



AMERICAN ACADEMY of ACTUARIES

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April 26, 2017

Via email to [comments@actuary.org](mailto:comments@actuary.org)

Actuarial Standards Board  
1850 M Street NW  
Suite 300  
Washington, DC 20036

RE: Third Exposure Draft, Proposed Actuarial Standard of Practice, *Estimating Future Costs for Prospective Property/Casualty Risk Transfer and Risk Funding*

Thank you for the opportunity to provide comments on the proposed actuarial standard of practice (ASOP), *Estimating Future Costs for Prospective Property/Casualty Risk Transfer and Risk Funding*. The Casualty Practice Council (CPC) of the American Academy of Actuaries<sup>1</sup> has reviewed the document and offers the comments below. We begin with responses to the questions provided in the Transmittal Memorandum followed by additional comments on specific sections.

### **Request for Comments**

1. The proposed ASOP provides sufficient and appropriate guidance to actuaries estimating future costs for prospective property/casualty risk transfer and risk funding.
2. We appreciate the addition of intended measure to the proposed ASOP. However, Section 3.2, as written, does not appear to recognize the instance where elements of the future cost estimate have different intended measures, whereas other sections—e.g., Section 3.5—do. For example, if the loss (and loss adjustment expense) element is a specific percentile and all other elements are mean estimates, we suggest that both measures be disclosed. Suggested language is as follows:

3.2 Intended Measure(s) — The actuary should determine the intended measure(s) based on the intent or purpose of the future cost estimate...

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<sup>1</sup> The American Academy of Actuaries is a 19,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

The actuary should disclose the intended measure(s) used for each element of the future cost estimate in accordance with section 4.1.

Please note there is a typographical error in the last sentence of Section 3.2; the correct reference for disclosure of the intended measures is Section 4.1, rather than Section 4.2. Additionally, if the above edit is accepted, 4.1(b) will need to be amended to pluralize “intended measure(s).”

3. The definition of “risk funding” is complete. We suggest one change to the definition of “risk transfer,” which is to delete “contractual” from the definition of Section 2.6, Risk Transfer, which would make the definition more consistent with Section 2.1, Coverage in recognizing that coverage can exist absent a contract.
4. The scope of the proposed ASOP is clear.
5. The guidance provided by the proposed ASOP for a reviewing actuary is sufficient and clear.
6. The level of disclosure required in the proposed ASOP is sufficient and appropriate.

### **Specific Section Comment**

While a minor item, we suggest switching the order of Section 3.3, Organization of Data and Section 3.4, Data Quality, as one must necessarily choose the data before organizing it.

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The CPC appreciates this opportunity to provide comments to the ASB. We hope these observations are helpful, and we welcome further discussion. If you have any questions about our comments, please contact Marc Rosenberg, the Academy’s senior casualty policy analyst, at [rosenberg@actuary.org](mailto:rosenberg@actuary.org) or 202-785-7865.

Sincerely,

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Vice President, Casualty Practice Council  
American Academy of Actuaries