



AMERICAN ACADEMY *of* ACTUARIES

February 23, 1998

By Telecopier and
Overnight Delivery

Mr. Mark Noller, Sr.
National Association of Insurance Commissioners
120 West 12th Street
Suite 1100
Kansas City, MO 64105-1925

Re: *Modifications/Additions to the NAIC Accreditation Program*

Dear Mr. Noller:

This responds to the December 18, 1997 notice issued by the National Association of Insurance Commissioners ("NAIC") regarding proposed changes to the NAIC's Accreditation Program. The Council on Professionalism of the American Academy of Actuaries ("the Academy") wishes to comment on two aspects of the proposal.

In addition to its public policy responsibilities described below, the Academy is responsible for setting actuarial standards of qualification, conduct and practice, and for investigating complaints against actuaries who are accused of violating those standards. The Academy's Code of Professional Conduct prohibits its members from performing professional actuarial services unless they are "qualified to do so and meet applicable qualification standards." The Academy's Qualification Standards require actuaries who issue statements of opinion that are required by law or regulation (including the various opinions called for by the NAIC's model laws and regulations) to meet specified requirements for basic education and experience, and to maintain continuing education. Actuaries who issue such opinions without meeting the Qualification

Standards are subject to discipline, up to and including expulsion from the Academy.¹ The Actuarial Board for Counseling and Discipline (“ABCD”) is the body of the Academy that is responsible for investigating members’ breaches of professional standards and for recommending discipline against members where circumstances warrant.

The Academy is the public policy organization for actuaries practicing in all specialties within the United States. A major purpose of the Academy is to act as the public information organization for the profession. The Academy is non partisan and assists the public policy process through the presentation of clear and objective actuarial analysis. The Academy regularly prepares testimony for Congress, provides information to federal elected officials, comments on proposed federal regulations, and works closely with state officials on issues related to insurance.

For the past several years, the Academy has met with the NAIC’s leadership through the NAIC/Academy/ABCD/ASB Joint Committee to discuss matters pertaining to actuarial professionalism. We are pleased that the NAIC shares our desire to foster a high level of professionalism among actuaries, and hope that the comments that follow will assist the NAIC to develop accreditation guidelines that recognize the importance of actuarial professionalism. To encourage further dialogue, we are also forwarding copies of our comments to Messrs. Crawford, D’Annunzio, Peavy and Foley of the NAIC/Academy/ABCD/ASB Joint Committee.

For more than thirty years, membership in the Academy has been a hallmark of professional quality that, in turn, serves an important public purpose. Laws and regulations call for actuarial opinions so that the public can benefit from the actuarial profession’s expertise. Academy members are bound by the Academy’s standards for conduct, practice and qualification. They are, therefore, expected to be expert in the financial aspects of their actuarial area of professional practice, and to exercise reasoned professional judgment in addressing financial issues. The NAIC has repeatedly recognized the value of Academy membership as evidence of actuarial professionalism by issuing model laws and regulations that define a “qualified actuary” as a member of the Academy, or “MAAA.”

The Academy’s first concern is with Pages 1 and 8 of the proposed amended guidelines, which set forth lists of qualifications for individuals who are expert in insurance or financial analysis. For some reason, “Member, American Academy of Actuaries (MAAA)” is not included among the listed credentials, and we firmly believe it should be. Academy members who practice in life, health or property and casualty insurance typically are not limited in their training and experience to strictly actuarial matters, but have a broad and sophisticated understanding of insurance, financial analysis and risk management.² Members of the Academy are as well equipped as the

¹ The Academy has four sister organizations in the United States: the American Society of Pension Actuaries, the Casualty Actuarial Society, the Conference of Consulting Actuaries, and the Society of Actuaries. These organizations also require their members to comply with the Academy’s Qualification Standards.

² For example, the NAIC Risk-Based Capital Task Force has established continuing links to the Academy for each of the Life & Health, Property & Casualty and Managed Care RBC formulas in their development and continuing modifications.

other identified experts to analyze issues that arise in a financial review of an insurance company. We therefore urge the NAIC to continue its recognition of the value of Academy membership by adding “Member, American Academy of Actuaries (MAAA)” to Section B(1)(a)(2)) on Page 1 and Section B(2)(a)(2)) on Page 8.

We are also concerned about the NAIC’s proposal to permit insurance departments to use individuals who are not Academy members to evaluate insurer reserves (*see* pages 9-10). Academy members possess the necessary training and experience to evaluate insurance company reserves; we do not believe that non-credentialed individuals will reliably possess comparable qualifications. Moreover, Academy members are bound by high standards of professionalism, and are subject to investigation by the ABCD and subsequent appropriate discipline by the Academy for breaching those standards. Individuals who lack actuarial credentials are not so bound. If a non-credentialed individual fails to conduct a reserve evaluation in a professional manner, insurance departments will not have recourse to the ABCD to address that failure. Academy members, by contrast, will bring the Academy’s emphasis on professionalism to the reserve evaluation, and will be susceptible to investigation and discipline for any failure to do so.

Reserves (and their relationship to the assets supporting them) are a critical element of an insurance company’s financial health, making the coordinated evaluation of both a crucial aspect of any financial review of the company. We are particularly concerned with the NAIC’s premise that the reserves of some insurance companies need not be reviewed by qualified actuaries. Even individuals who are broadly familiar with insurance company finances will not necessarily fully appreciate all of the actuarial work supporting a company’s reserves. It is important for *all* insurance companies’ reserves to be periodically evaluated, and that those evaluations be conducted by appropriately qualified actuaries who are bound by high professional standards. It is also important that the actuaries appropriately document their work products; we believe the documentation should include appropriate references to professional standards. We therefore urge the NAIC to require insurance departments to engage Academy members to evaluate reserves, and to withdraw its proposal to permit use of non-credentialed individuals to conduct reserve evaluations by amending its proposal as follows:

Actuarial Expertise Guidelines

1) A qualified actuary (i.e., a Member of the American Academy of Actuaries (“MAAA”)) ~~Persons with appropriate experience to evaluate reserves~~ should be involved on all examinations.

~~2) Credentialed actuaries should be involved on all life and health company examinations where the company has a substantial amount ... these types of reserves.~~

~~For purposes of the above guideline, it should be noted that ... long-tail lines of business.~~

2 3) Coordination between examiners and actuaries ...

3 4) Appropriate documentation, including appropriate references to the Qualification Standards and Actuarial Standards of Practice, should support actuarial findings.

5 6) The actuarial workpapers should be kept in the Department's files or otherwise be made available for review.

It would also be beneficial for the NAIC explicitly to expand the apparent contemplated role of the reviewing actuary beyond merely the evaluation of reserves and to include in that role the examination of other aspects of insurance companies' finances. Academy members typically have a much broader understanding of insurance risk and company financial management than the proposal appears to recognize. For example, Academy members generally are well equipped to evaluate reinsurance arrangements. We would, therefore, strongly urge the NAIC to continue to recognize the value that Academy members can bring to the examination process, and not to limit express reference to actuarial participation to only the evaluation of reserves. To some degree, adding Members of the Academy to the list of recognized credentialed parties will accomplish this objective. Additionally, we believe it would be beneficial to amend the lists of educational criteria in Section B(1)(a)(3)) on Page 1 and Section B(2)(a)(3)) on Page 8 as follows:

Staff should have an accounting, insurance, actuarial or financial analysis background. If their background is in insurance, it should be financial in nature. College degrees should focus on accounting, insurance, actuarial science or finance.

We also recommend that a new subsection 6) be added to the section titled, "Actuarial Expertise Guidelines":

6) A qualified actuary (i.e., Member of the American Academy of Actuaries ("MAAA")) should also be involved in reinsurance contract review and other areas of financial analysis or examination of a company as appropriate.

We request an opportunity to present our position at the NAIC meeting in March. In the interim, if you require additional information or assistance, please contact the Council on Professionalism at the Academy office, (202) 223-8196. Thank you for this opportunity to comment on the NAIC's proposals.

Sincerely,

Ken Hartwell
Vice President and
Chairperson, Council on Professionalism