Reinsurance—Proposed Standard of Practice

by Diane Wallace

The Actuarial Standards Board recently submitted to Academy members an exposure draft of an actuarial standard of practice for "The Treatment of Reinsurance Transactions in Life Insurance Company Financial Statements." The comment deadline is May 1, 1989. Since this standard will affect nearly all actuaries making reserve calculations for life insurance company financial statements, I urge you to review the exposure draft and make comments. (A copy was enclosed in the Academy's last mailing.) Although the text of the proposed standard is straightforward, its implications are complex. You may want to refer to the reinsurance exposure draft as you read this article.

Background

Reinsurance has become more complicated in recent years. Its use as a financial tool has resulted in reinsurance structures that do not parallel the structure of the underlying insurance policies. The various risks to which an insurance company is exposed have been "pulled apart" and parcelled out under a wide variety of reinsurance agreements.

Unfortunately, the historical method of reserve valuation does not work well in this environment. Currently, we calculate reserves using expectations of future experience based on a limited number of assumed factors. Then we determine the share of the stated benefit amount reinsured, and we take a reinsurance reserve credit for that share of the calculated liability. In the real world, however, the cash flows under the reinsurance agreement may behave very differently than the reserve assumptions presume. There may be various investment, persistency, expense, or recapture provisions that are not even contemplated in the reserve calculation.

The recent approach to this dilemma has concentrated on the term "risk transfer." State regulations and GAAP pronouncements declare that we should take a reserve credit only if there is enough risk transfer. Reserve credit is either 100%, if enough risk is transferred, or zero, if not.

In fact, as actuaries, we should be looking at the future obligations of the company net of reinsurance, taking into account any crazy pattern of underlying benefits and reinsurance contracts that might exist. We should do this under a scenario that projects our best estimate of future cash flows using every relevant and material fact we know about the expected behavior of policyholders, invested assets, and reinsurance contracts. Then, we should hold a net reserve at least as great as our best judgment dictates.

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David L. Hewitt

Cutting Across All Fields of Practice

The Conference of Actuaries in Public Practice (CAPP) is entering its fortieth year. Our organization is devoted to the interests
of consulting actuaries, cutting across all fields of practice. We are thus the catalyst for a sector of the profession that is growing by leaps and bounds. Our membership also embraces government actuaries and a few who teach in universities.

CAPP came into existence in 1950, because consultants had needs that differed from those of traditional insurance company actuaries. Our purpose was not to compete with the existing actuarial organizations, but to complement them. In the beginning, a ninth of our membership overlapped with the Society of Actuaries (SOA) or the Casualty Actuarial Society (CAS). Now, the overlap is four-fifths. In 1965, we, the SOA, and the CAS together established the American Academy of Actuaries.

Applied Actuarial Science

The Conference’s annual meetings have always emphasized practical applications of actuarial science and its subject matter. For example, our 1951 program included papers on the following topics: funding methods for self-insured pension plans; federal and state regulation of pensions; Workers’ Compensation rate regulation; funding practices under Labor-negotiated pension plans; and aspects of life annuity reserves.

Our 1953 program included a paper on voluntary health service plans, and our 1955 program covered such subjects as: automobile insurance and the actuary; use of electronic data-processing equipment; life reinsurance; equity annuities; and Social Security and its relationship with public employee retirement systems.

We were cofounders of the Enrolled Actuaries Meeting, which likewise emphasizes practical applications. The EA Meeting is currently sponsored by the Conference, the Academy, and the Society of Actuaries.

In 1985, CAPP pioneered in the recognition of continuing professional education for the actuaries in our membership. In 1988, the Joint Board for the Enrollment of Actuaries came along with a similar program for enrolled actuaries. We are therefore targeting our program into the Joint Board’s, while maintaining recognition of continuing education for our casualty, life, and health actuaries.

Professional Standards

Among our original concerns was to promote competence and ethics among consulting actuaries. We did not want anyone purporting to be an actuary who did not perform competently; we did not want actuaries practicing in specialties for which they were not qualified. Our standards also addressed conflicts of interest, professional courtesy among actuaries, and the need to identify the client on whose behalf a piece of work is performed. In 1984, we adopted our current “Guides to Professional Conduct,” written in consort with the Academy and the CAS.

Such guidelines must evolve. For example, our standards of professional courtesy had to be modified to satisfy present-day antitrust principles. Also, the Employee Retirement Income Security Act (ERISA) came along and mandated that pension actuaries must act not only in the interests of the employers who engage them but, more importantly, in the interests of the covered employees. A related issue now arises in the proposed standard valuation law for insurance companies. Should valuation actuaries be responsible (and potentially liable) only to the regulators and the providers who engage them? or to the insureds also?

Testing New Ideas

In the history of our annual meetings, we have seen a trend away from the presentation of papers, toward panel discussions. Papers were often the vehicles for testing new ideas. For instance, our members have delivered useful papers introducing concepts of variable annuities, variable life insurance, and what is (continued on page 6)
Letters to the Editor

Careful How We Speak of Unity

As many agree, the concept of strengthening the actuarial profession through unification is a positive step. However, it is a very delicate issue, and the balance can be tipped by any misunderstanding of what we are trying to accomplish.

Case in point is Charles B. H. Watson's recent editorial, "A Time of High Stakes." In that article he makes reference to the fact that as part of the unification process the actuaries in the American Society of Pension Actuaries (ASPA) would be absorbed into the Conference of Actuaries in Public Practice (CAP). That could not be further from the truth: it is just the kind of misunderstanding that will tip the balance.

If you read the report on strengthening the profession carefully, you will note that, as a result of discussions between ASPA and CAP, a new and separate organization would be formed to represent the actuaries of ASPA and CAP. That is not a merger of ASPA and CAP, but a unification of the actuaries of the two organizations.

The resulting reorganization would leave ASPA (likely with a new name) in place and still representing the interests of pension advisors in the United States. The newly formed organization would represent consulting actuaries, in all practice spheres, and would fill the slot reserved for consulting actuaries in the overall, unified actuarial profession.

I certainly hope this information is helpful... in more fully understanding that part of the unification process assigned to ASPA and CAP.

Howard M. Phillips
Washington, D.C.

Editor's Reply: I fully agree with Mr. Phillips that misunderstandings should be avoided at all costs, especially when they involve such delicate issues as the strengthening of the actuarial profession. I therefore apologize for using "absorb" in discussing the future relationship between CAP and the actuaries of ASPA. This implied a degree of domination by CAP in the new organization for consulting actuaries that was unintended. Very sorry.

June 12–14 Centennial Celebration

Preliminary registration figures indicate that the June 12–14 Centennial Celebration will be attended by over two thousand actuaries from around the world. Fortunately, there is still some space available. So, if you would like to attend and need another registration packet, please call either Sandy Kossack or Rachel Brody at (312) 706-3516.

Checklist of Academy Statements—December 1988

TO: Department of Insurance, State of Washington, December 1, 1988. RE: Life insurance premiums. BACKGROUND: This proposal would require that certain life insurance coverage provide minimum death benefits measured by the premium paid, plus interest.

TO: NAIC Technical Service (EX5) Subcommittee, December 15, 1988. RE: The court of the actuarial implications of the provisions contained in Proposition 103. BACKGROUND: This amicus curiae brief was filed to inform the actuary of the implications of the provisions contained in Proposition 103.

TO: Supreme Court of the State of California, December 19, 1988. RE: California Proposition 103. BACKGROUND: This amicus curiae brief was filed to inform the court of the actuarial implications of the provisions contained in Proposition 103.

TO: House Subcommittee on Oversight and Investigations, December 22, 1988. RE: Statements of actuarial opinion. BACKGROUND: This letter discusses steps that could be taken to increase the effectiveness of statements of actuarial opinion contained in the financial statements of insurers.
REINSURANCE
(continued from page 1)

Need for Standard
Confusion on this issue has led regulators and industry leaders to request the proposed actuarial standard of practice. The standard forces the valuation actuary to understand material reinsurance contracts and make judgments about their impact on reserves. First, the actuary must calculate a net reserve based on any applicable laws or GAAP requirements. Next, the actuary must determine if the resulting reserve is adequate using his or her best judgment about future cash flows.

Case Studies
The following case studies are examples of typical questions an actuary might face in valuing a block of business with reinsurance. The analysis attempts to follow the thought process required by the proposed standard.

A block of interest-sensitive annual premium life insurance is reinsured on a modified coinsurance basis. Since the ceding company holds the assets backing the reserves, the reinsurer pays the ceding company life insurance proceeds. The investment income is calculated each accounting period at a rate equal to the rate credited to policyholders plus 200 basis points. Since this rate generally exceeds the valuation interest rate on the block, is the normal statutory reserve appropriate?

The normal statutory reserve is calculated so that the reserve plus interest at the statutory rate will mature future obligations as calculated on statutory mortality tables. In this case, however, the company has obligations to the reinsurer that replace its obligations to policyholders. One of those obligations is interest in an amount that probably exceeds the valuation rate. Should the actuary therefore set up a higher reserve so that the statutory interest rate times the higher reserves equals the interest owed the reinsurer?

An actuary following the proposed standard might proceed by following paragraph 5.2 of the standard. First, the actuary calculates the reserve according to statutory requirements. Next, the actuary determines if the calculated reserve makes appropriate provision for the company's future obligations according to his or her best estimate of future experience.

In this case, the actuary knows that policyholders are credited interest quarterly, based on the performance of an asset portfolio managed to back this line of business. The company's margin on the product was priced to be 200 basis points, and the company has historically maintained the spread very closely. There is no intention to change this crediting philosophy.

Therefore, the actuary knows that the company's gross interest earnings in the future will approximate its obligation to the reinsurer of credited rate plus 200 basis points. Since the interest income from investments will be essentially equal to the interest due the reinsurer, the calculated statutory reserve is sufficient according to the actuary's best estimate of future experience.

A reinsurer has assumed a block of whole life insurance on a coinsurance basis. The ceding company's reinsurance accounting report indicates that it took a statutory reserve credit equal to the reinsurer's proportionate share of the ceding company's net level reserves. The reinsurer normally holds CRVM reserves. What reserve should the reinsurer establish?

According to paragraph 5.2 of the proposed standard, the actuary for the reinsurer must independently determine appropriate net statement liabilities. If the actuary believes that a CRVM reserve meets regulatory requirements and makes satisfactory provision for the reinsurer's future obligations, there is no reason why the reinsurer should mirror the ceding company's reserve credit unless the reinsurer has contractually agreed to do so.

A block of guaranteed premium life insurance is reinsured on a YRT basis. Current YRT rates are well below the required valuation mortality table, but the reinsurer has reserved the right to raise rates prospectively up to a maximum scale that is well above the valuation mortality rates. What effect does this provision have on the ceding company's reserve credit?

The actuary should refer to paragraph 5.4, "Additional Liabilities," when deciding if the net reserve makes appropriate provision under best-estimate assumptions. If the ceding company had the right to raise policyholder premiums to cover its increased obligations to the reinsurer, the actuary might conclude that full reserve credit is justified.

If there is a question, however, the actuary should test to see if future premiums due the reinsurer are likely to exceed the portion of future policyholder premiums available to cover mortality under best-estimate assumptions. If so, the actuary should compute the present value of such excess and either set up that amount as a liability or reduce the reserve credit accordingly. The actuary should also take into account any required deficiency reserves in making his or her determination.

A ceding company actuary has heard a rumor that one of its reinsurers is in financial difficulty. Should the actuary permit reserve credit on the next financial statement?

Paragraph 5.5 of the proposed standard imposes a responsibility on the actuary to consider the likelihood of collection before taking reserve credit. Of course, the actuary should realize that reinsurance with an unauthorized reinsurer must often be secured by a trust account or letter of credit before reserve credit is allowed. If good, accessible security has been provided, then the likelihood of collection is high, even if the reinsurer is in financial difficulty, and the reserve credit should be allowed.

If no security is present because the reinsurer has proper licenses, the actuary must make or request further investigations. What is the status of the reinsurer's Best's rating? Have any debt or equity issues been issued? Has the reinsurer's insurance department taken any disciplinary action? The American Institute of Certified Public Accountants' position statement on evaluating the financial responsibility of reinsurance partners is also a good source for guidelines in analyzing the reinsurer.

(continued next column)
Academy disciplinary activity was the subject of a semiannual report by Harry D. Garber, chairperson of the Academy's Committee on Discipline, to the Board of Directors at its December meeting.

Cases Closed
Garber reported that since last June, the Academy's Committee on Discipline has closed six cases. Two complaints were terminated after investigations by the committee failed to unearth violations of applicable Guides to Professional Conduct. Both complaints concerned allegations related to state-mandated insurance filings, one claiming improper compliance with applicable regulations, and the other alleging that misleading information had been utilized in a supporting actuarial opinion. Committee investigation found substantial compliance with applicable regulations in each case.

Processing of two other complaints was terminated, according to Garber, because of the current absence of applicable standards of practice. One related to an allegation that misleading information was included in a financial statement, and the other questioned the use of reinsurance in another financial report. Garber noted that the questions had been referred to the Actuarial Standards Board (ASB) with the recommendation that appropriate standards be drafted by the ASB to cover future situations. The referrals, according to Garber, demonstrate the link between the disciplinary and standards promulgation processes.

Private Warnings
Garber also reported that two private warnings had been issued by the committee since last June. The first involved the improper release of a client's confidential data by a consulting actuary to other parties, in violation of the actuary's responsibility to maintain a pledge of confidentiality secured by the client. The second warning related to improper signing of a Schedule B report, where the name of an actuary who was no longer a member of the consulting firm (but had undertaken the pension plan evaluation prior to his departure) was appended to the Schedule B without his knowledge. This matter was also referred to the ASB for consideration of developing a standard to apply in the future.

Current Caseload
Eight cases are on the Discipline Committee's docket currently. Five of the cases are presently "on hold" pending final determination of ongoing litigation. Of these five, two cases involve insurance company insolvencies. Another one relates to securities fraud allegations, another to the insolvency of a health care trust fund, and the last concerns alleged fraud in reinsurance practices.

Garber pointed out that when cases raising potential disciplinary matters are in litigation, the committee's policy is to postpone active consideration, in order to avoid interference with the judicial process. From a practical point of view, witnesses and parties hesitate to cooperate with Academy investigators when a matter is in litigation.

Because of the ongoing investigation of a case by the Joint Board for the Enrollment of Actuaries, the committee has tabled action on a complaint alleging fraud and incompetent advice by a pension actuary to several clients.

The committee is actively investigating a case involving alleged backdating of documents to qualify for tax deductible pension contributions, and the advice of the ASB as to relevant acceptable practice has been solicited. Another case under active investigation concerns a series of complaints raised against a pension actuary for refusal to release client records, inaccurate billing practices, and failure to communicate with clients.

Looking Ahead
The Board of Directors was informed that Past President John A. Fibiger has been appointed co-chairperson of the Committee on Discipline, and that it is intended that he become chairperson of the Committee on Discipline after a transition period in 1989. Committee contact with the ASB will continue. And, the ASB's various operating committee chairpersons have been designated as "consultants" to the Academy's Committee on Discipline when practice issues are raised.

Simms is the Academy's general counsel.
Contingencies Column Calls for Authorities on the Future

With the forthcoming publication of Contingencies in June 1989, a column is being created to provide you, the actuary, with an opportunity to become a published futurist. The column is called "What If...?", and it invites actuaries of all specialties to use their skills at predoctation to envision possible outcomes of various scenarios. We will provide a scenario, involving an issue of national scope that affects the insurance and employee benefits communities, with each month's Actuarial Update. If the particular scenario kindles a tentative response in your mind, think a little harder. And if after a bit more cogitation you think you have an insightful and viable response, write it out and send it to "What If...?" in care of the Academy's Washington office. You may even illustrate your solution with charts, graphs, or tables.

Your submission will be evaluated for creativity and completeness by the Editorial Advisory Board of Contingencies, and very possibly slated for publication in the "What If...?" column of the magazine. We cannot pay you for your contribution, but this is a way for you to get national exposure for some of your most creative thinking! Δ

What If...?
Social Security Were Partially Privatized?

A recent study done by the Morgan Guaranty Trust has advocated that the Social Security system be made partly private, so that the accumulated surplus would not be "squandered" on Medicare or other programs. The proposal suggests that workers be allowed to divert a bit more than one-fourth of their Social Security payroll tax into individual investment accounts, beginning in 1990. According to the report, for the average taxpayer, this would amount to about $500 to $1,000 per year. As compared with Individual Retirement Accounts, these accounts would be subject to tougher tests of "investment suitability" and to more severe restrictions on early withdrawals. Moreover, the Social Security benefits of these workers could be cut.

Does this seem like a sound proposal to you, in light of your actuarial expertise and accumulated wisdom about the world? If you think that it is conceptually sound, do you also believe that it could be implemented with minimal regulatory and administrative hassle?

Send your response to "What If...?" % Contingencies, the American Academy of Actuaries, 1720 I Street, N.W., 7th Floor, Washington, D.C. 20006.

Meeting of the Minds—Part II

In the August 1988 Actuarial Update, an article entitled "Meeting of the Minds" solicited comments from the membership on data quality, on-site examinations, and professional responsibility. Readers may recall that a related matter had been raised by a rehabilitator of an insurance company who was dissatisfied with the work product of an actuary who appeared to have performed within the standards of the profession. The problem, the committee surmised, was that the client did not explicitly ask the actuary for certain undertakings, and that the actuary did not appreciate that such undertakings might be expected by the client. The article deemed the problem a failure to reach a "meeting of the minds."

Following the article's publication, the Committee on Guides to Professional Conduct, which had written the piece, met and reviewed comments received from the membership. Some issues remain concerning how best to ensure that a "meeting of the minds" does take place when clients and employers consult with actuaries. The committee also believes that more discussion is needed before it can decide whether or not to recommend a practice to the actuarial community.

In our last column, the committee first asked whether reaching a meeting of the minds is an ethical requirement or simply a matter of good business practice. One commentator responded that the question is virtually equivalent to asking whether it is ethical to be incompetent. According to this point of view, the actuary is responsible for defining the assignment properly in the first instance, because the actuary probably is the individual who knows the most about what needs to be done. The difference between being a journeyman and a professional, according to this respondent, is to a degree one of attitude in matters such as this.

This commentator oversimplifies the working relationship between actuary and client somewhat, in the committee's judgment. There are situations in which an actuary's assumptions about how a job is to be done will simply differ from the client's expectations. For example, what if the actuary is prepared to offer a service commonly performed by actuaries (e.g., calculation of loss reserves) in a manner (use of non-audited data) that the client believes to be inappropriate?
Another complicated situation is when the client requests a service (e.g., calculation of loss reserves) on a basis (expected use of data that lacks statistical credibility) that the actuary believes to be insufficient. The actuary clearly has the responsibility to advise the client that the requested service conflicts with the actuary's own professional judgment [Opinion 3(c)(1)]. However, Opinion 3(c)(1) goes on to say that the actuary "should include appropriate qualifications or disclosures in any related actuarial communication." This seems to imply that the actuary could perform almost any requested service as long as the communicated work product contained sufficient qualifications or disclosures. Opinion 3 also gives exceptions to this policy in advocacy situations [paragraph (c)(2)] and when legal restraints exist [paragraph (c)(6)].

The Guides and Opinions are less clear when third parties may be relying on the actuary's work. Opinion 3(b)(2) essentially states that the actuary should make sure that the material is presented fairly and should recognize the risk of misinterpretation by the third party. Are there other situations in which the actuary should refuse to perform services that conflict with the actuary's professional judgment?

The second question raised in our first column was whether or not the Guides and Opinions should be revised to require the use of engagement letters specifying the scope of the assignment. Currently, the Guides and Opinions do not explicitly require prior documentation and communication of the scope of actuarial services. One commentator argued that an actuary should always ascertain the scope of assignment prior to commencement; and that in order to demonstrate an understanding of the situation, the actuary should in fact reduce the matter to writing. But the committee questions whether written communication is required in every case. If the actuary has performed similar services for the client in the past, there may in fact be a clear meeting of the minds without written communication. Alternatively, the client may appear to have expressed an assignment request clearly ("please calculate the loss reserves using standard actuarial techniques"), but the actuary may not be aware of particular limitations that the client has in mind ("but only use CPA-audited data"). In the latter situation, written communication may not solve the problem. In a court, the duty of the actuary would likely be determined by considering what a reasonable actuary would believe to be professionally prudent. Should the Guides and Opinions be expanded to require explicitly the use of written documentation on the scope of the assignment?

The committee also asked whether such an expression of understanding the scope and requirements of the assignment should apply equally to consultants and resident actuaries. Comments pointed out that the ethical considerations are the same for either professional, because the meeting of the minds depends on a mutual understanding between the actuary and whomever the actuary undertakes an assignment for. The relative sophistication of the client or supervisor in actuarial matters is obviously key to mutual understanding in either situation.

**CENTENNIAL YEAR (continued from page 1)**

demonstrate the applicability of that science to complex social issues? That is precisely what is in store.

The profession's observance of its century mark will be the Centennial Celebration on June 12-14, in Washington, D.C. This event, some four years in the planning, will present actuarial topics, in actuarial terms, to an actuarial audience. And that is how it should be. It is, after all, an event for and about actuaries.

But what about those outside audiences? In order to capitalize on the public relations opportunities that the June meeting and, indeed, the entire year present, the North American actuarial profession has just embarked upon a collateral, complementary activity. A public relations firm, Edelman Public Relations, with offices throughout the United States and Canada, has been engaged to mount a year-long campaign on behalf of the profession. It's being called Forecast 2000.

Forecast 2000 is a series of four forums in 1989, which will focus on news-making issues that involve traditional and nontraditional applications of actuarial science. These forums are envisioned as panel discussions—each of the four devoted to a different topic and held in a different city. The line-up at present is as follows: (April) Long-Term Care—Miami; (July) Asset Management and Investments—New York; (September) Pensions and Employee Benefits—Los Angeles; and (November) Environmental Risk—Toronto.

Forecast 2000 forums will be attended by policy makers and opinion leaders, journalists, businessmen and women, and association executives in related fields. Each forum will use the news peg of the centennial year and strive to give attendees a substantive look at one of these four topics as well as the role actuaries play in the debate that surrounds the topic. By so doing, our public relations campaign will generate news media coverage and promote the role of the actuary throughout 1989.

The campaign is being watched over and directed by a joint task force and the profession's senior public relations staff. You will be hearing more about it, as plans continue to unfold. One thing to bear in mind: as part of the campaign, we will be surveying actuaries in the United States and Canada whose practice areas and experience match Forecast 2000 forum topics. We want to get a sense of what actuaries hold about these issues for the year 2000 and beyond.

Survey results make for terrific news copy. If you receive such a survey (we promise less than ten questions), please fill it out and return it to us. Your personal opinions, as much as anything else, will give substance and spirit to the Forecast 2000 campaign.

Parker is director of public relations at the Academy.
NAIC Meeting Highlights

by Gary D. Simms

Whereas the hottest item on the menu may have been "Cajun cookin'," there were enough substantive items on the agenda for attendees at the December 11–16 New Orleans Winter Meeting of the National Association of Insurance Commissioners (NAIC) to keep the regulatory pot boiling for some time.

Life and Health Actuarial Task Force

For actuaries, the highlight of the conclave came early, with the meeting of the Life and Health Actuarial (EX5) Task Force the weekend preceding the NAIC meeting's formal kick-off. In this, its fifth year of deliberation, the task force recommended the adoption of new "Minimum Standards for Individual and Group Health Insurance Contracts" to replace and modify the present standards. The NAIC leadership subsequently adopted the proposal. The controversial benefit ratio reserve concept, eliminated during earlier drafting efforts, will continue to be considered under the purview of another NAIC project related to premium rating principles. Another health-related item on the task force's agenda related to provision for catastrophic morbidity and reserves and nonforfeiture values for universal disability insurance.

Life insurance discussions focused on the valuation actuary concept, particularly on a new revised draft report by the Special Advisory Committee on the Standard Valuation Law. The revision includes a key amendment, the proposal for a Mandatory Security Valuation Reserve. Copies of the committee's draft report are being circulated for comment and are available from the Academy upon request. A May 1989 deadline for final recommendations has been set.

Task Force also recommended that the NAIC adopt new Actuarial Guideline IX-B, entitled "Clarification of the Methods under Standard Valuation Law for Individual Single Premium Immediate Annuities, Any Deferred Payments Associated Therewith, Some Deferred Annuities and Structured Settlement Contracts." The NAIC did adopt the new guideline, and now the task force is preparing another guideline for using substandard mortality tables to value impaired lives for structured settlements. The NAIC also adopted minor changes to the "Variable Life Insurance Model Regulation." Other task force business included reviewing work in progress on the yield index, the reserve standards for long-term care benefits, and amendments to the NAIC "Long-Term Care Model Regulation." The topics of reinsurance projects, implementation of a subscription mail system, a valuation actuary seminar for actuaries (scheduled for March 2–3, 1989, and conducted by Academy representatives), and new software products available for use by regulators were also discussed.

Life Cost Disclosure Task Force

The Life Cost Disclosure (AL) Task Force met and established June as a deadline for a final vote on the use of the yield index in cost disclosure of life insurance contracts. Significant dissatisfaction was voiced by task force members over the lack of progress on the issue. The Life and Health Actuarial (EX5) Task Force promised a final draft at the March meeting of the NAIC, scheduled for Little Rock, Arkansas, this year.

Casualty Actuarial Task Force

The Casualty Actuarial (EX5) Task Force also met to cover numerous agenda items requiring future action. Key actions on the agenda were (1) to consider a reserve for free extended coverage under professional liability contract claims; (2) to possibly revise the Schedule P reserve tests, as well as Schedule P in general; (3) to review the growth of actuarial opinion requirements and the related need for uniform opinion requirements; and (4) to discuss the general subject of ratemaking. The task force's advisory committee reported that its efforts on studying reserve opinion requirements had been hampered by delays in obtaining information from states using new actuarial report requirements. (See related "Survey of Loss Reserve Opinions for 1988" in this issue, listing various states' requirements.)

Academy Meetings

The American Academy of Actuaries sponsored a briefing session at the meeting on Monday morning that was attended by representatives from insurance departments, insurance companies, and consulting actuarial firms. The briefing provided an opportunity for Academy members to share intelligence findings from the general meeting.

The Academy Board of Directors met during the NAIC convention and also sponsored a reception for insurance commissioners and their staffs. A highlight of the board's meeting was an address by the Honorable William D. Hager, Iowa commissioner of insurance (and former general counsel of the Academy).

General Meeting Highlights

General NAIC meeting highlights included a welcoming address by John E. Washburn, Illinois director of insurance and outgoing president of the NAIC; a panel discussion on the attorneys general antitrust lawsuit; featuring Attorney General Charles Brown of West Virginia, chairman of the attorneys general antitrust committee; and a keynote address by Representative James J. Florio (D-NJ), chairman of the House Subcommittee on Commerce, Consumer Protection and Competitiveness. Both Washburn and Florio spoke to the issue of state insurance regulation. Florio noted that public dissatisfaction with the high cost of insurance coverage is causing Congress to examine various segments of the insurance industry closely. He observed that Proposition 103 in California may be the beginning of a nationwide campaign to place new restrictions on the Industry.

ISO released its long-awaited "Claim File Data Analysis" package at the meeting, and informal discussions about its impact on tort reform proposals threatened to overtakes the slightly more steamy gossip on the Proposition 103 lawsuit in California. Δ