



AMERICAN ACADEMY of ACTUARIES

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Mary D. Miller, *Past President*

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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 Three –Year Experience Period – Seeking Proposals

Dear Kris:

The American Academy of Actuaries (Academy)¹ submits these comments on the charge to CASTF noted below:

Three-Year Experience Period Charge: Work with the American Academy of Actuaries to add clarity to the required three-year experience period in the U.S. Qualification Standards regarding the mentor’s responsibilities and the learning expectations for the actuary.

The Academy, as with our comment letter filed today on the CASTF proposed attestation and documentation for appointed actuaries, understands the nature of the request for comments on the three-year experience period to be that the NAIC, through this charge, is seeking to follow its consultant’s recommendation to make more certain precisely what an appointed actuary must know and have accomplished in order to be considered “qualified” to sign statutory statements of actuarial opinion (SAOs) in the Property and Casualty Statements.

The U.S. Qualification Standards (USQS) require “experience” as a prerequisite for qualification to sign *any* SAO, whether one is issuing an SAO under the General Qualification Standards in Section 2 of the USQS or whether one is issuing a specific (i.e., statutory) SAO under Section 3 of the USQS that address the Specific Qualification Standards. These are two different kinds of SAOs. Statutory statements, such as the ones that would be issued pursuant to Section 3 of the USQS, can only be issued by someone who has *already* met the basic education and experience

¹ 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.

requirements of Section 2. Basic education and the three- year experience requirement that are addressed in section 2.1 require” three years of responsible actuarial experience in the area of actuarial practice relevant to the subject of the SAO under the review of an actuary who was qualified to issue the SAO at the time the review took place under the standards in effect at that time.” This is a threshold to issue any general SAO. It is necessary but not sufficient experience to issue a statutory statement pursuant to section 3 of the USQS that apply to “Specific Statements of Actuarial Opinion”

The Specific Qualification Standards address the Basic Education Requirement in section 3.1 by stating, “An actuary must have obtained sufficiently comprehensive knowledge of and responsible experience with the subjects specifically involved to be able to determine which actuarial concepts and techniques are applicable to the assignment and apply those concepts and techniques successfully.” Among the “Frequently Asked Questions²” that the Academy’s Committee on Qualifications has answered is:

19. Question: With regard to the Specific Qualification requirements, do the three years of experience need to be obtained while working directly under a qualified actuary who signs the applicable annual statement actuarial opinion?

Answer: Per section 3.2, the three years of experience must have been under review by an actuary who was qualified to issue the SAO at the time the review took place under the standards in effect at the time. There is no requirement to work “directly under” the qualified actuary, but the qualified actuary must have reviewed the actuary’s work and must have been appropriately qualified “at the time the review took place.” The USQS does not require the reviewing actuary to have actually issued the opinion, so long as he or she was qualified to do so at the time of review.

The charge that CASTF has stated does not track the language of the USQS. The USQS does not use the word “mentor”. In our view, the qualified actuary under whose review the three years of experience has been obtained could be a supervisor, a peer, a consultant, or a subordinate. The actuary obtaining the three years of experience may be a student, newly credentialed, or have many years in another area of actuarial practice. It is possible that at the time of working under review there may be no thought that the actuary obtaining the three years of experience would some day sign an opinion, and an opinion signing appointment may be many years after original assignment working under the review. In our view, it would be very rare for someone to work under review for three years and sign an opinion the following year. This simply is not how the professionals signing statements work or how their experience has been obtained.

Understanding, as we do, the value of precision and certainty for tasks technicians perform, we also understand the different value that a professional, with basic education, experience and relevant ongoing education in the subject matter of the SAO must bring to the analysis and judgment required to be qualified to issue statutory SAOs. The three-year experience requirement is not unclear to those who have met, and continue to meet it, and attest that they are indeed qualified to issue specific statements of actuarial opinion.

² <http://www.actuary.org/professionalism/faqs-revised-qualification-standards>

Throughout our long history of involvement with and support for the NAIC, the Academy has provided technical support and public policy advice to the key actuarial task forces and other committees. The Academy has responded to regulator concerns, not just in providing technical support and policy input, but by sending key Academy professionalism leaders to all national NAIC national meetings for six years, addressing and providing a forum for regulator-only conversations and updates, periodic regulator-only webinars, promotion and solicitation of regulator input in the standard setting process, from initiation through exposure drafts, and in the discipline process.

The Academy's USQS Attestation Form³ was created directly in response to regulators' requests for a way to document an appointed actuary's qualifications to issue SAOs. While it is a voluntary vehicle to document qualification, allowing supporting documentation of any detail to be attached, it can be printed, downloaded, or put into the link and sent to any regulator. Although the Attestation Form is voluntary, being "qualified" is mandatory. Being "qualified" is not a static state, once achieved and never lost. Being "qualified" means an actuary must look in the mirror on every assignment and make a conscious decision he/she is "qualified" to sign the SAO to be issued. That "look in the mirror" is not truly subjective, and it is a fact, in our view, that "Not everything that can be counted counts, and not everything that counts can be counted." (attributed to Einstein and many others.)

We do not think that adding ever more and more specific knowledge tasks or years or attributes to the appointed actuaries checklist for basic education, experience, or ongoing relevant education under the USQS will improve the NAIC's ability to identify who is qualified, or that there is anything amiss in the present state of the NAIC's ability to identify who is qualified by relying on the USQS. It is an often misquoted slogan that "If you can't measure it, you can't manage it". While this is attributed to W. Edwards Deming, a widely regarded expert in management and management scientist, what he actually wrote was "It is wrong to suppose that if you can't measure it, you can't manage it – a costly myth." (*The New Economics*, 1994, p. 35). He also wrote other consistent thoughts: "The most important figures one needs for management are unknown or unknowable, but successful management must nevertheless take account of them." *Out of Criss*, 1982, p. 121). "Management by numerical goal is an attempt to manage without knowledge of what to do, and in fact is usually management by fear." *Out of the Crisis*, p. 76).

The Academy will work with the NAIC and CASTF in any way that we can to support your needs. We ask that you reexamine what this effort is trying to address, and whether the process is taking you where you need and want to go.

Sincerely,



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Past President
American Academy of Actuaries

³ <http://attest.actuary.org/#/>

