RECORD OF SOCIETY OF ACTUARIES
1985 VOL. 11 NO. 2

Vol. 11, No. 2 May, 1985

RECORD

DEBATE ON THE ROLE OF THE VALUATION ACTUARY

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Pro: ROBIN B. LECKIE
Con: R. STEPHEN RADCLIFFE
Commentator: TIMOTHY C. JENKINS*
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- The participants will debate the following resolution:

  Resolved: The actuary should be required to express an opinion in life insurance company statements regarding the valuation adequacy of projected future cash flows.

MR. ROBERT D. SHAPIRO: The issues surrounding the role of the valuation actuary are critical to the profession, industry, and public.

To set the stage for this debate, we will present two mock trials. The first, by Mr. R. Stephen Radcliffe, who is Vice President and Chief Actuary of American United Life, demonstrates the concerns about the currently proposed expanded role of the valuation actuary. The second mock trial, by Mr. Robin B. Leckie, who is Senior Vice President and Chief Actuary of ManuLife in Toronto, supports the adoption of this expanded role. We are fortunate to have Mr. Timothy C. Jenkins, the current President of the Institute of Actuaries in Australia, as our commentator on these mock trials.

There will be a summation following each mock trail. Mr. Jenkins will present his comments following these trials, and then Mr. Radcliffe and Mr. Leckie will present their final comments.

MR. R. STEPHEN RADCLIFFE: The year is 1992. A group of policyholders is suing a life insurance company and its valuation actuary

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for damages believing that the company misrepresented its financial condition.

The policyholders had purchased a single-premium, deferred annuity offered by Sunshine Life thinking it was a safe investment. Sunshine Life subsequently went bankrupt, and the annuity owners cannot recover their money. The policyholders contend that they relied on the statement of actuarial opinion of the valuation actuary when purchasing the annuities. The company and the valuation actuary maintain that it was not appropriate to rely solely on the actuarial opinion when buying the annuity.

The actuary is F. S. Avery who is being questioned by the plaintiffs' counsel. We join the trial in progress.

PLAINTIFFS' COUNSEL (PC): Mr. Avery, your company had a surplus of only 19.8 million dollars on assets of over 1 billion dollars on December 31, 1988. Isn't that low by industry standards?

AVERY: Yes, it is somewhat low. It was caused by substantial growth in single-premium, annuity sales in the mid-1980s which created a drain on surplus. Since Sunshine Life was a mutual company, we decided to leave the surplus at a low level to keep our federal incomes taxes low.

PC: Would you please read the underlined portion of your opinion in the annual statement for the court?

AVERY: "In my opinion, the anticipated investment cash flows from the assets, plus anticipated considerations to be received from the in-force policies, make good and sufficient provision for the contractual obligations and related expenses of the company under its insurance policies."

PC: That's an interesting statement. In no less than fifteen months from the time that you signed that statement, your company was not able to meet <u>any</u> of its obligations! In light of that fact, how could you come to the conclusion that your company was in sound condition?

AVERY: You have the benefit of hindsight that I didn't have when I signed that opinion. We had to use projection techniques to reach our conclusions. We ran the projections under five different scenarios for future interest rates...

PC: You ran only five different scenarios? Would you please read the following sentence from the written guidelines for choosing interest rate scenarios when forming the actuarial opinion?

AVERY: "In most practical situations, it is expected that more than five interest rate scenarios will be tested."

PC: Have you ever seen this guideline before?

AVERY: Well...uh...yes, I was aware of it. I thought that I followed the guidelines to the letter, but they were not that much help in guiding me because they were not very specific.

PC: Mr. Avery, what assumptions did you make for the future interest rates in your scenarios?

AVERY: There are no stated guidelines. We tried to make up scenarios that would give us a range of results under reasonable and plausible conditions.

PC: When you made the projections, were the results consistent for all scenarios?

AVERY: No. We knew that the results were unfavorable in the increasing interest rate scenarios. However, at the time we made the projections, the consensus was that interest rates would decline rather than increase, so we discounted the increasing interest rate scenario. Several financial services that my company subscribed to endorsed this assumption.

PC: Well, that was a pretty bad assumption, wasn't it, in light of the fact that in 1989 interest rates jumped to 20 percent and leveled out at 18 percent. Shouldn't you have disclosed that your projections at the higher interest rates were not favorable? And shouldn't you have run more projections at higher interest rates?

AVERY: No, sir, there is no such legal requirement. The guideline is somewhat vague. I saw no reason to waste more time and money on additional scenarios. I already knew that there were some problems at the higher interest rates. I don't put much faith in projections anyway. We had deadlines to meet and few people available to get the annual statement done. Considering the time constraints and limited budget, I think we did a very professional job of analyzing the financial condition of our company.

PC: The point is that you did <u>not</u> do a professional job. I would like to submit to the court a report prepared for me by an outside actuarial consulting firm. They made projections using the same information available to Sunshine Life, and they came to the opposite conclusion. They said they could not have signed the opinion without some qualification. If you had done a more professional job, you would not have signed the opinion that you did.

AVERY: That isn't true. You are putting too much emphasis on projections as predictors of the future. Projections are only as good as the assumptions used. Really, we are not much better than weathermen trying to predict the weather. We are probably wrong just as often as they are. I am not surprised that another actuary came to a different conclusion -- that doesn't mean anything.

PC: But that's not what your statement of opinion implies.

AVERY: If you could have seen how the results of the projections varied from one scenario to the next, you would have realized that the opinion is certainly not a 100 percent guarantee of the future financial condition of the company.

PC: Yes, but your statement was that your company had made "good and sufficient provision" for the contractual obligations of your company. There is no qualification on that statement that says that there is only some chance that you will be able to make good on your promises.

Let's move to another line of questioning. Mr. Avery, can you explain how your company could possibly go bankrupt only fifteen months after you signed that opinion?

AVERY: Well...1989 was a year that if anything could have gone wrong at Sunshine Life, it did. Early in the year, one of our major investments failed.

PC: Would you describe that investment for the court?

AVERY: We made a 20 million dollar loan to a company called Bio-Gene. It was a company that produced synthetic enzymes that were important in the development of antigens to fight cancer.

PC: Considering your surplus, wasn't that a large concentration in one investment?

AVERY: Yes, but we were all very optimistic about its future. I had nothing to say about that loan, because it was something that the CEO insisted on. It seemed to be an outstanding investment until the federal government refused to license its operation. Besides, that is not really what caused the ultimate insolvency. It was the rise in interest rates. We could easily have weathered a short spike in interest rates, but those rates never came down. Withdrawals on our products were also higher than usual, because the Wall Street Journal wrote an article about our problems with the Bio-Gene loan just as we were having some of our major problems with interest rates. After the bad publicity surrounding the Wall Street Journal article, we didn't have a chance.

PC: Nevertheless, you knew that your company didn't have enough surplus to cover its exposure to risk, and you failed to disclose it when you had a duty to do so. People relied on your statement in good faith. In so doing, they have suffered a great loss.

AVERY: Now wait a minute. You are not going to blame all of this on me. No one could have predicted Bio-Gene's problems, and no one was predicting an increase in interest rates. I knew there were some risks in signing the opinion, but what if I hadn't signed it? It would have put my company out of business. There was absolutely no reason for such a drastic action at that time. As a matter of fact, we had a better chance of making an excellent return. Then we wouldn't even be having this trial today. Our company management knew they were

taking a risk, but they were prudent risks that would help the company grow. I was part of that management team and was convinced that they were good risks to take.

PC: Yes, but as a professional, we relied on your independent judgment to be made with unbiased expertise. You have just demonstrated to the court that you opinion was certainly less than an unbiased judgment.

AVERY: I did the best I could with what I had to work with. You are judging me unfairly. I only ask that you put yourself in my position of trying to do the impossible job of predicting the future.

PC: If that was the best you could do, it wasn't good enough! Your public opinion of the financial soundness of your company is misleading. With no disclaimers about the possibilities that you could be wrong, you announced for all to hear that your company could satisfy its obligations to policyholders. Your statement turned out to be obviously untrue and caused my clients great harm and loss.

AVERY: Yes, but...

PC: No further questions. You may step down.

MR. RADCLIFFE: My worthy opponent, Mr. Leckie, believes that if we require valuation actuaries to sign a new opinion, which includes a statement on cash flows, the result will be fewer insurance company insolvencies. The real objective is to avoid more fiascoes like Baldwin-United. This court scene, dramatizes that, even when we have valuation actuaries signing the new opinion, insolvencies will occur. How many of you believe that, if we had this opinion in place, we could have avoided Baldwin-United?

The story fairly realistically shows that although Mr. Avery did a reasonably good job, he suffered as a victim of this new valuation system. He was victimized not by his own actions, but by a system that is unwise and unfair. It is unwise because it will not do the job it was intended to do, that is, to protect the buying public from shaky management practices and poorly designed products. It is unfair because it will potentially harm responsible actuaries who are trying to do a good job.

In summary, the main issues portrayed in this skit are:

1. Actuaries, like Mr. Avery, will look bad when they are judged with the benefit of hindsight. Anyone can look like a genius if he makes a prediction that comes true, but he will look like a fool if the prediction does not come true.

   Although Mr. Avery was a good actuary, he may not have been a great valuation actuary because he was working in a small company where he did not have the time or money to spend on the valuation required by the new opinion. It is ironic that the new opinion

was designed by actuaries from large companies with massive resources to be applied to small companies with limited resources.

2. We are promising more than we can deliver. The public will infer a guarantee of the future financial soundness of a company from reading the opinion as it is currently written. This is very misleading and will create misunderstandings. They will think we can really predict the future.

   The new opinion requires us to make specific predictions of the future based on projection models. Projections from deterministic models are the current foundation of the opinion. All of us who have worked with projections know that these are not reliable predictors of the future. If we are ever called on to defend our opinion, it will not be easy to explain this to a questioning public, especially a hostile one.

3. Who will be allowed to be a valuation actuary, and who would want to be one? There are no guidelines for practice, leaving a valuation actuary to fend for himself. He is an easy target for an aggressive attorney. Even if we develop good standards of practice, valuation actuaries would still be wide open for attack. It is always possible that other fair-minded actuaries can have a difference of opinion and make the valuation actuary's opinion look poorly constructed, especially after the fact.

4. The valuation actuary has no control over outside events that can have a tremendous effect on the financial soundness of the company. Mr. Avery had no control over the investment made in Bio-Gene, no control over the bad publicity surrounding the Wall Street Journal article, and no control over unrelenting high interest rates. However, the opinion does not have any disclaimer for such events.

5. It defies human nature for an actuary to be part of the management team and the valuation actuary at the same time. How can a good team member maintain an unbiased opinion and be expected to "blow the whistle" on his colleagues and friends and least of all on himself? The valuation actuary would be reluctant to give any qualified opinion that could cause harm to his company. The opinion is merely an attempt to preempt the capitalistic process. A qualified opinion or no opinion could actually cause the insolvency that the valuation actuary has predicted.

6. There are other alternatives. We could improve the annual statement to give better information, especially in the areas of reinsurance, annual cash flow, and quality of investments. We could improve the early warning system to make the financial ratios better predictors of problems in insurance companies. We should completely overhaul the triennial examinations of insurance companies. As they stand now, they are merely expensive rituals where most of the time spent is on the biggest, safest, and soundest companies in the industry.

The actuary should be a part of these revisions. We have a responsibility to the industry to help the regulators make their judgments about insurance companies. The valuation actuary should present an exhibit of cash flows that demonstrate the adequacy of those cash flows plus reserves to meet future obligations. This would be a part of a valuation report that could cover other items as well. If some of these things were accomplished, there would be no need for an opinion by a valuation actuary.

The NAIC should be working on these projects. Instead, they have looked to the valuation actuary as a scapegoat. As a valuation actuary, I resent being put in this position.

MR. ROBIN B. LECKIE: The year is 1988, three years after the Society of Actuaries failed to support a proposal to enhance the role of the valuation actuary. A class action suit has been made against F.S. Allen, valuation actuary of Cloudy Life. The Society of Actuaries has been named as codefendant. I portray myself as representative of the Society of Actuaries.

PROSECUTING ATTORNEY (PA): Mr. Leckie, will you please tell me why you have been selected to represent the Society of Actuaries in defense that the Society did not negligently contribute to the insolvency of Cloudy Life.

LECKIE: I was selected because of my experience as a valuation actuary in the United States, in Canada, and in the United Kingdom. Also, I am familiar with the decision process in the Society.

PA: Is the role of the valuation actuary in the United Kingdom and Canada similar to that in the United States?

LECKIE: No, the role is considerably more extensive. For example, in the United Kingdom, the valuation actuary's opinion is a solvency opinion. In Canada, the opinion relates to insurance liabilities. As these must be appropriate to the circumstances of the company, it requires a review of the earning power of assets and their cash flow.

PA: Thank you Mr. Leckie. Now would you please explain, in your own words, why Mr. Allen has been charged?

LECKIE: Mr. Allen was the valuation actuary of Cloudy Life. He signed an opinion for that company's 1985 statement that the policy reserves made good and sufficient provision for all unmatured obligations. The company has subsequently been declared insolvent, and creditors are suing the valuation actuary because of this opinion.

PA: I will not ask you to comment on Mr. Allen's legal guilt. I will ask you whether Mr. Allen has been charged by the Society of Actuaries under Article VII of your organization's constitution with respect to discipline of members.

LECKIE: Mr. Allen has not been charged since his case is still in court. However, it is unlikely any charge will ever be made.

PA: Why is that?

LECKIE: Mr. Allen's opinion reflected the situation of his company at the time of the opinion. Mr. Allen followed the practices prescribed by the American Academy of Actuaries and the principles espoused by the Society of Actuaries. His opinion declared that the actuarial reserves set aside were both good and sufficient, and they were.

PA: Now Mr. Leckie, I don't know what you're talking about, but I do know the company is insolvent. The opinion isn't worth the paper it was written on. What is the valuation actuary for? If you can't count on the valuation actuary, who can you count on?

LECKIE: It was not the fault of the valuation actuary. He did the work required of a valuation actuary. Actually, as I understand it, the company failed because of some unsound assets and because the assets were not well matched against liabilities.

PA: And you are asking this court to believe the valuation actuary is not accountable?

LECKIE: The valuation actuary's opinion relates to the provision for liabilities. It does not relate to the quality of the assets, or the capacity of the assets together with the business on the books, to meet the cash-flow requirements of the company as they emerge.

PA: You mean no one in the company has an accountability for solvency? Mr. Leckie, how would you define a professional?

LECKIE: A professional is one who practice a profession...A profession embraces a unique scientific body of knowledge and puts public accountability ahead of self interest.

PA: Do you consider an actuary to be a professional?

LECKIE: Certainly.

PA: How can you infer that actuaries are professionals when by your evidence they do not assume a public accountability?

LECKIE: They do assume a public accountability, at least for the liabilities.

PA: But not for the total company? There is no opinion on solvency?

LECKIE: What you are implying may be legally correct. However, you would find that most valuation actuaries are very responsible, and you can rely on their opinion.

PA: You mean an opinion that only the liabilities are okay? That is not good enough. If Mr. Allen had been operating in Canada or the United Kingdom would he have been charged?

LECKIE: On the basis of the facts presented, yes, I believe he would -- in the United Kingdom, for failure to take into account the quality of the assets; in Canada, for valuing the liabilities inappropriately, given the nature of the projected cash flows from the assets.

PA: Well, then why is similar accountability not required in the United States?

LECKIE: An expanded role to include a review of investment cash flows in addition to actuarial reserves was considered in 1985 by the members of the Society of Actuaries -- but was rejected.

PA: Why?

LECKIE: There were many good reasons. Many of our actuaries had not been properly trained. The literature was incomplete. The main reason, however, was that it would have required actuaries to make opinions on matters exceeding their professional competence, coupled with an inability to control the events or actions which might subsequently be taken.

PA: What do you mean by that?

LECKIE: I mean that an actuary could only give an opinion, he could not give an assurance.

PA: That's all we're asking for. So why can't actuaries give us that opinion?

LECKIE: The profession just wasn't ready.

PA: How many insolvencies do we need before you are ready?

LECKIE: Well, you can't ask us to be accountable for events we cannot control.

PA: I don't think you want to be accountable at all. As far as I am concerned, you are guilty of masquerading as a profession. You are nothing but calculators trying to avoid any kind of public accountability. Mr. Leckie, your profession is dismissed. You may step down.

MR. LECKIE: Is our profession to be dismissed, or considered irrelevant, or ignored? I hope not.

No dramatization can reflect all of the considerations which will influence this profession to accept or reject a greater accountability for the future well-being of our companies. There will be many obstacles standing in our way.

No realistic system, i.e., some combination of regulation, conservatism, checks and balances, and valuation opinions can ensure solvency in all circumstances. No system can assure good judgment and good management. There are, however, some changes that can be made.

These will help make our business a little sounder while still allowing us to compete with other industries offering products of a reasonably similar nature. Some of the changes required have been described by Mr. Radcliffe as alternatives.

I do not see how company managements and state regulators can do it alone. We are in a business in which actuarial techniques and judgment are integral. It seems essential that, as our business gets more complex, the actuary must take some responsibility for the soundness of his or her company and its ability to withstand reasonable contingencies. If so, it is also reasonable for the actuarial profession to support the valuation actuary -- to train the actuary and to develop the tools he will need.

Consider the following:

1. The expanded role of the valuation actuary is a role that most of the public, most of the companies, and many of the regulators already think exists. Whether we like it or not, that accountability is presumed.

2. We are a little known profession with a highly complex body of knowledge and techniques. We know that our judgments, and techniques are not infallible and may not be up to the expectation others have of us. But that is no reason not to do the best we can.

3. The proposed role already exists in many other countries, and the actuaries in those countries have met their challenge well. Surely American actuaries have just as much to offer in an environment where the need is just as great.

4. An expanded role for the valuation actuary will enhance the capacity of the life insurance industry to meet the demands of the marketplace. This is a consistent and necessary corollary to the proliferation of products, options, and flexibility inherent in the marketplace today.

5. I believe this new role will help to make our current regulatory system more viable. In fact, can the state regulatory system be viable without a greater role played by the valuation actuary?

6. Is there any reasonable alternative? An enhanced role for the valuation actuary is a necessary part of any credible proposal. Can the actuarial profession really back away from this accountability and still hold its head up with any kind of pride?

MR. SHAPIRO: Our commentator, Mr. Jenkins, has a keen interest in the international developments in the field of life insurance company financial reporting. This is evidenced by the professional papers he has written, as well as the research he has done and is doing on this topic.

DEBATE ON THE ROLE OF THE VALUATION ACTUARY

MR. TIMOTHY C. JENKINS: The case in favor of the proposed new role of the valuation actuary is a compelling trial of the profession for failing to come to grips with a major public-interest responsibility. The case against is an agonizing trial of a member whose opinion failed to meet the test of extreme but possible conditions.

If we can judge the issue from this, it would seem that the profession is in danger of being caught between a rock and a hard place. Is the dilemma really such a painful one?

Many of the liability structures, for which actuaries are responsible, originated at a time when the environment consisted of repetitive events. The manager was a custodian concerned with stability; business information dealt with precedent; the organization was a device for distributing power; and the actuary was a controller of funds meeting long-term obligations in a predictable financial environment.

During this period, it became customary to think that the future could be represented by extrapolation from the past. Almost unwittingly, this allowed serious systemic rigidities, such as maximum-policy-loan interest rates and guaranteed-cash-value scales, to be adopted as an acceptable part of the liability structure. Also, the investment function was able to proceed quite independently of the liability structure because actuaries and investment managers each understood their predictable roles in a predictable environment.

Nowadays, the environment is basically unpredictable. It is characterized by abrupt discontinuities and is only partially predictable. The manager is a creative entrepreneur concerned with innovation and flexibility; business information deals with signs of future change; the organization strives to be highly adaptive; and the actuary is a controller of funds charged with meeting future obligations in a turbulent financial environment.

The actuary must consider the funds as total systems and assert his or her role as risk manager of such total systems. The actuary must work as part of a team with the investment managers and the marketing executives to ensure that the funds are adaptive, flexible, and integrated systems able to meet their promises in a changeful environment.

If a company wants a product with no limitations on investment flexibility, then the actuary must insist on a liability structure with the necessary degrees of freedom -- such as the unit-linked structure. If a company wants a product which offers liability guarantees, then the actuary must insist upon the necessary asset structure to match those guarantees. If legislation imposes constraints, which can create a threat to the soundness of a particular liability/asset structure under some conditions, then the actuary should do everything he or she can to have the necessary "safety valves" in place in the event those conditions arise. In short, the actuary increasingly must be in charge of a risk management system through which future benefits are secured despite an unpredictable environment.

If done, there is no need to conduct any projections to test total cash flows under different futures. They are assured -- provided that the total system is designed and operated properly. However, this is the ideal. We are faced with established practices where the engineering of the risk structure is not flexible enough to cope with all the possible contingencies and with new structures where rigidities have been permitted. Therefore, actuaries must decide whether surplus is sufficient to meet the additional risks arising from structural rigidities.

As Mr. Leckie's evidence in the class action against F. A. Allen and the Society makes convincingly clear, the actuary is expected to have all financial aspects of a fund under skillful professional care.

The case against F. S. Avery and Sunshine Life shows, however, that great care must be taken in the way the opinion is framed to avoid putting the actuary in an impossible situation.

There will be limits to the extent to which a given level of surplus can support the risks built into a less than ideally adaptive liability/asset structure. There will, in any case, be limits to the actuary's influence and control over parts of the structure. The emphasis in the opinion, therefore, should be perhaps on the actuary identifying these limits, and where necessary, expressing concern about their effect, as a means of safeguarding against the actuary assuming unreasonable responsibility beyond his power.

A related point is that while actuaries know that "adequacy" is a probabilistic concept, the policyowners of a failed company will view an opinion of adequacy as absolute, and in their case absolutely wrong, unless the opinion also makes clear its limits in extreme or other circumstances.

Mr. Radcliffe has convinced me that we must be careful with the form of opinions of adequacy. Mr. Leckie has convinced me that there is a compelling need for us to include an opinion on the total liability/asset structure in the responsibilities of our various professional bodies. I therefore wish the Society a constructive and agreeable outcome of the debate on this important issue.

MR. RADCLIFFE: Mr. Leckie begins with the current opinion and states that it is wrong and useless. I agree with that premise. I disagree with his solution, however, because we have other alternatives to consider: improvement of the annual statement, the early warning system, and the triennial examinations. I also agree that the valuation actuary should prepare a valuation' actuary report, which would demonstrate an exhibit of cash flows under various scenarios. If we have all of these things in place, an opinion is unnecessary.

The solvency problem is so big that one valuation actuary cannot assume responsibility for all of it. We are taking a huge industry problem and concentrating it down to a fine point on the actuary's shoulders.

In this legalistic society of the United States, anytime something goes wrong someone sues someone else. Maybe in Canada, England, or Australia, the legalistic society is not as pernicious. In those societies, I might agree that the valuation actuary's opinion would be more useful and less dangerous to the valuation actuary.

Mr. Leckie states that someone should be accountable. I agree with that too, but why the valuation actuary? What has he done to deserve all of this? The real problem is bad management, bad products, and ridiculous pricing. The valuation actuary is the least culpable of all in this severe problem that faces the industry.

The expanded opinion solution appears to be an easy way out. We think that if we just have the valuation actuary sign the new opinion, then all will be well in the industry. That approach takes the opinion too lightly, almost naively. Professionals that are experienced in signing opinions, for instance, the accountants and lawyers, probably would not dream of signing such an opinion. We should take heed from those who are experienced in these affairs and resist the temptation to sign ourselves into potentially difficult predicaments.

MR. LECKIE: Mr. Avery, it was claimed, did a reasonably good job as a valuation actuary; I refute that. Mr. Avery did a terrible job; he was incompetent. He signed a statement, which had a surplus of less than 2 percent, in a situation where he knew the company could not satisfy its obligations under certain scenarios -- a statement where the assets, or at least some portion of the assets, were in a questionable, risky investment. I do not understand how, even under the present valuation opinion, Mr. Avery could have signed the opinion with anything but trepidation.

We have to require the valuation actuary to offset the type of management decision that could be called "you bet your company." That company had 19 million dollars of surplus, the amount at risk they laid on the line, in combination with untold millions from guarantee funds, policyholders, and other companies. On the other hand, all the gain goes to the company. That kind of gambling cannot be tolerated within our business. That is the kind of gambling that Baldwin-United did, and it is not fair to anyone except the people who are taking the gamble. In the case of a loss, it is a very small loss; in the case of a gain, it is a very large gain.

Such a statement as, "I didn't have time" is not an excuse. Such a statement as, "The guidelines were not specific enough" is not tolerable. None of us want guidelines to tell us what to do. We want guidelines to help us along the way -- to guide us. They should not be too specific. If they are, we become accountants.

I see some concerns, obviously, with the enhanced role. It is a problem for the small companies. We have to do everything we can to support the valuation actuary in the small company and to improve the techniques. There are problems in laying accountability on a valuation actuary. The actuary's accountability is to act as an agent, if you will -- an important agent within the company. This agent should be

someone who has contributed to the happenings within a company and who could have prevented some of the problems should they arise. The valuation actuary should be responsible for preventing some of these troubles, as well as reporting them.

This accountability can exist in the United States if we carefully structure it. No one is going to say that the valuation actuary is the only one to blame, but actuaries must accept some accountability. In so doing, we strengthen the management process in our companies and help make this business viable. If we don't, or if someone of our training does not, then I suspect that we are going to get bogged down in a complex regulatory environment. This regulation may not permit the industry to continue on as a viable, thriving business dealing with contingencies, judgments, and the kind of situations which call for some kind of professional judgment and responsibility.

MR. SHAPIRO: The issues that Mr. Leckie, Mr. Radcliffe, and Mr. Jenkins have addressed are complex and deep. Unfortunately, there is no perfect answer to them.

We are being urged to establish a process that we can live with over the long term. We are also urged to do something now, being sure that we do it in the "right way."

The public and the profession demand that we address these issues as effectively and as quickly as we can.