



AMERICAN ACADEMY *of* ACTUARIES

August 2, 2011

Life Actuarial Task Force
National Association of Insurance Commissioners

Re: Proposed VM-50 regulation for principle-based reserving experience reporting

To the Task Force:

The American Academy of Actuaries¹ is compelled to provide the following information to correct misstatements contained in the recent Center for Economic Justice's letter (June 23, 2011) that criticized the use of professional actuarial organizations for technical actuarial services reflected in the proposed VM-50 regulation for principle-based reserving experience reporting.

The American Academy of Actuaries is the national organization representing the actuarial profession in public policy by providing unbiased, technical expertise that is essential to the design and implementation of effective insurance regulation.

Insurance regulation requires constructive interaction between regulators, industry, consumers, and professional actuarial organizations. The Academy is a not-for-profit professional organization comprised of volunteer actuaries expert in their practice areas who collectively have the experience and skill to provide objective analysis of public policy actuarial issues. These actuaries provide in-depth reviews of the potential impact of regulations on consumers, products, and the insurance markets. The diverse background of our membership adds to the quality of the analysis that the Academy is able to provide policymakers.

The American Academy of Actuaries has in place rigorous and detailed policies and procedures to safeguard against and to address any actual or potential conflicts of interest. As part of its core mission to provide independent and objective actuarial information, analysis, and education for the formation of sound public policy, the Academy must make certain that every public work product receives the same rigor of scrutiny and oversight, as required by these Academy policies and procedures. As such, the Academy has had in place for many years a conflict of interest policy with which Academy member-volunteers must comply. This policy serves to maintain the Academy's high level of professional objectivity and independence from any specific

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.

interests of employers. The Academy requires an affirmative attestation each year from all volunteers that they understand and agree to their responsibilities under this policy before providing their services to the Academy. (See http://www.actuary.org/pdf/prof/revised_COI_Policy.pdf to review this policy.)

In addition, the Academy has strict guidelines for issuing any public statements, including comment letters, testimony, and other work products, that require (a) review by committees or other groups comprised of actuaries from various practices (which may include actuaries working in government), (b) strict peer review by actuaries not involved in developing the public statement, and (c) detailed review by Academy public policy and legal staff who act in the best interests of the Academy's mission. All of these procedures are followed to protect the objectivity of the Academy's work products and contributions to public policy and actuarial professionalism.

The Academy has detailed policies and practices in place to address potential anti-trust issues. As with its conflict of interest policy, the Academy has had in place for years an antitrust policy to make certain that our members are aware of, and do not violate, antitrust laws as they perform work on behalf of the Academy. (See <http://www.actuary.org/yearbook/2009/antitrust.pdf> to review the policy.) The Academy's volunteer actuaries do not solicit or obtain information, as suggested by the CEJ, which would constitute confidential, business proprietary information from insurance companies. Should LATF request work from the Academy that requires access to information that would otherwise not be available to the public, the Academy would, as it always does, look to work with either the NAIC staff or to partner with the Society of Actuaries in its research capacity, to take the necessary steps to guard against inappropriate access to confidential data to be used for that specific project.

Actuaries are bound to high ethical, professional, and practice standards. Actuaries who are members of any of the five U.S.-based actuarial organizations are required to adhere to the profession's Code of Professional Conduct, which sets forth high standards of conduct, practices, and qualifications, and outlines the profession's responsibility to the public. The first precept of the Code states that, "An Actuary shall act honestly, with integrity and competence, and in a manner to fulfill the profession's responsibility to the public and to uphold the reputation of the actuarial profession." Actuaries found to be in violation of the Code are subject to discipline. Volunteer members of the Academy take their responsibilities under the Code especially seriously and consider them in the context of their work for the Academy.

The American Academy of Actuaries has been the technical architect of principle-based reserving and capital (PBA) regulations for life insurance. The Academy has provided thousands of volunteer hours of work to regulators in the development of principle-based regulations, representing a wide range of actuarial perspectives and experience. The Academy has provided this vital assistance because its Life Practice Council elevated PBA reforms to a high-level goal: to enact these measures in the public interest. We believe that the Academy's contribution to this effort is on the verge of producing a regulatory structure that more effectively protects today's consumers and is

more reflective of the modern life insurance product. The Academy's work also supports the specific goal of enhancing regulators' ability to more appropriately and effectively oversee and ensure insurance company solvency and reserving.

The expertise to develop and analyze experience studies is a fundamental skill and function of actuaries. Working in conjunction with its sister organization, the Society of Actuaries, the Academy has demonstrated over more than 40 years the ability to develop valuation tables, based on sound, objective principles.

We appreciate the opportunity to offer this information to counter the unsubstantiated accusations from one group. As always, we also appreciate the opportunity to work with the Life Actuarial Task Force in the pursuit of fair and effective public policy and regulation. If you have any questions, please contact Craig Hanna, director of public policy for the American Academy of Actuaries at hanna@actuary.org.

Best regards,

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

Mary Frances Miller
President
American Academy of Actuaries