



SOCIETY OF ACTUARIES

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Section 7 Opinions

by Mark Rowley



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Soon small companies will no longer be allowed to file Section 7 opinions. Early indications are that 15 to 20 states will pass the new Actuarial Opinion and Memorandum Regulation (AOMR) in 2003 and that almost all of the remaining states will pass it in 2004. It would appear that almost all states will pass AOMR by 2004, since by that time it is expected to be an accreditation standard. (You may have heard that at the last NAIC meeting the new AOMR was adopted as a part of codification, and that this meant that the new AOMR was effective immediately. Apparently this isn't true, since the first paragraph of codification says that laws already on the books supersede what is in codification. In this case the old AOMR is still on the books, which allows Section 7 opinions. While a few states might interpret this differently, I don't think that many will.)

As you know, there was significant opposition to the elimination of Section 7. But the battle has been lost now so companies need to come to grips with how to get the work done. If the work isn't done, the result would be a qualified opinion from your CPA.

If you are in a company impacted by this (since your company has less than \$100 million of assets), it is critical that you identify soon how you are going to get this work done. According to the chair of the NAIC's Life and Health Actuarial Task Force (L&HATF), there are 831 companies with less than \$100 million of assets. The companies who will use a consultant to help them get this done should shop early; there may not be enough consultants to go around. If you shop now for a consultant, you

may get to choose; if you wait, you may not have this luxury.

As you talk to different consultants, ask them what other uses the asset adequacy model they build could have for managing your company. Many companies have found it useful to utilize their asset adequacy model to help improve:

- Profit projections
- Understanding sources of profit
- Understanding company risks.

There is another AOMR issue that could impact many companies. As you know, once AOMR is passed in your state of domicile and in the states most likely to have different laws, your effort to comply with state variations will be greatly diminished. You will only have to comply with your states laws, if your state is accredited by the NAIC.

There has been a recent proposal by some regulators to require a 300 percent RBC ratio to be able to enjoy these benefits. I am concerned that this proposal could reduce significantly the industry wide benefit of the domestic state opinion. Also, I don't understand the logic of requiring a 300 percent RBC ratio. The issue is whether the domestic state's laws are adequate. This is much better tested by the accreditation process, and not tested very well at all by an RBC ratio requirement.

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