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AMERICAN ACADEMY *of* ACTUARIES

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*Objective. Independent. Effective.™*

Mary D. Miller, MAAA, FCAS  
*Academy Past President*

August 10, 2018

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

Re: CASTF Exposure, Three-Year Experience Period

Dear Kris:

The American Academy of Actuaries<sup>1</sup> appreciates the opportunity to comment on the Casualty Actuarial and Statistical Task Force (CASTF) July 2 Three-Year Experience Period Proposal exposure draft. We submitted comments on the last exposure draft and have attached them as an appendix to these comments as we believe they are still appropriate.

The current project was begun when the Society of Actuaries (SOA) requested that its general insurance (GI) basic education track be recognized in the definition of a qualified actuary. The National Association of Insurance Commissioners (NAIC) hired WorkCred to evaluate the syllabi and education processes of both the Casualty Actuarial Society (CAS) and the SOA. It should be pointed out here that WorkCred's report went beyond that scope to include the other elements of the U.S. Qualification Standards (USQS). The Academy was never contacted by WorkCred about the USQS, which have served long and well the state insurance regulators as the U.S. actuarial profession's own guiderails to identify who is qualified to sign statutory statements.

The statement in the exposure draft that the experience requirements need elaboration in order to be objective and clear is, as far as we know, based only on WorkCred's assumption that more words will serve a need that has simply never been identified. Although we have heard verbally that the WorkCred report is no longer being used as the basis for your work on the definition of a qualified actuary, your July 2, 2018, exposure draft references its report verbatim. There you use the report language describing the three-year experience requirement as conceptually clear but a

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<sup>1</sup> The American Academy of Actuaries is a 19,500-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.

concept without objectivity. We believe credentialed actuaries know what it means and that it is not advisable to create rules and regulatory standards for what must be included in that experience period. Objectivity, like professionalism, is a quality. The objectivity of the USQS experience requirement, similar to the other two requirements that address basic education and continuing education for those signing statutory statements, is and can already be documented by an appointed actuary who chooses to use the Academy's Attestation Form.

The mission of CASTF as stated on the NAIC website is "to identify, investigate and develop **solutions to actuarial problems** and statistical issues in the P/C insurance industry." Additionally, "[t]he Task Force's goals are to **maintain the financial health of P/C insurers** and ensure appropriate data regarding P/C insurance markets are available." [emphasis added]

We believe the current proposal is a solution looking for a problem. There have been no complaints of which we are aware that any actuary failed to meet the required three-year experience requirement. CASTF has received many comments, both oral and written, identifying the difficulty in creating a detailed description of what the actuary learned during that time. In fact that early experience, often obtained before one obtains his or her first credential, will become far less relevant to the overall competence of an actuary with the passage of time. Experience is necessary because it provides a basis for knowing where issues may arise and gives one a basis both to identify issues and predict where risks arise from them. The notion that experience can be objectively defined through detailed learning expectations underscores the lack of experience with the work appointed actuaries do and a misunderstanding of what prepares them to do it.

This proposal is inconsistent with the risk-focused examination and surveillance process in which regulatory efforts are directed toward those items which pose the greatest solvency risk. The probability that an appointed actuary has not met the three-year experience requirement is either zero or so close to zero that it does not merit the attention it is receiving. It also is not consistent with the stated goals of the task force, as providing detailed documentation of one's early experience does not address a solvency risk. We believe it should be sufficient for an actuary to summarize his or her reserving experience and simply identify the period during which the requirement was met. If this is done as part of the attestation provided to the board at initial appointment, it would be available to the domiciliary regulator during examination or any time they have a concern, at which point they can request additional information if so desired. It would be a small matter to require the attestation with supporting documentation at appointment and have it retained for the duration of the actuary's appointment. Requiring annual submission of detailed documentation in the Actuarial Report is an unnecessary duplication of the board submission that will already be available to the regulator. The same duplicative condition applies to having it submitted as a separate section of the report.

The proposed draft mentions the specificity required by the Academy's Casualty Practice Council (CPC) when considering applicants requesting approval to sign a P/C statutory opinion. The council requires additional information because the candidates requesting approval do not have a basic education credential from the CAS as required by the current annual statement instructions. Therefore the council needs additional information about the alternative path the

applicant used to obtain basic education, as well as information on experience and continuing education in that practice area. But, basic education is the foundational element of all three of the USQS requirements to sign statutory opinions. The CPC goes on to look at the other two elements because all are needed and when one does not have the fundamental basic education to begin with, the other two elements simply cannot be met without also serving as part of the alternative path. Again, as noted above, the NAIC hired WorkCred to evaluate the basic education and syllabi of the basic education providers because it was clear that was where the issue lay.

The referral to the Actuarial Opinion Working Group includes requests for guidance on learning objectives for and manner of documenting the three year-experience period. We have already identified that common learning objectives are not possible and would also say they are not desirable. The period will be unique for each individual and company. The detailed documentation requirements they are asked to create will be of little value to a regulator and there is even less value in a public summary document. We do not believe the information it contains will be of any use to the public. Requiring annual submission of the same information to boards of directors is unnecessary—the basic education and three-year experience period will not change from year to year.

In conclusion, the Academy has fully supported and continues to support the NAIC's basic education initiative. CASTF should feel comfortable that it is fulfilling its charges by requiring the summary documentation in the attestation required upon initial appointment with the ability to require additional information upon request when the domiciliary regulator feels it is necessary.

Sincerely,

A handwritten signature in cursive script that reads "Mary D. Miller". The signature is written in black ink and is positioned above the typed name.

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

## APPENDIX



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AMERICAN ACADEMY of ACTUARIES

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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 Three –Year Experience Period – Seeking Proposals

Dear Kris:

The American Academy of Actuaries (Academy)<sup>1</sup> 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

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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 Questions<sup>2</sup>” 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.

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<sup>2</sup> <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 Form<sup>3</sup> 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,



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

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<sup>3</sup> <http://attest.actuary.org/#/>

