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AMERICAN ACADEMY of ACTUARIES

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*Objective. Independent. Effective.™*

Mary D. Miller, *Past President*

March 7, 2018

Kris DeFrain, FCAS, MAAA, CPCU  
Director of Research and Actuarial Services  
National Association of Insurance Commissioners (NAIC) Central Office

Re: National Association of Insurance Commissioners (NAIC) Casualty Actuarial and Statistical (C) Task Force (CASTF) request for comments on the Appointed Actuary's Public Attestation and Supporting Confidential Documentation

Dear Kris:

The American Academy of Actuaries (Academy)<sup>1</sup> submits the following comments on CASTF's exposure draft of the Public Attestation and Supporting Confidential Documentation that are proposed as requirements for appointed actuaries to file with the Actuarial Report as part of their Statement of Actuarial Opinion (SAO).

The Academy does not believe that Section 2a of the Attestation, or the supporting documentation checklist exposed by CASTF to support the statements in 2a, will meet what we understand to be the intended purpose, i.e., to assure, verify, or document that the appointed actuary is qualified to issue Property and Casualty SAOs.

### **CASTF ATTESTATION FORM**

The CASTF Attestation Form proposed has five check boxes. We will focus our comments on Box 2.

This section appears to make mandatory the need for any appointed actuary to check off in a multiple choice manner the "knowledges" that the NAIC's consultant has identified as necessary for **basic education** to prepare an actuary eventually to be qualified to sign these SAOs. This box will not, however, provide any information to document or demonstrate the higher level experience and relevant education of a continuing nature that all appointed actuaries of which we are aware have achieved over decades. The basic education component of qualification has simply **not** been at the essence of any concerns, of which the Academy is aware, that regulators have expressed about an actuary's competence to sign statutory statements.

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<sup>1</sup> The American Academy of Actuaries is 19,000 member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted 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.

In 2014, an analysis of the actuaries who had signed statutory opinions on the 2013 reserves showed that 79% of the signers were 15 years or more past the last designation they had earned, and 92% were more than 10 years away from that. Fewer than 2% were less than 5 years beyond. One can assume all these actuaries had more actual years of experience since the year they got their final credential was used as a proxy for the starting date of the information. In the data, actuaries who were more than 15 years from their final credential signed opinions for 88% of the companies and those with more than 10 years signed 97% of the opinions. Those with fewer than 5 years signed less than ½ %. It is certainly true that the farther away from examinations an actuary is, the less relevant their basic education is in determining whether they are “qualified” under the U.S. Qualification Standards (USQS) to sign statutory statements.

It may be useful to recall why this project was initially undertaken. After the Society of Actuaries (SOA) announced their intention to offer a general insurance (GI) track but before they offered their first examination, they made their initial request to have their exams be recognized in the same manner as those of the Casualty Actuarial Society (CAS). The CASTF was reluctant to do so without evidence that the SOA exams were sufficiently equivalent to those of the CAS. As the discussions progressed, regulators became aware of claims of life, health, and pension actuaries writing these exams and being asked to grade them, so both societies were asked to provide information about the backgrounds and qualifications of the actuaries who were involved in the exam process. Thereafter, CASTF still did not feel they had sufficient information to deem the SOA exams as equivalent to those of the CAS, and the NAIC decided to fund a study of the exam process of both organizations. The organization retained by the NAIC to do that comparison evaluation was skilled, as we understand it, in the kind of analysis that occurs for building credentialing systems for manufacturing processes with specific product outputs. They did not have knowledge about the actuarial profession and would not be expected to, since the professionals who are appointed actuaries for NAIC work, similar to experienced practitioners in other learned professions such as law and medicine, are sought out and appointed for and do this kind of work only when they have acquired much more than a basic education. Appointed actuaries, like skilled medical or legal professionals working in specialized areas, require significant expertise that must be relied upon to make deliberate and considered judgments and decisions. This is not a person fresh from achieving their basic education.

The Academy appreciates the significant efforts that the NAIC has made to demonstrate that it is even handed, neutral and objective about how an appointed actuary obtains a ‘basic education’ - the first step to becoming “qualified” to issue a statutory statements. However, we think the focus on this threshold is diverting attention from what is and should be most important to all of us whose concerns are whether actuaries who are “qualified” are the ones signing statutory SAOs.

The NAIC’s consultant issued a report in August 2017 concluding that the SOA’s GI credential did not meet minimum educational standards for P&C “qualified actuaries”. This conclusion was about basic education. Following that August conclusion and to try to align the SOA and CAS basic education syllabi with the body of basic knowledge the NAIC consultant identified as needed by property and casualty actuaries, they required additional guidance about what a casualty actuary needed to know. Thus the knowledge statements in the proposals before the task force were created.

Instead of evaluating the syllabi content and the P&C knowledge of those involved in writing and grading the basic education examinations of either the SOA or the CAS, the present focus of the proposed CASTF Attestation and supporting checklist is on each individual actuary filling out a spreadsheet with over 100 knowledge statements for every opinion they write. This seems an exercise in futility that will not yield any useful information for the regulator and will have many unintended consequences.

Rather than being helpful to the regulator and adding value to the examination process, the proposed attestation and exhibits create a perception that box checking demonstrates qualification. These proposed requirements will simply add unnecessary time and expense to the regulatory review of a company’s

financial statements at a time when departments are already stretched thin for resources and criticized for the expense of their financial reviews.

The purpose of recounting this history is to explain the rationale for suggesting that this project return to its original purpose. Have the education societies map their syllabi to the knowledge statements, perhaps using Bloom's taxonomy to identify the appropriate depth of coverage, and then use the process again if some other basic education society, such as a university or other provider asks to be recognized as a suitable basic education provider. The checkboxes may provide some comfort to someone who thinks they show someone took the right training course for technical work or skills, but professions, and those who practice at the level long demanded for appointed actuaries are not mere technicians. We instead have and continue to propose that the NAIC require an attestation similar to the one created by the Academy<sup>2</sup> that tracks with the specific qualification standards of the USQS, (which is a wholly different exercise than the proposed attestation form that suggests a litany of task knowledge boxes to be checked will suffice). Providing the kind of attestation that tracks to the USQS to a company's board of directors prior to the actuary's initial appointment has substantial content and meaning for being "qualified" in all three areas of basic education, experience, and relevant ongoing education. Regulatory actuaries add much more to the financial regulation of companies than being reviewers of checklists.

The other tabs on the attestation spreadsheet add little or no value to the regulatory review process. The lines of business and continuing education tabs turn individual regulators into arbiters of what is and is not sufficient while unnecessarily increasing the risk of a regulatory actuary's own knowledge being called into question should they be deposed during a litigation. The listing of companies an actuary has signed opinions for in the past five years is already available to the regulator by querying the NAIC database. The other companies they have done significant reserving work for also is problematic as it may entail providing confidential information not only to the regulator but also to their client company. It provides no meaningful information to the regulator who is now placed in the position of having to review this without any real guidance or sense of what is or is not sufficient.

Finally, regulators have been well served by our self-regulated profession and its code of conduct, standards, and disciplinary process. The Academy remains ready to assist the Task Force in accomplishing its goals but we believe the current proposal will create more problems for regulators than it will solve. We urge the Task Force to return to the original intent of the study and refocus on the content and processes of the basic education providers.

Sincerely,



Mary D. Miller, MAAA, FCAS  
Past President  
American Academy of Actuaries

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<sup>2</sup> <http://attest.actuary.org/#/>