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Actuarial UPDATE
THE NEWSMONTHLY OF THE AMERICAN ACADEMY OF ACTUARIES

Financial Summit Shapes Academy Priorities

Assistant Treasury Secretary Discusses Economy

ACADEMY PRACTICE COUNCIL VOLUNTEERS have met each year since 2003 at the Academy's leadership meeting to plan internal strategy for future Academy work—sessions that have produced and updated Academy processes, such as a decision-making model and the current strategic plan. But after the global economic events that have unfolded since 2008, this year Academy leadership harnessed the Academy's brainpower to focus its cross-council strategic planning efforts on preparing for U.S. financial regulatory reform.

Academy leaders speak with Assistant Treasury Secretary Alan Krueger at the Academy's financial summit.

Sixty-four Academy volunteers participated in the Academy's financial summit July 20 in Washington to examine the actuarial landscape amid the financial crisis and to develop a strategy to help shape emerging regulatory responses to it. The summit brought together the vice presidents of four Academy practice councils and representation from all six. The event also drew the Treasury Department's Assistant Secretary for Economic Policy Alan Krueger, who delivered the summit's keynote address that focused on President Obama's fiscal stimulus actions in response to the financial crisis.

Academy President John Parks began the summit by thanking the Academy's volunteers for the work they've already done on financial regulatory reform issues, citing congressional testimony submitted on regulation geared toward systemic-risk issues and credit-default swaps, as well as contributions to the National Association of Insurance Commissioners on life valuation and solvency proposals.

"We rose to the challenge," Parks said. "Through your efforts and those of your fellow volunteers, the American

SEE **FINANCIAL SUMMIT**, PAGE 6

Academy Responds to NCOIL Proposals

THE FALLOUT FROM THE HITS TAKEN BY THE FINANCIAL SERVICES SECTOR in the past year has made financial regulatory reform a top political priority for many. Accordingly, as the National Conference of Insurance Legislators (NCOIL) held its summer meeting in Philadelphia in July, it invited Academy members to give their feedback on several NCOIL proposals.

Jeff Kucera, chairperson of the Academy's Property and All Other Lines Subcommittee, commented to NCOIL's Property/Casualty Committee on the "extraordinary life circumstances" amendment being considered for inclusion in the committee's insurance scoring model act. The amendment, which would revise a 2002 NCOIL model act, requires insurance companies to provide "reasonable exceptions" to rate changes imposed on consumers whose credit scores have been adversely affected by extraordinary life circumstances, including serious illness or injury, death of a spouse, identity theft, or military deployment, among other examples listed in the amendment. The 2002 model act has been adopted in 28 states.

In his comments, Kucera urged NCOIL to further study the consequences of any changes to the model act to ensure that the proposed amendment does not have an adverse affect on other policyholders. He noted that, regardless of how credit-based insurance scores are assigned to policyholders, the total costs within the insurance system remain the same, and total premiums collected must be sufficient to pay for total losses and expenses incurred. Although using credit-based insurance scores won't affect the total

SEE **NCOIL MEETING**, PAGE 8

SEPTEMBER

14-15 Casualty Loss Reserve Seminar (Academy, CAS, CCA), Chicago

21-22 ASB Meeting, Washington

21-24 NAIC fall meeting, Washington

23 Seminar on principle-based capital (Academy, SOA), Anaheim, Calif.

OCTOBER

7 Academy webcast on Precept 13 of the Code of Professional Conduct

15 Council of U.S. Presidents meeting, Colorado Springs, Colo.

16-17 NAAC meeting, Colorado Springs, Colo.

19 Joint orientation meeting, Denver

20 Academy Board of Directors meeting, Denver

25-28 SOA annual meeting, Boston

26 Academy annual meeting, Boston

NOVEMBER

1-4 ASPPA annual conference, National Harbor, Md.

1-4 CCA annual meeting, Tucson, Ariz.

9-12 Life and Health Qualifications Seminar (Academy, SOA), Arlington, Va.

12-15 IAA meeting, Hyderabad, India

15-18 CAS annual meeting, Boston

19-23 NCOIL annual meeting, New Orleans

DECEMBER

2–3 Academy P/C Loss Reserve Opinion Seminar, Baltimore

2-3 ASB meeting, Washington

5-8 NAIC winter meeting, San Francisco

8 Academy Executive Committee meeting, Washington

9 Qualification Standards audiocast (Academy, CCA)

JANUARY

25-26 Actuarial collaboration meeting, Washington

27 CUSP meeting, Washington

28 Academy Board of Directors meeting, Washington

APRIL

15 Academy Executive Committee meeting, Washington

Links to documents underlined in blue are included in the online version of this issue at **www.actuary.org/update/index.asp**

Academy NEWS Briefs

SVL Moves Up NAIC Chain

TWO NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS (NAIC) committees voted on July 28 in favor of revisions to the model standard valuation law that would set the foundation for the implementation of principle-based reserving for life and health insurance throughout the U.S.

During a conference call, the NAIC's Principle-Based Reserving Work Group and Solvency Modernization Initiative Task Force both voted for the revisions, which would establish a reserve system that recognizes all the benefits, guarantees, and funding associated with life insurance contracts and their risks.

"This revision of the standard valuation law will serve consumers, regulators, and the life insurance market well into the future," said Tom Campbell, Academy vice president for life issues.

The NAIC's Life Insurance and Annuities Committee also discussed the revisions but decided to defer the matter to another conference call on Sept. 9. If the committee votes in favor of the revisions, the revised model law will then be considered by the NAIC's Executive Committee before being taken up at an NAIC plenary session.

FALL LINEUP

The Academy has a number of events on tap for the fall. All Academy members are invited to the Oct. 26 annual meeting luncheon in Boston, highlighted by the keynote speaker, historian and author Doris Kearns Goodwin. The luncheon will feature the presentation of the annual awards given out by the Academy and will include the Academy's presidential succession.

The Council on Professionalism will also host two important autumn events, starting with an Oct. 7 webcast that will discuss issues related to applying Precept 13 of the Code of Professional Conduct. A month later, the Academy will host the Life and Health Qualifications Seminar Nov. 9-12 in Arlington, Va. The seminar provides state- and country-specific basic education that may not have been provided as part of the Society of Actuaries examination process during 2000-2006 or acquired through subsequent testing or alternative education.

TO CATCH A THIEF

The September/October issue of *Contingencies* that recently hit Academy members' desks and doorsteps features a probing analysis of former investment mogul and convicted felon Bernard Madoff's reported return distribution. Actuary Susan Forray reviewed Madoff's numbers and found some discrepancies that might have helped federal authorities call foul play earlier on his Ponzi game. To read more, visit www.contingencies.org.

IN THE NEWS

The Academy paper "Critical Issues in Health Reform: Gender Considerations in a Voluntary Individual Health Insurance Market" was cited in a July 6 *Health Plan Week* article on gender rating. Academy Senior

➜ CONTINUED FROM PAGE 2

When high-ranking government officials speak, the Washington press corps is usually close behind.

Health Fellow Cori Uccello was also quoted, remarking that, generally speaking, if premiums can't be adjusted to reflect increased risk, adverse selection could occur and ultimately raise rates for the entire insurance pool.

The Academy's Public Interest Committee was mentioned in a July 6 *Wall Street Journal* op-ed by Andrew Biggs, the former deputy commissioner of the Social Security Administration. Biggs cited the committee's September 2008 report on the disclosure of the market value of assets and liabilities by public pension plans. The committee wrote that "it is in the public interest for retirement plans to disclose consistent measures of the economic value of plan assets and liabilities in order to provide the benefits promised by plan sponsors."

The Academy Consumer-Driven Health Plans Work Group's monograph on emerging CDHP data continued to garner attention in July. Among other placements, the study was cited in an opinion piece published in the July 9 *Washington Examiner*.

U.S. Assistant Treasury Secretary Alan Krueger's remarks during the Academy financial summit July 20 were reported by, among others, Dow Jones Newswire and Reuters. (See page 1 for additional coverage.)

BestWire's July 12 coverage for the National Conference of Insurance Legislators (NCOIL) summer meeting included a report on a vote to approve an amendment to a credit-based insurance scoring model law that would require insurers to allow leeway for those who can demonstrate that "extraordinary life circumstances" affected their credit score. The report included comments from Jeff Kucera, chairperson of the Academy Property and All Other Lines Subcommittee and a consulting actuary for EMB America in Chicago. Kucera said that other consumers could have their rates increased to compensate for the difference between total premium collected and total losses.

A July 16 Risk Market News article reported on discussions during the meeting about an NCOIL model law that would create public/private pools to fund catastrophe losses. The article included remarks from Martin Simons, a public actuarial consultant based in Columbia, S.C., who represented the Academy Natural Catastrophe Subcommittee. Simons said the target funding level for state pools should be based on risks threatening each state and not simply historical losses. (For more coverage on the summer NCOIL meeting, see page 1.)

An actuarial analysis of the Community Living Assistance Services and Supports Act, a proposed federal long-term care program, performed by a joint work group of the Academy Federal Long-Term Care Task Force and the Society of Actuaries Long-Term Care Insurance Section Council, was extensively cited in various articles in July. *National Underwriter Life & Health* and *National Underwriter Property & Casualty* discussed and cited the analysis in four articles between July 22 and 31. The analysis was also cited in a July 23 SNL Financial article and a July 29 *Roll Call* article.

Eric Stallard, chairperson of the Academy Federal Long-Term Care Task Force and a research professor at Duke University in Durham, N.C., was quoted on the subject in the July 27 issue of *National Underwriter Property & Casualty*. He said that the program is unlikely to cover more than a very small proportion of the intended population due to its design and high level of required premiums. (See page 4 for more details on the joint work group's analysis.)

After two bodies of the National Association of Insurance Commissioners (NAIC) voted back to back to adopt proposed revisions to the Standard Valuation Law, Academy Life Practice Council Vice President Tom Campbell, a vice president and corporate actuary with Hartford Life in Simsbury, Conn., said that the Academy "continues to encourage the NAIC and its Life Insurance and Annuities Committee to adopt the proposed revisions without delay to establish greater uniformity of life insurance reserve requirements across states." Campbell's comments were captured in a July 29 *National Underwriter Life & Health* article reporting on the votes.

To find out about other actuaries in the news and for external links, visit the Academy's newsroom.

Actuarial Analysis Finds Holes in Senate Proposal

IN ORDER FOR ANY HONEST DEBATE OF HEALTH CARE REFORM TO FLOURISH, policymakers must seek honest and unbiased projections of costs incurred and benefits distributed through any reform proposals. With that in mind, the Academy bolstered its nonpartisan policy expertise with the research capabilities of the Society of Actuaries (SOA) in order to supply reliable, objective actuarial analysis of a proposed Senate program to provide publicly funded long-term care services.

The Academy's Federal Long-Term Care Task Force and the SOA's Long-Term Care Insurance Section Council teamed up to weigh in on the benefit structure proposed in the Community Living Assistance Services and Supports (CLASS) Act. The program, the actuarial groups explained in a July 22 comment letter to the Senate Committee on Health, Education, Labor, and Pensions, will require premiums that may exceed affordable levels for those in the intended population and is unlikely to achieve broad participation. The CLASS Act is included as a provision of the Senate's broader Affordable Health Choices Act.

"Due to its design and the high level of required premiums, the program is unlikely to cover more than a very small proportion of the intended population," said Eric Stallard, chairperson of the Academy's Federal Long-Term Care Task Force.

The groups' analysis projected that in order to keep the program actuarially sound, a monthly premium level would be $160 using an entry-age level premium approach and assuming an average daily benefit of $75. Additionally, under an annually increasing premium approach, the group projected an average monthly premium of $125 per month increasing yearly with the consumer price index. The calculations were based on a series of scenarios, using actuarial assumptions detailed in the letter.

The actuarial groups' comments in response to the July 15 bill commended an amendment requiring the program to be actuarially sound over a 75-year period. According to the groups, a previous bill introduced on June 9, which didn't include that provision, set insufficient premiums and raised significant concerns regarding sustainability and solvency. The Academy/SOA analysis of the original proposal indicated the proposed structure and funding approaches would be "unsustainable within the foreseeable future" and "unlikely to cover more than a very small proportion of the intended population." The original Senate proposal called for a $65 average monthly level premium. Without the addition of an actuarial soundness requirement, the Academy/SOA analysis projected the fund to be insolvent as early as 2021.

Though Stallard said he was encouraged that the legislation now recognizes the need to develop actuarially sound premiums, the groups acknowledged that other considerations may need to be addressed to achieve a sustainable voluntary federal long-term care program that can accomplish its coverage goals. Among other considerations, the actuaries recommended enhancing participant opt-out/opt-in restrictions, drafting a precise "actively-at-work" definition, and developing an underwriting approach for the coverage of non-working spouses.

RBC Factors Under Review

BY ERIC SMITHBACK

SINCE ITS FORMATION IN 1999, the Academy's Stop-Loss RBC Work Group has done research on risk-based capital formulas for excess medical coverage written by insurance and reinsurance carriers. The work group, which regularly provides reports to the National Association of Insurance Commissioners (NAIC), is in the process of reviewing the potential need for changes in risk-based capital (RBC) factors in stop-loss formulas.

Most excess medical coverage sold today is known as employer (or medical) stop-loss. Employer stop-loss is an insurance policy that may be purchased by plan sponsors who self-fund their group medical benefits. Individual (or specific) stop-loss caps losses under the group medical benefit plan at a pre-determined level per person, and aggregate stop-loss caps losses at a pre-determined level in total. Other types of excess medical coverage include HMO reinsurance, provider excess, and excess medical (portfolio) reinsurance.

Within the stop-loss system, risk-based capital formulas are used to measure the minimum amount of statutory capital that an insurance company is required to hold based on the size and degree of risk taken by the insurer. As a result, the ongoing review of risk-based capital formulas is a vital process. The Stop-Loss RBC

SEE **RBC FACTORS**, PAGE 7

PROFESSIONALISM BRIEFS

- **Sarah Fore**, associate casualty actuary with the Illinois Department of Insurance in Springfield, has joined the Academy's Committee on Professional Responsibility.

HEALTH BRIEFS

- **Sujata Sanghvi**, executive vice president and chief operating officer for PacificSource Health Plans in Springfield, Ore., has joined the Academy's Uninsured Work Group.
- **David Walker**, actuarial services director for United Health Group in Horsham, Pa., has joined the Academy's Medicare Supplement Work Group.

PENSION BRIEFS

- **Mitchell Serota**, president of Mitchell I. Serota and Associates in Skokie, Ill., and **Tim Geddes**, an actuary for Deloitte Consulting in Detroit, have joined the Academy's Pension Committee.
- **Mark Shemtob**, president of Abar Pension Services Inc. in Florham Park, N.J., has joined the Academy's Committee on Social Insurance.

Academy Decision Harmonizes U.S. Disciplinary Policies

DESPITE THE DIFFERENCES IN THE IDENTITIES AND MEMBERSHIP FUNCTIONS of the five U.S. actuarial organizations, one subject that has historically brought them together has been the common bond of professionalism. From agreeing on a unified Code of Professional Conduct and establishing the Actuarial Board for Counseling and Discipline (ABCD) to coordinate investigations of possible violations of that code, the different organizations have supported a cohesive canon of professional standards. However, once the ABCD concludes its confidential investigations, the organizations haven't always agreed on what constituted an appropriate form of discipline.

When the Academy's Board of Directors voted last October to allow for private reprimand as a disciplinary option for Academy members who are found to have violated the profession's Code of Professional Conduct, it became the fifth and final U.S. actuarial organization to allow that form of discipline. (The decision was published in a summary of the October board meeting linked in the December 2008 issue of the *Update* and was included in the Academy's online annual report, the 2008 Record.) Once the Academy's Council on Professionalism informed the board in January that there were no impediments in the bylaws that preclude making the policy change, the board decision was finalized—bringing the profession into full agreement on disciplinary options.

Though housed within the Academy's office, the ABCD is a semi-independent body whose members are appointed by the Council of U.S. Presidents (CUSP) with the power to investigate complaints or other information that suggests a possible violation of the professional code. Because many actuaries belong to multiple professional organizations and because the Academy is a primary source for professionalism, the ABCD was created in 1992 under the Academy's bylaws in order to reduce duplication in the investigation of potential violations.

According to the ABCD Rules of Procedure, though the ABCD itself isn't empowered to discipline actuaries, it has the authority to recommend four types of disciplinary action to membership organizations, including private reprimand, public reprimand, suspension, and expulsion. (These measures are in addition to offering non-disciplinary functions such as counseling services for actuarial activities, responding to requests for guidance, and acting as a mediator.) However, though the American Society of Pension Professionals and Actuaries, the Casualty Actuarial Society, and the Conference of Consulting Actuaries allowed private reprimand, the Academy and the Society of Actuaries (SOA) didn't permit it until recently. The SOA changed its policy in 2007.

"Counseling is not a disciplinary measure but private reprimand is—although the imposition of that discipline is still kept private," explained ABCD Chairperson Curtis Huntington, who is also a member of the Academy's Council on Professionalism. "However, if anyone asks if you've ever been disciplined, the answer is, 'yes.'"

"Also, if you come to the ABCD for a second complaint, a private reprimand on your prior record counts against you," Huntington said.

According to a 2004 Council on Professionalism discussion paper, *Structural Framework of U.S. Actuarial Professionalism*, ABCD recommendation of a private reprimand calls for a "private rebuke by the actuary's membership organization on a confidential basis," whereas a public reprimand is a rebuke issued by the actuary's membership organization in which notification is given to the membership "and others as appropriate." For the Academy, this includes publishing a notice in the *Update* or other publications.

According to Huntington, the Academy decision to allow private reprimand helps give the ABCD more flexibility in its recommendations when it's reviewing a case. "When the ABCD is considering a recommendation, there are things too serious to address with counseling but not so egregious as to rise to the level of a public reprimand," he said.

The acceptance of private reprimand as one disciplinary option has had strong support across the U.S. profession. In 2002, the CUSP-appointed ABCD Review Task Force issued a report that examined the activities of the then-decade old ABCD. The task force, which was headed by late Academy president Dan McCarthy, said it was the "predominant view of the ABCD members" that it would be helpful if all organizations had the private reprimand option available.

The recommendation of that task force was reinforced in 2005, when the report of the Critical Review of the U.S. Actuarial Profession (CRUSAP) Task Force expressed a "bias toward counseling and private reprimands as preferable to public discipline unless there is strong evidence to the contrary." Since, at the time the Academy and the SOA did not allow private reprimand, the report suggested these policies may have led to an increased use of counseling as a solution to possible code violations. The report also suggested the possibility for the ABCD itself to be empowered to impose the reprimand—which would have been a sharp change in direction from the current authority of the ABCD.

In addition to bringing the Academy in line with a consistent profession-wide allowance of private reprimand, in 2008 the Academy also adopted a suggestion contained in the CRUSAP report that applied to public reprimands. As a result of surveys and interviews conducted by CRUSAP, the task force suggested including more information on the nature of code infractions in membership organizations' public notices. The Academy incorporated this in notices that have been published in the *Update* since 2008.

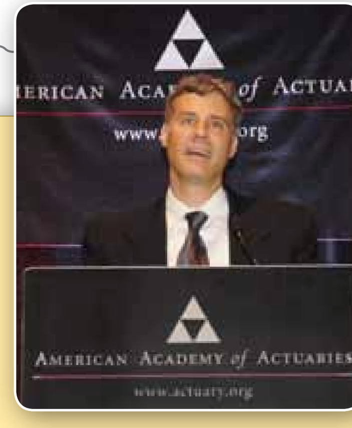
Krueger Addresses Attendees

FINANCIAL SUMMIT ATTENDEES BROKE from their group sessions to listen to Assistant Treasury Secretary Alan Krueger deliver the summit's keynote address. Krueger broadly addressed the aftermath of the financial crisis but focused his comments on the economic stimulus efforts of the Obama administration.

Krueger sifted through economic data both before and after President Obama signed the American Recovery and Reinvestment Act in February, including the administration's financial stability plan to address shortfalls in banks and trouble in the real estate and credit markets. He also acknowledged that the lagging employment statistics have been more severe than expected but insisted the recovery plan is "on course" and is "bolstering disposable income, consumer spending, and [gross domestic product]."

"It is clear that stabilizing the financial sector, increasing bank equity, and restoring the flow of credit play an essential role in preventing job losses," Krueger said.

Krueger spoke from prepared remarks to summit attendees, including a number of reporters, but was not able to stay for questions, citing time constraints.



Assistant Treasury Secretary Alan Krueger discusses the president's economy recovery plan.

Academy of Actuaries has produced considerable work product."

However, in anticipation of regulatory reform of the financial services sector, Parks called for the Academy to play an even greater role in sharing the profession's expertise to ensure actuaries are key players in shaping any changes to the regulatory landscape.

"I'm proud of our timely and significant contributions to the policy process, but much more is needed for us to increase our presence in these discussions," Parks said. "With your continued effort, the profession can continue to add to the public discourse and make relevant, meaningful contributions to sound financial regulatory policy."

Parks also sketched out the goals of the summit, including establishing the priorities and specific actions required as the Academy builds and executes a strategic plan to help shape potential regulatory reform.

Following the summit's opening session that recapped Academy work in that area since the fall of 2008, attendees split into four groups for breakout sessions to identify key issues that should be addressed by Academy volunteers and to chart a course of action to address those issues—before reconvening to pull those ideas into specific suggestions. As a result of those sessions—and subsequent conference calls after the summit—leaders from the Academy's practice councils developed a report that introduced prioritized action items for Academy volunteer groups.

Seminar on Effective P/C Loss Reserve Opinions: Tools for the Appointed Actuary

Westin Baltimore/Washington Airport Hotel
Dec. 2-3, 2009 | Baltimore, Md.

Following up on last year's success, the Academy's annual seminar on casualty loss reserve opinions will again be divided into two parts. The first day's sessions will cover introductory issues, while the second day will focus on more advanced topics. Participants may register for either or both days of the seminar. The seminar is presented annually by the Academy's Committee on Property and Liability Financial Reporting.

For more information, visit http://www.actuary.org/seminars/casualty/opinion09.asp.

The report singled out two items as carrying top priority and urgency. The first is a proposed white paper to define the job of a systemic risk regulator, including suggesting governance and structure, data needs, and possible actions, including suggested triggers. In March, the Academy's Risk Management and Financial Reporting Council submitted testimony on central actuarial principles necessary for a systemic risk regulator to effectively manage financial risks and protect the public. The Academy also expressed support for an International Actuarial Association paper that suggested regulatory reforms and went into greater detail on risk management concepts for financial governance based on those commonly used by actuaries in the insurance industries. However, the IAA paper didn't address how those changes would be incorporated into current U.S. regulatory structures. The proposed Academy white paper would be produced by the Financial Regulatory Reform Task Force with participation from representatives of all practice areas.

The second item at the highest level of urgency is to identify the essential elements of an effective risk management framework for a financial services or insurance company. According to the report, the project will prepare the Academy to respond to proposals from international insurance regulators to see what changes surrounding solvency and risk management principles would be appropriate for U.S. regulation. The project is planned to be initiated by members of the Risk Management and Solvency Committee and then broadened to the wider committee, as well as other practice councils.

Another top priority is to define and articulate a generalized actuarial model that can be applied to any risk system or financial security system and that is recognized and comprehensible to all actuaries in a common language. Attendees stressed that it shouldn't be a mathematical model but rather a risk management process model that identifies key elements of a financial security system (insurance, health care, pension, etc.) that includes attributes that make the system function effectively.

Other projects the report outlined are to identify elements of an assessment process of accountability in a financial security system, review and update an Academy monograph on the role of the actuary in a federal regulatory system, explore research opportunities to support the Academy's regulatory and policy agenda, and explore areas for new or enhanced Academy emphasis.

House Bill Pushes Back Comprehensive Flood Reform

THE HOUSE OF REPRESENTATIVES PASSED H.R. 3139 ON JULY 29, a bill that would temporarily extend the National Flood Insurance Program through March 31, 2010. The program is set to expire on Sept. 30, 2009.

The House bill would also expand the Federal Emergency Management Agency's flood coverage to coastal communities undergoing state or locally funded levee construction, reconstruction, and improvements. Such coverage is currently available only to areas with federally funded levee improvements.

The Senate has not yet passed a corresponding bill. However, emergency stop-gap extensions have already been passed three times since September 2008.

In 2007, the Academy's Flood Insurance Subcommittee submitted comments to House leadership detailing its concerns about adding a wind damage coverage provision to the NFIP. The Obama administration has indicated it supports a longer extension but opposes the addition of wind coverage to the flood program. The House bill did not include a wind provision.

CASUALTY BRIEFS

- **Ramona Lee**, actuarial administrator for the Iowa Department of Commerce in Des Moines, has joined the Academy's Medical Malpractice Subcommittee.
- **David Pochettino**, consulting actuary with MBA Actuaries Inc. in Mountain Lakes, N.J., and **Lisa Slotznick**, managing director for PricewaterhouseCoopers in Atlanta, have joined the Academy's P/C Effective Loss Reserve Opinion Seminar Subcommittee.

CONTINUED FROM PAGE 4

Work Group is working with the Society of Actuaries (SOA) to contact insurance companies and reinsurers for financial data for the purpose of updating a prior study to enable the work group to propose revised capital requirements to the NAIC. Information will be collected and analyzed by the SOA. The work group will use aggregated data results provided by the SOA to develop a proposed formula. As in the past, the work group will be preparing a study of insurance and reinsurance companies' financial data in the stop-loss insurance arena, including self-funded stop-loss (specific and aggregate), excess medical, HMO reinsurance, and provider excess coverage.

Keys to the success of this updated review will include obtaining a critical mass of experience from insurance companies and reinsurers for the various stop-loss product lines.

The stop-loss product lines are unique given that a significant portion of the business in the industry involves two or more parties (including reinsurers, issuing carriers, and managing general underwriters). As a result, prior members of the work group have taken considerable care not to collect duplicate experience, and the current work group will also take the same approach.

Insurance companies and reinsurers interested in supplying data for the study should contact Barbara Scott at the SOA (bscott@soa.org) to provide her with your name and contact information. Other members of the work group include Devin Dixon, Michael Frank, David Fry, James Kaiser, John Mange, Ian McAlister, Shaun Peterson, Michael Rieth, and David Vnenchak.

Eric Smithback, a consulting actuary with Milliman in Chicago, is the new chairperson of the Academy's Stop-Loss Risk-Based Capital Work Group.

LIFE BRIEFS

- **Shawn Loftus**, vice president for product solutions for USAA Life Insurance Co. in San Antonio, has been named the chairperson for the Academy's recently formed PBA Website Work Group. Other Academy members forming the work group are **Mary Pat Campbell**, vice president for the Infinite Actuary in Croton Falls, N.Y.; **Min Xu**, a life pricing actuary for Manulife Reinsurance in Boston; **William Brummond**, vice president for RGA Reinsurance Co. in Chesterfield, Mo.; **Li Zhou**, senior actuarial analyst for Swiss Re in Armonk, N.Y.; **Jean Forrest**, an actuarial manager at Ernst & Young in Chicago; **Philip Barlow**, associate commissioner for the D.C. Department of Insurance, Securities, and Banking in Washington; and **Susan Bartholf**, an actuarial manager with American Family Life Insurance Co. in Madison, Wis.
- Joining the Academy's Variable Annuity Practice Note Work Group are **David Armstrong**, an actuarial adviser at Ernst & Young in Chicago, and **Craig Roberts**, an actuary with Milliman in Seattle.
- **David Di Martino**, assistant vice president and director of planning for Western & Southern Financial Group in Cincinnati, and **Steven Newman**, assistant financial director for Principal Financial Group in Des Moines, Iowa, have joined the Academy's Life Settlements Work Group.
- **Sisi Wu**, a risk management consultant for Nationwide Financial Service Inc. in Columbus, Ohio, and **James Kellett**, a senior vice president for valuation and financial analysis with RGA Reinsurance Co. in Chesterfield, Mo., have joined the Academy's Reinsurance Work Group.
- Joining the Academy's Life Financial Reporting Committee are **Richard Browne**, senior manager for KPMG in Chicago, and **Catherine McKevitt**, vice president for AXA Equitable Life Insurance Co. in Jersey City, N.J.

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NCOIL meeting, continued from page 1

premiums collected, Kucera said that those scores help insurance companies distinguish individuals with higher risk of claims from individuals with lower risk of claims—and charge premiums commensurate with that difference.

The amendment would suppress some credit-based insurance scores, resulting in higher-risk policyholders paying less. However, insureds with a lower risk of loss will be forced to pay more to ensure that enough total premium dollars are collected to cover all the costs of the insurance system, Kucera said. NCOIL adopted the amendment at the national meeting.

Also representing the Academy at the NCOIL meeting, Martin Simons of the Academy's Natural Catastrophe Subcommittee presented comments to NCOIL's Subcommittee on Natural Disaster Insurance Legislation in a discussion on its proposed system for public-private natural catastrophe financing. The proposal called for a tax-exempt state pool whose targeted level of coverage would be 70 percent of the total insured amount that the state would need to cover, based on the average exposure of the three largest natural disasters in each state in the past 15 years. Federal involvement would be triggered once the state pool reached the 70 percent mark.

In his comments, Simons objected to the state pool's target. He noted that the target level should consider the potential catastrophic risks threatening the state, not just historical risks. "The inherent instability of historical catastrophic loss experience by peril and region should be taken into account in designing the target," Simons said. "Therefore, we propose that the target level be set such that it would cover an estimated annual aggregate loss at a certain predetermined probability level."

Considering the annual aggregate loss probability in setting the target level, Simons said, allows the level to respond to the particular state's catastrophic risks and exposure levels and also weighs the possibility of multiple catastrophic events in a single year. He also noted that several widely recognized catastrophe simulation tools are available to assist in making these predictions.

Credit-Default Swap Regulation

NCOIL also continued discussions on its proposed credit-default insurance model legislation. The model act, which is based on the New York state financial guaranty insurance law, also includes a definition of credit-default insurance, would establish a state regulatory authority to supervise the credit-default swap market, and would ban "naked" swaps, or those in which the holder has no risk of financial loss if the underlying security fails.

Dave Sandberg, chairperson of the Academy's Risk Management and Solvency Committee, represented the committee at a session of NCOIL's Financial Services and Investment Products Committee to discuss the act. The Academy committee raised for legislative consideration the questions of who would oversee the transition process for risk and reserve requirements after the law is enacted, as well as whether credit-default swaps would be regulated as life, property and casualty, or another line of insurance. Additionally, Sandberg stressed the emerging actuarial focus on effective regulatory requirements for covering tail events, or unusual, extreme developments that would fall on the tail end of a standard curve of probabilistic events. He also informed legislators that the NAIC was beginning discussions to consider regulatory standards for those who buy credit-default swaps.

NCOIL deferred the legislation for further discussion until its November annual meeting in New Orleans.

The NCOIL model act was developed for use in states without laws regulating credit-default instruments. "States that already oversee such instruments, including financial guaranty, surety, residual value and credit insurance," the model said, "may want to update their statutes to reflect the model's intent—the supervision of legal credit-default insurance and the banning of naked credit-default swaps."

— Tina Getachew and Lauren Pachman

Qualification Standards

How much of the continuing education (CE) is required to be an organized activity?

Only six CE credits per year must be from "organized activities" that involve interaction with actuaries or other professionals working for different organizations. The remainder of the CE may be from "other activities."

Detailed examples of "organized activities" and "other activities" are included in the Qualification Standards. For instance, "organized activities" can include (but are not limited to) "conferences, seminars, webcasts, in-person or online courses, or committee work that is directly relevant to the area of practice of the subject of the SAO." In-house meetings with outside speakers would be an organized activity.

"Other activities" can include reading actuarial literature, writing professional articles (including researched articles for *Contingencies*), listening to tapes of actuarial meetings, relevant in-house meetings, studying for actuarial exams, or preparing to speak or lead a discussion at a CE activity.