Regulator as Resource

AS A COMPANY ACTUARY, you've just returned from a morning of meetings and are checking your voice mail. One message is from the actuary at the state insurance department who has an issue to discuss with you. How many of you would look forward to returning that call? I would hope that if the appropriate working relationships have been developed, many of you would say, "No problem." If so, that's a good thing for the actuarial profession.

The relationship between companies and their state regulators needs to be a balanced one. The mission of a state regulator is to ensure consumer protection through oversight of company solvency and compliance with applicable state regulations and laws. State regulators strive to serve consumers by regulating the insurance industry in a fair and efficient manner that promotes a competitive and financially sound insurance market. Companies want to sell their products and make a profit on the transaction. They also strive to provide quality service and keep the promises they make in their policies in order to retain their customers. Thus, the goals of regulators and insurers really aren't so different.

A Winning Relationship

So what does the relationship between companies and regulators mean for the actuarial profession? I believe that the interaction between regulatory actuaries and those employed by companies to provide actuarial services can lead to improved adherence to professional standards of practice. This can occur in several ways.

First, regulatory actuaries are charged with reviewing product rate filings and assisting in the oversight of the companies' financial solvency. While the goal of these activities is to ensure fair and adequate pricing, they also provide oversight of the actuarial work product of the companies. If the regulatory actuary and the company actuary establish a good professional working relationship, the quality of the work and compliance with the Actuarial Standards of Practice can only improve.

As an example of this working relationship, we in the Connecticut Insurance Department (although this is not unique to Connecticut) always strove to develop an ongoing relationship with the appointed actuaries for our domestic insurance companies. There was regular dialogue with appointed actuaries on the quality and scope of their analysis, on the documentation in the actuarial memorandum, and on what was expected of them. The goal was to create a two-way street in which we shared our thoughts on methods and procedures that we'd observed with other companies and that had worked well and were acceptable. On the other hand, it was expected that the appointed actuaries would notify us of material changes in methods, assumptions, or products. The result was a better work product that ultimately provided better solvency protection for consumers.

The second area of benefit arises out of the role that regulatory actuaries play in identifying and resolving problems where there may have been a material violation of the Code of Professional Conduct. In her article "Don't Regret Having Filed a Complaint," which ran in the September/October 2009 *Contingencies*, Julia Philips, the former vice chairperson of the Actuarial Board for Counseling and Discipline (ABCD) and an actuary with the Minnesota Department of Commerce, pointed out that over the course of their work, regulatory actuaries see a lot of actuarial opinions and rate filings. This affords them the unique opportunity to compare a broad spectrum of submissions of varying quality. Over time, regulatory actuaries can develop expectations for what constitutes an acceptable work product that meets the requirements of the Actuarial Standards of Practice.

This perspective has the benefit of providing the regulatory actuary with a good benchmark for going back to an actuary whose work fails to meet the standards. And it helps the regulatory actuary, as required by Precept 13, in resolving the violation or reporting it to the ABCD.

The regulatory actuary can also be a resource to a practicing actuary who could use advice on what are best

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practices or acceptable standards for a particular submission the company is going to make with the insurance department. In addition, the regulatory actuary will have (or be able to recommend an appropriate source for) current information on changes to statutes or regulations that may affect the submission.

But this exchange of advice can work both ways. Company actuaries might have a suggestion for a new law or a change to an existing one that would help maintain or raise the standards in their state that they could pass along to the regulatory actuary. The result of this activity is that it raises the bar on the quality of work of the entire actuarial profession.

There are other instances in which a good working relationship may have benefits as well. Company actuaries might ask a regulator for help when they are pressured by company management to set a rate or a reserve that is actuarially unsupportable. While regulators enjoy being the good guy as much as anyone, they don't mind playing "bad cop" once in a while if it helps to ensure compliance (while, as appropriate, supporting a company actuary's position).

If regulators and company actuaries have developed appropriate professional working relationships, there should be no reason to dread making that return call to the insurance department. Regulators can be a valuable resource to the actuary seeking to do business in that state. And the actuarial profession will be the better for it. ☐

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Correction: In "Your Comments, Please: Changing the Disciplinary Process," which ran in the May/June issue of *Contingencies*, ACOPA was incorrectly defined as the American College of Pension Actuaries. The correct designation is the ASPPA College of Pension Actuaries.

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