



Let's Not Miss The Low-Hanging Fruit

Upcoming Challenges for the CAS

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Background

- CAS Centennial in 2014
- Much effort surrounding the tenets of Centennial Goal
- Are we focusing on all the right things?

Today's Topics – Not So Unrelated

- Expanding U.S. regulatory opinion work
(Op-Ed piece in August '08 Actuarial Review)
- Expanding CE for CAS members
(Op-Ed piece in November '08 Actuarial Review)

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Adopted by CAS Board, March 2007

The CAS will be recognized globally as a leading resource in educating casualty actuaries and conducting research in casualty actuarial science. CAS members will advance their expertise in pricing, reserving and capital modeling, and leverage their skills in risk analysis to become recognized as experts in the evaluation of enterprise risks, particularly for the property and casualty insurance industry.

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Where is our Professional Focus?

- International expansion is valuable to the profession long term but is of limited significance to many practitioners
- ERM is a potentially big area for future practice but is still very much in the formative stages
- We also need to devote strategic and political capital to our core skills – the “low-hanging fruit”

Expanding Demand for Actuarial Services in our Core Areas

Examples:

- Ratemaking (premium deficiency reserve)
- Risk Modeling (reinsurance risk transfer)

Ratemaking

- Serious erosion in actuarial pre-eminence
- Competition from MBAs, statisticians, other “quants”
- Authority of ratemaker is doubtful anyway – underwriter holds the pen
- Need regulatory enforcement to instill discipline AND “protect our turf”

Premium Deficiency Reserve

- As part of unearned premium, is now outside scope of reserve opinions
- No strict requirement currently for actuarial review
- Often deemed immaterial by accountants and therefore ignored
- Has potential as powerful ratemaking oversight tool if given regulatory teeth

Reinsurance – Evaluation of Risk Transfer

- Currently CEO, CFO attest to risk transfer with auditor input/review
- Materiality considerations reduce the incidence of audit review
- Lack of proper expertise (non-actuarial) reduces the rigor of the review
- Recent corporate fiascos have pointed up the consequences
- Additional regulatory requirement could correct this
- Actuaries have the expertise to be the go-to professionals

2008 NAIC CATF Survey - Compliance

Three years after the Reinsurance Attestation was launched, based on CATF's Nov. 08 survey:

- 70% of companies have no written policy on risk transfer
- 40-60% do not retain risk transfer documentation
- 87% do believe risk transfer is "reasonably self-evident" for certain contracts
- Review of risk transfer more widespread among cedants than reinsurers
- Less than 20% maintain signoff from an actuary (although more have actuaries look at it)

2008 NAIC CATF Survey – Testing Methods

- Most common (45%): review of historical results
- Only 31% use statistical modeling
- Only 20% consider process, parameter, or similar risk
- Statistical rigor skyrockets (60%+) when actuaries lead the analysis

CATF Survey – Evaluation Criteria

- Most common approach is still the 10% / 10% “rule”
- *Expected Reinsurer Deficit* is increasingly common when actuaries lead the analysis
- Other criteria such as *VaR* and *TVaR* require some grasp of statistical / actuarial techniques as well

LESSON: Actuaries could contribute a lot more to this process!

Actuarial Risk Transfer Opinion

- One opinion per company per year covering all contracts ceded and assumed
- Each contract examined individually
- Actuary assesses “reasonably self-evident”, “paragraph 11 exception”, or “appears to transfer risk”
- Auditor then assesses overall compliance with SSAP 62, FAS 113
- Auditor and actuary each do what we do best

Liability – What Are We Afraid Of?

- All responsible work entails risk
- Is it better for the work to be left undone?
Or done by less qualified professionals?

Regulatory Precedents Here and Abroad

- U.S. and Elsewhere: Reserve Opinions
- Canada: Risk transfer opinions, Financial Condition Opinions (risk modeling)
- Europe: Solvency II (enhanced RBC), International Accounting Standards
- Australia: Financial Condition Reports, Reserve Risk Margins
- United Kingdom: Deterministic Solvency Testing, Triple Actuary Regime
- U.S. Life: Solvency Testing and Asset Analysis



Questions So Far?

What About Continuing Ed?

AAA Qualification Standard (2008)

- 30 hours CE
- Applicable to those providing actuarial opinions in U.S.

Is “Opinion” The Same as “Reserve Opinion”?

NO!

- There are many types of opinions
- If others rely on your actuarial advice you are probably providing an opinion
- In brief, the CE scope was greatly broadened in 2008 to encompass most actuaries (but not all)

The International Problem

- The Qualification Standard only applies in the U.S. because the AAA is a national body
- Non-AAA members who are CAS members are subject, but only in the U.S.
- Other countries set their own standards
- A few (notably Bermuda) have no CE standard to speak of

CAS CE Policy Exposure Draft

- Currently in the comment period
- Confined to the extra-territorial issue
- Will apply only to CAS members in countries without effective CE requirements
- Will not affect members practicing in the U.S.

Why Not Go the Rest of the Way?

- Everyone providing actuarial services needs continuing ed
- The reputation of the profession is impacted by this issue
- Most other societies have universal requirements
- The CAS is lagging the pack significantly

Other U.S. Societies

Have trumped AAA with universal requirements

- SOA: every actuary who does not meet requirement must disclose; evidence of non-compliance also available in online Directory; requires more organized activity
- CCA: 30 hours per year required to retain membership
- EA's: long-standing universal requirement (12 hours)
- ASPPA: average annual requirement of 20 hours to retain credential

CE for Societies Internationally

- Faculty & Institute (UK): 15 hours per year (universal)
- Institute-Australia: 40 hours per year (universal)
- CIA (Canada): 50 hours per year (universal, including CAS members!)
- Mexico: 40 hours per year (with exams required as certification!)

The CAS stands virtually alone, opposing a universal requirement

Simple is Best

Other societies use simple language to define who is subject:

“Those who provide professional service”

“Active members”

Complicated is ...

The AAA (and the CAS under its current proposal) uses a more laborious definition:

“Actuaries who issue Statements of Actuarial Opinion when rendering Actuarial Services in the United States are required ... to satisfy these Qualification Standards ...

“For purposes of the Qualification Standards, a ‘Statement of Actuarial Opinion’ (SAO) is an opinion expressed by an actuary in the course of performing Actuarial Services and intended by that actuary to be relied upon by the person or organization to which the opinion is addressed. ‘Actuarial Services’ are defined in the *Code of Professional Conduct* as ‘Professional services provided to a Principal (client or employer) by an individual acting in the capacity of an actuary. Such services include the rendering of advice, recommendations, findings, or opinions based upon actuarial considerations.’”

Where Does This Leave Us?

- Complicated definitions have loopholes
- Some loopholes are real and intentional
- Other loopholes are found by creative minds and wishful thinkers
- All lead to reduced compliance with CE requirements

An Example – A Seemingly “Legitimate Loophole”

- In a large company, many CAS members work for other members
- A head of department can take all responsibility for subordinates' work, signing reports and crafting all correspondence
- The subordinates' work is not relied on by others; therefore he or she is not issuing opinions
- This subordinate is exempt from CE under AAA standards and CAS proposed policy

Another Loophole

- A senior consultant has several CAS members who exclusively write programs and perform experience studies and similar analyses
- The senior consultant writes the report containing his or her conclusions and opinion
- The work of the junior members is relied on, but their opinions are not relied on
- The junior members are exempt

Will This Happen? Sure!

- Belt-tightening corporations are not looking for more overhead
- Busy actuaries have enough to do without volunteering for new requirements
- Corporate policies of “CE only allowed when required by standards” will meet little resistance
- This says nothing of the frequent misinterpretation and erroneous self-exemption arising from complicated and confusing requirements

What Should the CAS Do?

- Make CE applicable to all who provide Actuarial Services
- Eliminate extended definition of an Opinion
- Follow the trail blazed by the SOA and others
- Extra-territoriality is important too, with an opt-out for countries with similar requirements

Why Does It Matter?

- CRUSAP
- Morris Report
- Standard & Poors
- Centennial Goal
- Reputation of the Profession
- Preparedness for the Future

Who is Opposed?

- Not clear who is, or why
- Widespread (mis)perception that the AAA CE requirement is universal within the U.S.
- If universality is desired by most, why not simplify and make it clear?

Tell Them What You Think!

- Read the draft (I brought copies)
- Email your comments to the Task Force by Dec 19 at sgrossi@casact.org
- You can copy the AAA at qualifications@actuary.org



Thank You!

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