



AMERICAN ACADEMY *of* ACTUARIES

August 2, 2011

Honorable Jeffrey A. Goldstein
Under Secretary for Domestic Finance
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220-0002

Dear Secretary Goldstein:

I again write to you regarding the important selection of qualified candidates to serve on the Federal Advisory Committee on Insurance (FACI).

I understand that my prior letter of June 8¹ has elicited a pointed communication from Robert Hunter, an individual representing the Consumer Federation of America.² Mr. Hunter makes several unfortunate allegations that are both incorrect and internally inconsistent:

- 1) That actuarial expertise is required only for the most mundane “functional work” of the FACI.
- 2) That actuaries have a “direct conflict-of-interest when making independent decisions.”
- 3) That the American Academy of Actuaries mission of providing objective expertise is to be challenged on the basis of employer disclosure.

I will briefly address each of these points to correct these misstatements:

To assert that the FACI would not benefit from a qualified actuary among its members does a disservice not only to the actuarial profession, but also to the prospect of effective regulation and oversight of insurers. The work of the actuary is highly regarded and essential to the solvency concerns of insurers and pension plans. To suggest that actuaries only occupy a space of “functional” utility is to suggest that the profession does nothing more than crunch numbers in a computational fashion. Those with knowledge of the expertise and leadership skills required of actuaries—who serve in the senior management of companies, plans and other organizations—would conclude that this either is a statement made without awareness or made intentionally to mislead. Indeed, there have been many state commissioners of insurance, including Mr. Hunter himself, who count themselves among our profession.

The second assertion, that actuaries have a “direct conflict-of-interest when making independent decisions,” represents such a grossly overdrawn perspective as to call into question whether there is even a plausible basis in reality for making it. Every qualified

¹ See Attachment 1.

² See Attachment 2.

actuary must adhere to high ethical, professional, and practice standards that transcend his or her place of employment.

As to the author's suggestion that the Academy's objectivity is to be questioned because we do not disclose the authors' employers on every work product, I would argue the exact opposite is true. It is because we cherish our objectivity that we do not reference employment affiliation. The Academy is a *professional* organization. It is emphatically not an organization representing employers. If we would wish to put forward the employer perspectives, we would indeed seek their management's input and reflect that input with our comments. It is for the exact reason that we do not represent those views that we must exclude employment affiliation. Our volunteers must adhere to the profession's code of professional conduct requirement to represent the Academy, and only the Academy, when they are working on Academy work products. In addition, all Academy volunteers are required to adhere to additional peer review and conflict of interest policies specific to their Academy contributions. There are numerous checks and balances and disclosures made at the peer level to ensure these standards are adhered to, which the author would know, had he himself volunteered on any of our many work groups and committees. Unlike some organizations, including consumer groups, the actuarial professional organizations make available, free of charge, an online directory that is accessible 24-hours-a-day and is constantly updated with employer affiliations for anyone wishing to learn the employment of any of our volunteers.³

Mr. Secretary, I do not wish to consume any more of your time and attention to debate these matters. I instead leave you with the same offer as in my original letter: The actuarial profession has much to offer in advising regulators at all levels on prudent measures to safeguard solvency, capital requirements, systemic risk, and myriad other matters affecting insurers. Whether that actuarial expertise comes from a practitioner who has deep experience in working from a company perspective, a regulatory perspective or an academic perspective is not a material concern. All actuaries are held to the same high standards. Any actuary whom you appoint to the FACI will be held by our Code of Conduct to provide the Committee with his or her best, unbiased efforts and input—and a level of expertise and perspective unlikely to be provided by other members.

Should you wish to discuss any of these concerns with me, I would be happy to speak with you at your convenience.

Sincerely,



Mary Frances Miller
President
American Academy of Actuaries

³ The directory is available at: <https://actuarialdirectory.org/SearchDirectory/tabid/242/Default.aspx>



AMERICAN ACADEMY *of* ACTUARIES

June 8, 2011

Honorable Jeffrey A. Goldstein
Under Secretary for Domestic Finance
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220-0002
Re: Federal Advisory Committee on Insurance

Dear Secretary Goldstein:

On behalf of the American Academy of Actuaries¹ (Academy), I call your attention to a critical consideration regarding actuarial participation to secure the effectiveness of the proposed Federal Advisory Committee on Insurance (FACI). As announced in the *Federal Register* (5/13/11), appointments to the Committee will be made with the “objective of creating a diverse and balanced body with a variety of interests, backgrounds, and viewpoints represented” and who possess “relevant expertise.” Such diversity and experience will not be realized if the committee does not include individuals with direct actuarial expertise.

The charge of the Federal Insurance Office (FIO), as identified in the *Federal Register*, notice illustrates the need to have actuarial expertise represented directly and specifically on the panel. The FIO’s duties include: monitoring all aspects of the insurance sector, generally (except Health, Long-term Care, and Crop Insurance), domestic and foreign, prudential and systemic risk regulation, examining whether underserved communities have access to affordable insurance products (often related to actuarial risk assessment and underwriting). The FIO’s duties also include administering the Terrorism Risk Insurance Program. In addition, it is expected that the FIO will collect data and information on and from the insurance industry; enter into information-sharing agreements; analyze and disseminate data and information; and issue reports regarding all lines of insurance (except health insurance), which again distinguishes the core competencies of actuaries. Further, much of the information that the FIO, and therefore the FACI, will examine, will emanate from actuaries in the insurance industry. Just as it is necessary to have actuarial oversight at the state regulatory level to fully assess the industry’s actuarial work product, it is important, if not more important, at the federal level to assist the Committee and the FIO Director in navigating these complex issues.

Finally, it is the nature of the actuarial profession’s peer reinforced oversight that makes the point why the actuarial voice on the FACI is essential. Just as the regulatory actuary is in place to critically examine the work of industry, there similarly should be controls in place to view the work of technical advisors on staff to the FIO to ensure their resources are deployed appropriately and adequately to complete the Office’s mission.

¹ The American Academy of Actuaries is a 17,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists 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.

Actuaries are required to adhere to the profession's Standards of Practice and Code of Professional Conduct, which establish high standards of conduct, practices, and qualifications. Actuaries maintain their qualifications through continuing education, on-going training, and experience.

Actuaries have been instrumental in the development of the regulations and risk management frameworks governing the insurance industry. The actuarial profession today regularly provides input to insurance regulators concerning the design and implementation of regulations dealing with insurer solvency, including required minimum reserve levels and risk-based capital requirements. Actuaries also are employed in other sectors of the financial services industry beyond the insurance sector, including pension funding, healthcare, and investment banking.

I welcome the opportunity to discuss with you any additional contributions actuaries might have for the FOCI, and should you require input on examining individual qualification criteria as you review applications, please feel free to contact the Academy through Craig Hanna, Director of Public Policy (hanna@actuary.org or (202) 223-8196).

Sincerely,

A handwritten signature in black ink, appearing to read "M. Frances Miller", is centered on a light gray rectangular background.

Mary Frances Miller
President
American Academy of Actuaries

cc: Chris Ledoux
Federal Insurance Office
Via email: conrad.ledoux@treasury.gov



Consumer Federation of America

1620 I Street, N.W., Suite 200 * Washington, DC 20006

June 20, 2011

Hon. Jeffrey A. Goldstein
Under Secretary for Domestic Finance
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220-0002

Re: Federal Advisory Committee on Insurance

Dear Secretary Goldstein:

On June 8, 2011, the American Academy of Actuaries (AAA) sent you a letter requesting that “individuals with direct actuarial experience” be included on the proposed Federal Advisory Committee on Insurance (FACI). As an actuary and member of the American Academy of Actuaries myself, I do not agree that actuaries need to be on the FACI. This is not to say that actuarial expertise is not needed in your work. It is. However, actuarial expertise is much more suited for subcommittee or staff functional work, for getting into the details under the direction of the members of FACI, than in determining public policy.

Furthermore, I urge you to be very careful when selecting actuaries for such a purpose. The vast majority of actuaries are in the employ, directly or indirectly, of the insurance industry and have a direct conflict-of-interest when making independent decisions.

To make matters worse, the AAA does not disclose any potential conflicts-of-interest regarding persons on their committees that make recommendations to state and federal public policymakers. (Despite repeated requests from me that they do so.) Often, the AAA committees are dominated by people who have a vested interest in the outcome of the recommendations. For example, on May 4, 2011, AAA sent the attached letter to Congress on the National Flood Insurance Program (NFIP). In the letter, AAA takes positions on several matters that support insurers. The letter describes AAA as follows:

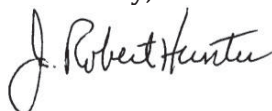
The American Academy of Actuaries is a 17,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and

financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

Despite these claims of “objective expertise,” the letter recommends (incorrectly, in my opinion) that the “NFIP could potentially benefit from purchasing reinsurance” without disclosing that the Chair of the committee signing the letter is employed by Swiss Reinsurance. The other four committee members include two representatives who are Write Your Own insurer executives (for policies backed by the NFIP), one who specializes in securitizing risk for insurers, and a person employed by FEMA. I would be happy to provide you with many other examples of AAA selling “objectivity” without disclosing conflicts.

While actuarial expertise is important for FAIC’s work, actuaries need not be on the FAIC itself. Moreover, in obtaining any actuarial assistance for the FAIC, I urge you to select actuaries who do not have conflicts-of-interest and are independent of insurance industry influence.

Sincerely,

A handwritten signature in black ink that reads "J. Robert Hunter". The signature is written in a cursive style with a large, stylized initial "J".

J. Robert Hunter
Director of Insurance