

Section 2.2, Cash Flow	
Comment	Several commentators expressed concerns about the definition.
Response	The reviewers simplified the definition.
SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES	
Section 3.1, When to Perform Cash Flow Analysis	
Comment	One commentator suggested adding examples for when cash flow testing is not necessary.
Response	The reviewers believe such examples are unnecessary and made no change.
Comment	One commentator suggested changing “assignment or findings” to “assignment and findings.”
Response	The reviewers deleted “or findings.”
Comment	One commentator suggested adding a reference to ASOP No. 55, <i>Capital Adequacy Assessment</i> .
Response	The reviewers believe a reference to ASOP No. 55 is unnecessary and made no change.
Comment	One commentator suggested adding “and/or reserve” adequacy in section 3.1(a).
Response	The reviewers agree and made changes consistent with the comment.
Comment	One commentator suggested adding “and/or capital” adequacy in section 3.1(b).
Response	The reviewers agree and made changes consistent with the comment.
Section 3.2, Scope of the Cash Flow Analysis	
Comment	One commentator asked for examples of when asset-only or liability-only cash flow analysis is appropriate.
Response	The reviewers believe examples are unnecessary in this case and made no change in response to this comment.
Comment	One commentator suggested using “cash flow risk” instead of “cash flow volatility.”
Response	The reviewers agree and made the change.
Section 3.2.1, Asset Considerations, and 3.2.2, Liability Considerations	
Comment	One commentator suggested omitting the lists in section 3.2.1 and 3.2.2 because they are not comprehensive, expanding them, or adding “ <i>inter alia</i> .”
Response	The reviewers believe the lists are appropriate and made no change in response to this comment.
Section 3.2.1, Asset Considerations	
Comment	One commentator suggested adding off-balance sheet assets.
Response	The reviewers agree and made the change.
Comment	One commentator suggested using “whether subject assets are used in other cash flow analyses” in section 3.2.1(a).
Response	The reviewers disagree and made no change in response to this comment.

Comment	One commentator suggested deleting “not owned by the organization.”
Response	The reviewers agree and made the change.
Comment	One commentator suggested adding “included” to the sentence after the lettered items.
Response	The reviewers believe the current language is appropriate and made no change in response to this comment.

Section 3.3, Type of the Cash Flow Analysis

Comment	One commentator suggested adding a reference to ASOP No. 22 when determining type of cash flow analysis for asset adequacy testing.
Response	The reviewers note that ASOP No. 22 includes a reference to ASOP No. 7, believe a reference from ASOP No. 7 to ASOP No. 22 is unnecessary, and made no change.
Comment	One commentator suggested restoring the approach used in the current ASOP No. 7 because the new language is too neutral.
Response	The reviewers did not restore the approach but modified the language.
Comment	One commentator asked for the terms included in the list of types of analyses to be defined.
Response	The reviewers note these terms are widely cited in actuarial literature and therefore made no change.
Comment	Two commentators suggested changing “could differ materially” to “have a material risk of significant differences.”
Response	The reviewers clarified the language to address the commentators’ concern.
Comment	One commentator asked for clarification in section 3.3(d).
Response	The reviewers added some examples.
Comment	One commentator suggested changing “insensitive” to “sensitive” in section 3.2.1(e).
Response	The reviewers made the change.

Section 3.2.3, Completeness (Proposed new section)

Comment	One commentator suggested creating a new section 3.2.3 with the guidance in section 3.7 from the current ASOP and titling it “completeness.”
Response	The reviewers note that ASOP No. 1, <i>Introductory Actuarial Standard of Practice</i> , states, “The guidance in ASOPs need not be applied to immaterial items.” Accordingly, the reviewers made no change in response to this comment.

Section 3.5.1, Liability Characteristics

Comment	One commentator suggested adding the experience of the liabilities as a new section 3.5.1(a).
Response	The reviewers agree and made changes consistent with the comment.
Comment	One commentator suggested adding reference to company news and reputation to the list of items that can affect cash flows.
Response	The reviewers agree and made changes consistent with the comment.

Comment	One commentator asked for clarification of “maintaining” liabilities in section 3.5.1(d) (now section 3.5.1[e]).
Response	The reviewers believe the guidance is clear and made no change.
Comment	One commentator suggested moving section 3.5.1(e) (now 3.5.1[f]) to section 3.4.1.
Response	The reviewers note that nonperformance by reinsurers is discussed in the last paragraph of section 3.4.1 and made no change in response to this comment.
Section 3.5.2, Management Policies (now Management Policies and Practices)	
Comment	One commentator suggested adding “g. regulator actions/limitations that may impact cash flows.”
Response	The reviewers agree and made a change consistent with the comment.
Comment	One commentator suggested incorporating (f) into the stem.
Response	The reviewers disagree and made no change in response to this comment.
Section 3.6, Scenarios	
Comment	One commentator recommended restoring the language from the current ASOP to clarify the guidance.
Response	The reviewers clarified the language in response to this comment.
Comment	One commentator suggested deleting the first sentence.
Response	The reviewers disagree but clarified the language.
Comment	One commentator said the language in section 3.6(a) was unclear.
Response	The reviewers moved (a) to a separate paragraph and clarified the language in response to another comment. The reviewers also made changes for consistency in section 4.1(f).
Comment	One commentator suggested replacing “alternative models, assumptions, or data” with “alternative data, assumptions, or methods” in section 3.6(a).
Response	The reviewers agree and made the change.
Comment	One commentator suggested clarifying or removing section 3.6(b).
Response	The reviewers agree and clarified the language, now in section 3.6(a).
Section 3.8, Reliance on Information Provided by Another Party	
Comment	One commentator suggested deleting “and to have followed applicable ASOPs.”
Response	The reviewers believe the guidance is appropriate and made no change in response to this comment.
SECTION 4. COMMUNICATIONS AND DISCLOSURES	
Section 4.1, Required Disclosures in an Actuarial Report	
Comment	One commentator suggested adding a reference to ASOP No. 11 in section 4.1(b)3.
Response	The reviewers disagree and made no change in response to this comment.

Comment	One commentator suggested adding a reference to “insurance” in the case of a self-insured organization in section 4.1(b)3.
Response	The reviewers modified the language in sections 3.4.1, 3.5.1(j), and 4.1(b)3 to include other risk transfer transactions.
Comment	One commentator suggested adding projection period.
Response	The reviewers note that projection period is included in section 4.1(f) and made no change.
APPENDIX 1	
Comment	One commentator suggested changing “are” to “may be” in the last sentence of the second paragraph.
Response	The reviewers agree and made the change.

Appendix 2A: Property/Casualty Comments

In the exposure draft, the ASB asked questions about the applicability of ASOP No. 7 to actuaries when performing actuarial services involving property/casualty cash flow risks. Of the nine comment letters received, five were from property/casualty actuaries. Most of these comments said that the language in the exposure draft was inappropriate for property/casualty actuarial services and that if the ASOP were to apply to property/casualty actuaries, a major rewrite would be needed.

As a result of these comments, the ASB has decided to remove all property/casualty activities from the scope of this ASOP and to revise ASOP No. 20, *Discounting of Property/Casualty Claim Estimates*, to improve guidance on cash flows for property/casualty actuaries. This revision of ASOP No. 7 is being issued in conjunction with a revision of ASOP No. 20, now titled *Analysis of Property/Casualty Cash Flows, Including Discounting*.

Several individual comments from these letters were addressed as noted in appendix 2 above. The remaining comments are summarized below. The full comment letters were passed along to the ASOP No. 20 Task Force. The ASB is grateful for the comments and thanks the property/casualty commentators for their valuable input.

GENERAL	
Comment	One commentator suggested more consistent terminology between “property/casualty” and “casualty.”
<p>Question 1(a): For the P/C practice area: The proposed scope includes P/C investment cash flow risk but not most analyses involving underwriting and reserving risk. Previously, ASOP No. 7 applied to actuaries “when performing the analysis of cash flows involving both invested assets and liabilities for property/casualty insurers.”</p> <p>i. Should P/C actuaries be subject to this standard?</p>	
Comment	One commentator said yes, but this should be directed to asset cash flow work as done for ERM or capital adequacy studies.

Comment	One commentator said yes, but the use of the terms “specific to investments” at the end of the first scope paragraph seems to contradict this.
Comment	One commentator said that given the current scope for the property/casualty practice area, the ASOP No. 7 draft is not adequate and provides incomplete guidance on cash flow analysis for the property/casualty practice. In addition, given that the scope of the standard for the property/casualty practice area is limited to investments, many of the sub-sections of section 3 lack relevance for the property/casualty practice area.
Comment	One commentator said yes.
Comment	Two commentators said no because much of section 3 is irrelevant or the language used is unfamiliar to property/casualty practice.
Question 1(a)ii: Is the guidance in proposed section 1.2, Scope, and section 3.1, When to Perform a Cash Flow Analysis, appropriate for P/C actuaries? Please explain.	
Comment	One commentator said the language is appropriate if the ASOP applies only to property/casualty cash flow risks, stated in section 1.2, Scope, which does not mention property/casualty underwriting or reserving risk. The commentator said that if there are circumstances where both property/casualty assets and property/casualty liabilities should be included, then section 1.2 should be changed to reflect that.
Comment	One commentator said no for scope due to its inclusion of investments only, and yes for section 3.1, except in governing ASOPs, as more complete guidance on cash flows appears in other ASOPs.
Comment	One commentator said that the proposed language could be interpreted in several different ways, none of which would be desirable in the property/casualty area.
Comment	One commentator said that the guidance should note that items (a) “reserve adequacy” and items (c) “product development or ratemaking” rarely require cash flow testing in property/casualty.
Question 1(a)iii: Is there current actuarial practice with respect to underwriting or reserving risk that would benefit from expanding the scope for P/C actuaries to include liability cash flow risk?	
Comment	One commentator said that there may be cases where reserving risk could benefit from cash flow analysis but noted that the current draft is incomplete with respect to property/casualty loss reserve liabilities. The commentator noted that ASOP No. 20 contains some helpful guidance, but thought a reference to the whole of ASOP No. 20 would be inappropriate because not all property/casualty loss reserves are discounted.
Comment	One commentator gave examples of current actuarial practice with respect to underwriting or reserving risk that would benefit from expanding the scope of this ASOP for property/casualty actuaries to include liability cash flow risk. However, the commentator noted that the guidance would have to be extensively expanded to provide comprehensive guidance for property/casualty cash flow analysis and suggested that several property/casualty ASOPs could be leveraged to address property/casualty cash flow risk items instead.
Comment	One commentator said that property/casualty liability cash flow (underwriting and reserving) risk should be in scope in situations such as capital models, funding studies, and ERM models of property/casualty risk—but not for typical underwriting or reserving analysis undertaken in line with ASOPs such as ASOP Nos. 43, <i>Property/Casualty Unpaid Claim Estimates</i> , and 53, <i>Estimating Future Costs for Prospective Property/Casualty Risk Transfer and Risk Retention</i> .
Comment	One commentator said that as the draft was so heavily oriented toward life and health, it would make more sense to provide guidance in related property/casualty ASOPs such as ASOP No. 43 than in ASOP No. 7.
Comment	One commentator said no, as there are already ASOPs governing specific property/casualty activities.

Question 3: Is the guidance appropriate for all types of cash flow analysis? Does it provide sufficient guidance when determining which type of cash flow analysis to use? If not, please recommend clarifications.	
Comment	Two commentators said that this standard was not appropriate for property/casualty cash flow analysis.

SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECTIVE DATE

Section 1.1, Purpose

Comment	One commentator suggested that the scope should specifically exclude ceded reinsurance contracts involving property/casualty cash flow risks.
Comment	One commentator suggested excluding property/casualty cash flow risks governed by a property/casualty ASOP.

SECTION 2. DEFINITIONS

Comment	One commentator suggested including examples from the property/casualty practice area.
Comment	One commentator suggested adding a definition of “investments” to clarify what property/casualty work is in scope.

Section 2.4, Cash Flow Risk

Comment	Two commentators suggested adding guidance for cash flow risk related to property/casualty claim estimates.
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Section 3.1, Cash Flow Analysis (now When to Perform Cash Flow Analysis)

Comment	One commentator suggested noting that this standard does not apply to most property/casualty assignments in categories (a) and (c).
Comment	One commentator suggested expanding guidance on when property/casualty actuaries should consider performing a cash flow analysis of investments.

Section 3.2.1, Asset Considerations

Comment	One commentator suggested deleting section 3.2.1(a) (now section 3.2.1[b]) or explaining why it should be considered, as it is not clear in the property/casualty context.
Comment	One commentator suggested adding “deductible amounts” in section 3.2.1(c) (now section 3.2.1[d]).

Section 3.2.2, Liability Considerations

Comment	One commentator said it was unclear what section 3.2.2(c) (off-balance sheet liabilities) represented.
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