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I would like to thank the American Academy of Actuaries (AAA) for the opportunity to offer comments regarding ways to improve the Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States (hereafter, “Qualification Standards”). My letter is divided into three sections: (1) a simple revision that I recommend in order to accommodate the General Insurance track recently initiated by the Society of Actuaries; (2) some words of caution against adding undue stringency or protectionism to the Qualification Standards; and (3) responses to the seven specific questions of interest that were posed by the AAA with regard to the Qualification Standards.

### **Proposed Revision to Paragraph 3.1.1.2**

As everyone in the actuarial community is likely well aware, the Society of Actuaries has recently opened its General Insurance track toward Fellowship. This track is being offered by an organization with a decades-long record of excellence in credentialing actuaries in other areas of practice (e.g., life insurance, health insurance, pensions), as well as an international presence and a devoted focus toward broadening the opportunities open to actuaries in an ever-evolving global economy. However, one provision in the Qualification Standards today, as it pertains to work related to issuing a Statement of Actuarial Opinion in the NAIC Property and Casualty Annual Statement, only recognizes examinations and designations provided by the Casualty Actuarial Society (as well as any that might be administered directly by the Academy of Actuaries). In all such instances, a Fellow of the Society of Actuaries (FSA) in General Insurance should be recognized to have the same prerogatives to issue Statements of Actuarial Opinion as a Fellow of the Casualty Actuarial Society (FCAS) currently possesses.

In particular, I propose a simple revision of Paragraph 3.1.1.2 on pages 9 and 10 of the Qualification Standards. Language proposed to be added is displayed in ***bold blue italics***.

3.1.1.2 Statement of Actuarial Opinion, NAIC Property and Casualty Annual Statement — An actuary should successfully complete relevant examinations administered by the American Academy of Actuaries, ***the Society of Actuaries***, or the Casualty Actuarial Society on the following topics: (a) policy forms and coverages, underwriting, and marketing; (b) principles of ratemaking; (c) statutory insurance accounting and expense analysis; (d) premium, loss, and expense reserves; and (e) reinsurance.

I note that, in Paragraph 3.1.1.3, pertaining to the NAIC Health Annual Statement, an allowance is already made for passing examinations administered by the Casualty Actuarial Society. For the sake of equitable and reciprocal treatment of both societies, if the CAS’s exams are allowed to qualify with regard to the Health Annual Statement, then the SOA’s exams ought to be allowed to qualify with regard to the Property and Casualty Annual Statement. The syllabus and many of the exam materials pertaining to the SOA’s General Insurance track are already available online. Inspection of these materials by the AAA should remove any doubt that the educational program was developed to be rigorous, comprehensive, and deeply involved in all of the areas enumerated in Paragraph 3.1.1.2.

## **Cautions Regarding Protectionism and the Consequences of Undue Stringency**

While the process of opening the Qualification Standards for revisions has the potential to generate improvements, particularly in the possibility of formally recognizing new credentialing options that can benefit the actuarial profession, it also poses some dangers to the actuarial profession if certain constituencies are allowed to exert influence over the Qualification Standards to the detriment of competition and merit-based qualification. I refer here to any attempts to increase the stringency of the Qualification Standards as a way of deliberately establishing barriers to entry to the actuarial profession based on factors *other* than individual merit. Such barriers could exist in the form of requirements that, by the nature of their operation, artificially favor those who entered the profession prior to the requirements' imposition. Incumbents might be shielded in their existing advantages from newcomers on whom the newer, more stringent criteria would impose more of a burden. This burden might sometimes be insurmountable even to a highly qualified individual who, despite ample education and a record of good work, would be left in a "Catch 22" situation with regard to certain requirements which rely on the judgment of *people* rather than the demonstration of *knowledge*. Protectionist proposals, in their design, tend to favor seniority, certain institutional affiliations, and reliance on others' subjective judgment (as in requiring another actuary to certify one's qualifications) rather than on objective, universally accessible criteria of knowledge (as in passing examinations).

Protectionism in the actuarial profession is, unfortunately, a tendency which has been on the rise since at least the financial crisis of 2008 and the concurrent economic recession. My observations of comments on various actuarial discussion forums during the past several years suggest that there is a faction of individuals whose explicitly stated goal is to limit the number of passing candidates on each examination (irrespective of the quality of the candidate pool). Furthermore, this protectionist faction seeks to establish other barriers that would prevent even those individuals who have recently passed exams and obtained their credentials from practicing what they have learned and gaining valuable actuarial experience. Such newcomers would not be allowed to earn money from their actuarial work except with the permission of protectionist "gatekeepers" already in the profession.

In light of this troubling tendency, any proposed addition of stringency to the Qualification Standards should be viewed with the utmost skepticism. The existing Qualification Standards are already extremely rigorous and rely on a combination of education through credentialing, experience requirements, and continuing-education requirements. The examination systems of the Casualty Actuarial Society and the Society of Actuaries are designed to already require hundreds of hours of dedicated study per exam by even the brightest and most knowledgeable candidates. The educational programs, as they are established and continually refined by the CAS and SOA, should continue to be the primary methods of qualification, and significant additional criteria beyond them may pose excessive barriers to entry.

Quality actuarial work is ultimately a function of the individual performing it. Some individuals may pass through the formal hurdles in the Qualification Standards and may continue to do mediocre or unacceptable work, largely because of institutional pressures that are unfavorable to objective scientific judgment and careful consideration of the issues involved in any given

assignment. Other individuals may always do work of the best quality because their work ethic and internal moral compass impel them to accept only the highest standard of work. The unfortunate reality is that an unduly stringent system of formal qualifications might often enable the former type of person to be deemed “qualified” while the latter person – especially if he or she is young, learns faster than most, and tends to challenge tradition and think “outside the box” – might need to wait for many years while his or her income potential is severely limited because of the prior restraints imposed by additional barriers to entry. I favor a system of the freest possible entry into the actuarial profession, combined with respect for the good judgment of the users of actuarial work products, particularly if these users are regulators or other individuals who are in a strong position to distinguish between good and poor actuarial work. A combination of competitive market forces and regulatory scrutiny will tend to punish any actuary who produces work of poor quality which comes to be recognized as posing a material danger to insurer solvency or to the promises which insurers have made to their insureds. Prior barriers are not needed and only serve to restrain excellence.

### **Responses to the Seven Questions Posed by the Academy**

1. *Are there portions of the QS that have prevented otherwise qualified actuaries from practicing in certain areas? If so, how can the QS be modified to allow those actuaries to practice in certain areas while maintaining proper qualification standards?*

**Response 1:** The experience requirements in the Qualification Standards may, in some cases, delay for years the ability of an otherwise qualified individual to begin to issue Statements of Actuarial Opinion in areas where that individual has demonstrated the requisite knowledge and good judgment (and has earned the requisite formal credentials). Different individuals learn at different rates, and the requirement, in some cases, of three years of work experience in a particular practice area is quite excessive for the best and brightest, who can quickly grasp the *conceptual* essence of the issues involved in a practice area. It should be remembered that, in today’s environment of accelerating innovation, entire generations of technologies may emerge *and* become obsolete in three years’ time. The best and brightest today must function on a very different time scale from what has been traditionally expected. Any requirements depending on a fixed number of years, rather than on the demonstration of objective knowledge and competence, will hold back those whose work is above average, while unwarrantedly empowering those whose work is below average but who have been able to last in the profession for the prescribed amount of time.

2. *Are there existing, new, or emerging practice areas that require new specific qualification standards to ensure that actuaries practicing in those areas are qualified to do so? If so, what are these areas and what particular standards should be added to any contemplated specific qualifications?*

**Response 2:** There should not be any new qualification standards added to any practice areas. The existing Qualification Standards are rigorous and may even be overly stringent in emphasizing areas other than objective knowledge acquisition and demonstration. Especially in emerging practice areas, prescriptive qualification standards that are “set in stone” should be avoided. They discourage iterative learning, experimentation, and forward strides made by those who choose to boldly venture into these new areas. Emerging areas can be hotbeds of beneficial innovation if they do not become preemptively ossified through the imposition of prescriptions rooted in prior paradigms. In areas such as predictive modeling, usage-based insurance, and insurance for emerging products (e.g., autonomous vehicles), it is particularly important to

maintain flexibility and openness to new ideas and new people, since the freezing of the field at any particular stage of development can easily result in the perpetuation of sub-optimalities which further innovative thinking could have overcome. Instead of establishing barriers to entry for everyone, the focus should be on disciplining those who clearly fail to demonstrate professional competence and ethics.

3. *In the current QS, is it clear as to what qualifies as organized, other, professionalism and business activities? If not, what changes do you suggest that would clarify these categories of the QS?*

**Response 3:** In my view, the distinction among organized, other, professionalism, and business activities is clear and requires no further elaboration.

4. *Should there be a yearly cap on professionalism CEs? Currently there is a minimum number of professionalism CEs but no maximum. If capped, what maximum amount do you recommend?*

**Response 4:** There should absolutely *not* be a cap on professionalism continuing education. The establishment of such a cap would result in a severe harm to the profession by incentivizing all actuaries to opt only to study professionalism topics up to the number of credit hours afforded through the cap. This is *not* a desirable outcome if one of the AAA's objectives is to raise or maintain the standards of professional behavior among actuaries. Every effort should be made to encourage involvement by actuaries in educational events and discussions on professionalism. The establishment of a cap on professionalism continuing education would send a strong and wrong signal to the actuarial community that professionalism is being afforded only a token recognition and is not seen as being of the utmost importance.

5. *Currently, the QS only apply to actuaries issuing Statements of Actuarial Opinion in the United States, so actuaries providing Actuarial Services without a Statement of Actuarial Opinion are not required to comply with the QS. Should the QS be expanded to include all Actuarial Services as defined in the Code of Professional Conduct?*

**Response 5:** The Qualification Standards should *not* be expanded into any further Actuarial Services. This would have the effect of establishing unnecessary barriers to entry which would prevent qualified newcomers to the profession from providing Actuarial Services. The presence of such newcomers encourages competition in a virtuous race to the top and raises the quality of prevailing work products.

6. *Section 3.1.1 addresses additional basic and continuing education requirements for actuaries providing NAIC statements of actuarial opinion. Sections 3.1.1.1 (Life), 3.1.1.2 (Property Casualty) and 3.1.1.3 (Health) each list specific topics for actuaries who issue NAIC opinions as shown in the table below. With regard to these specific qualification standards, should the topics be updated? If so, what topics do you recommend adding, deleting or changing?*

**Response 6:** As previously stated, I recommend revising Section 3.1.1.2 to allow for exams administered by the Society of Actuaries (particularly, in the General Insurance track) to qualify an actuary for issuing an NAIC Property and Casualty Statement of Actuarial Opinion.

7. *Are the carryover provisions of the QS understandable or do they need to be clarified? If so, what is confusing to you and what suggestions do you have in clarifying the requirements? In addition, should the maximum carryover be reduced so that an actuary will always need to earn some CEs in a given calendar year? Currently an actuary could carry over a full year's CE from the prior year resulting in no additional CEs for the current calendar year. For both of*

*these questions, please address whether your comments apply to general carryover requirements or to specific, organized, professionalism or business requirements.*

**Response 7:** The carryover provisions are understandable and require no further clarification. However, I strongly urge the AAA *not* to reduce the maximum carryover. Reducing the carryover will incentivize some actuaries to opt to pursue only enough continuing education to meet the minimum requirements in any given year. The carryover provision serves as a motivation to go above and beyond and pursue further education. It is also important to recognize that the vicissitudes of personal circumstances (e.g., accidents, illnesses, periods of intense work demands) may make it difficult for some well-intentioned actuaries to fulfill continuing-education requirements in a *particular* year. Therefore, such well-intentioned actuaries should be allowed to develop buffers of continuing-education credits that can be carried over precisely to keep these individuals in compliance with the Qualification Standards during difficult times in their lives.

Thank you once again for your consideration of these remarks. I expect to further correspond with you on the subject of the Qualification Standards once a formal proposal has been made by the AAA.