



News Release

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Standard & Poor's "Study" on Insurance Actuaries "Fundamentally Flawed"

Both Errors and Misstatements Regarding Actuaries Found Throughout Paper

(Washington, D.C. - November 21, 2003) A short report titled "Insurance Actuaries: A Crisis of Credibility," recently released by Standard & Poor's is "fundamentally flawed" according to Rade Musulin, a spokesperson for the American Academy of Actuaries. "This study is not about actuaries or reserving for property and casualty insurers. It is an obvious attempt to explain away the errors some analysts have made in estimating property/casualty insurers' earnings," said Musulin. Other points he raised include:

1. In calling actuarial estimates "wildly inaccurate," and stating that "reserve shortfalls don't just happen overnight," S&P displays a clear misunderstanding of reserve estimates as well as the nature of risk and uncertainty. During the last few years the country has faced unprecedented volatility in the property/casualty market. "There are huge challenges in writing reserve opinions that consider all of the real and potential factors, much less unimaginable events such as Sept. 11, that impact the amount of payments from a reserve fund over decades," said Musulin. "Actuaries have estimated reserves within reasonable ranges," Musulin said, "but recent adverse events have caused losses that exceeded reasonable expectations. That alone is not a reason to accuse actuaries or their companies of 'naivete or knavery.'" He added that, "Fraud should not be inferred from misfortune, but that is exactly what the authors are trying to suggest."
2. The authors are incorrect when they say actuaries practice "without penalty" if their opinions are egregiously wrong. Actuaries practice under a Code of Professional Conduct and follow rigorous Actuarial Standards of Practice, facing severe penalties for professional misconduct, including poor practice.
3. While touting its own "financial modeling techniques," S&P provides little data to support its conclusions. "It's impossible to tell from the study what evidence S&P can produce to support its claims," Musulin said. "We would welcome the opportunity to review their processes and findings with them."

Musulin concludes that the report takes a shortsighted perspective on the long-term challenges of reserving. "It's wrong, misleading, and unfair to their readers," he said.

Academy spokespersons are available for comment. The Academy offices are open 9 a.m. -5 p.m. EST. Further information can be found on the Academy website at www.actuary.org.

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The American Academy of Actuaries is the nonpartisan public policy organization for the U.S. actuarial profession. The Academy provides independent analysis to elected officials and regulators, maintains professional standards for all actuaries, and communicates the value of actuarial work to the media and the public.