

Appendix 2

Comments on the Exposure Draft and Responses

The exposure draft of this ASOP, *Discounting of Property/Casualty Unpaid Claim Estimates*, was issued in December 2010 with a comment deadline of May 1, 2011. Five comment letters were received, one of which was submitted on behalf of multiple commentators. For purposes of this appendix, the term “commentator” may refer to more than one person associated with a particular comment letter. All comments were carefully considered and the Casualty Committee and ASB reviewed (and modified, where appropriate) the proposed changes.

Summarized below are the significant issues and questions contained in the comment letters and the responses.

The term “reviewers” in appendix 2 includes the Casualty Committee and the ASB. Also, unless otherwise noted, the section numbers and titles used in appendix 2 refer to those in this revised standard.

| SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECTIVE DATE | |
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| Section 1.2, Scope | |
| Comment | One commentator suggested that the standard be modified to apply broadly to loss sensitive estimates, such as retrospective premiums or the payment of claims-related assessments. |
| Response | The reviewers note the focus of this standard was on discounting unpaid claim estimates and, therefore, section 1.2 reiterates similar exclusions found in section 1.2 of ASOP No. 43, <i>Property/Casualty Unpaid Claim Estimates</i> , which does not apply to loss sensitive estimates. |
| SECTION 2. DEFINITIONS | |
| Comment | One commentator noted that the terms “payments” and “future payments” were used throughout the document and suggested that the terms be defined to include the inflow of recoveries in order for it to be clear that potential inflows should be considered. |
| Response | Section 1.2 identifies that this standard applies to estimates of gross amounts before recoverables (such as deductibles, ceded reinsurance, and salvage and subrogation), estimates of amounts after such recoverables, and estimates of amounts of such recoverables. As such, the reviewers believe that it is clear that payments and future payments should consider potential inflows and outflows depending on the context. |
| Comment | One commentator suggested that a definition for discount rate be added to the standard. |
| Response | The reviewers do not believe that a definition is necessary because it is sufficiently described in sections 2.4 and 3.4. |
| Section 2.1, Book Value | |
| Comment | One commentator suggested that the definition of book value be removed because the term is not used in the standard. |
| Response | The reviewers note the definition is referenced in section 3.4.1(b) and thus made no change. |

ASOP No. 20—September 2011

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| Section 2.3, Investment Risk | |
| Comment | Several commentators suggested expanding the list of examples of investment risk to include market risk and reinvestment risk. |
| Response | The reviewers believe that the definition is sufficiently clear without the need for examples. The examples given previously with credit risk and liquidity risk, and their associated definitions were removed in order to avoid the misunderstanding that they were an exhaustive list. |
| SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES | |
| Section 3.1, Appropriateness in Context | |
| Comment | Several commentators suggested that there may be circumstances where the actuary may use more than one methodology when performing the discounting calculation. For example, multiple methods may be used to determine a reasonable range of discounted unpaid claim estimates. |
| Response | The reviewers believe that actuaries generally use only one methodology when discounting unpaid claim estimates; however, the reviewers acknowledge that an actuary may want to use more than one methodology in some circumstances. The reviewers believe that use of more than one methodology in this context would be characterized as “a methodology” and hence no change was made. |
| Section 3.3, Payment Timing for Discounting | |
| Comment | Commentators interpreted the wording of section 3.3 to imply that an actuary must explicitly project the timing of future payments and that an implicit assumption regarding the timing might be a violation of the standard. |
| Response | The reviewers acknowledge that the timing of future payments might be estimated implicitly and rephrased this paragraph to avoid confusion. |
| Section 3.4, Discount Rates | |
| Comment | One commentator suggested that the term “discount rate” was incorrect and this standard should use “interest rate” in its place. |
| Response | The reviewers disagree. The term discount rate was chosen to be consistent with other standards of practice as well as other practice areas. |
| Comment | One commentator interpreted the approaches in section 3.4.1 to be a complete and exhaustive list and asked if that is what was intended. |
| Response | The approaches are not intended to be an exhaustive list. This section was rephrased to indicate that there may be other approaches. |
| Comment | One commentator suggested that some liability cash flows may extend beyond the normal range of asset maturity dates and that this standard provides no guidance in these situations. |
| Response | The reviewers believe techniques to address this situation, such as extrapolation, are consistent with the guidance in sections 3.4.1(a) and 3.4.1(b), and made no change. |

ASOP No. 20—September 2011

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| Comment | One commentator requested that reference be made to U.S. Treasuries when discussing the use of a risk-free rate for the discount rate. |
| Response | The reviewers do not believe that sovereign debt or any other asset can be unequivocally defined as having low investment risk even though U.S. Treasuries have been historically viewed as low-risk. The reviewers believe that the risk-free approach in section 3.4.1(a) provides sufficient guidance for the actuary when approximating a risk-free interest rate. |
| Comment | One commentator suggested that a discount rate might be based on a benchmark portfolio of assets and questioned whether or not this was accepted practice according to the standard. |
| Response | The reviewers note that section 3.4.1(b) does not prescribe whether the portfolio of assets is derived from actual assets or a benchmark. The use of either type of asset will depend on the context as mentioned in section 3.4.1. |
| Comment | Several commentators objected to the phrase that it is “generally expected” that the actuary is responsible for the discount rates employed in preparing the actuarial findings and suggested section 3.4.1(c) be rephrased accordingly. |
| Response | The reviewers agree and rephrased section 3.4.1(c). |
| Section 3.5, Ranges | |
| Comment | One commentator noted that there are many types of ranges, such as a range of best estimates or a range of possible outcomes, and this section was not clear which type of range was being referenced. |
| Response | The reviewers changed the word “range” to “range of estimates” in this section. The type of range used will depend on the context and, according to section 4.2(a), the actuary should disclose the basis of the range, if one is provided. |
| Section 3.6, Risk Margins [Exposure Draft] | |
| Comment | One commentator disagreed that an undiscounted unpaid claim estimate contains a margin. |
| Response | This section was removed and a sentence was added to section 1.2, which states: “This standard does not address the appropriateness of including a risk margin in specific contexts.” |
| SECTION 4. COMMUNICATIONS AND DISCLOSURES | |
| Section 4.1, Actuarial Communication | |
| Comment | One commentator suggested that the amount of the risk margin should be disclosed to the extent practical. |
| Response | The reviewers believe that in certain cases it may be difficult to quantify the amount of a risk margin and language requiring disclosure of the amount “to the extent practical” could place an undue burden on the actuary. |
| Comment | One commentator suggested deleting sections (d), (e), and (g) because they are duplicative with other standards. |
| Response | The reviewers acknowledge that the wording is similar to ASOP No. 43 but these sections are used in this standard to address the context of discounted unpaid claims estimates. |

ASOP No. 20—September 2011

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| Comment | One commentator suggested that in some cases an estimate is discounted to a different date that may not coincide with the accounting date and suggested that section 4.1(e) include the concept of a separate “discount to” date. |
| Response | The reviewers agree that there may be circumstances where the estimate is discounted to a date different from the accounting date and believe this standard does not prevent the actuary from using and disclosing the different date. In addition, section 4.1(g) would require the disclosure of a different “discount to” date by virtue of it being a significant assumption underlying the discounted unpaid claim estimate. |

