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Content Manager

Robert W. Hrischenko
 Newsletter Editor
 GGY AXIS
 1021 Woodkirk Lane
 Stallings, N.C. 28104
 Phone: 416.250.2583
 Robert.Hrischenko@ggyaxis.com

SOA Staff

Jacque Kirkwood, Staff Editor
jkirkwood@soa.org
 Meg Weber, Staff Partner
mweber@soa.org
 Jill Leprich, Section Specialist
jleprich@soa.org
 Julissa Sweeney, Graphic Designer
jsweeney@soa.org

Chairperson's Corner Help Regulate or Be Regulated

By Joeff Williams



Joeff Williams, FSA, MAAA, is a consultant with Actuarial Management Resources, Inc. in Winston-Salem, N.C. He can be reached at jwilliams@actmanre.com.

"If you have ten thousand regulations you destroy all respect for the law."

—Winston Churchill

"A little government involvement is just as dangerous as a lot—because the first leads inevitably to the second."

—Harry Browne (1996 and 2000 nominee of the Libertarian Party for president of the United States)

This issue of *smalltalk* has several articles dealing with regulatory issues that impact insurance, and, in particular, smaller insurance companies. The insurance industry has always been a highly regulated industry. For many of us, the constant changes in the regulatory environment guarantee job security even in these difficult times. Two major regulatory issues, health care reform and financial regulatory reform, have been on the forefront of daily news stories.

Health Care Reform

As of the writing of this article, health care reform had just been enacted into law, yet there seems to be no end to the debate as we learn more about the implications of the new law. The American Academy of Actuaries (the Academy) has dedicated an entire section of its website to health care reform: http://www.actuary.org/issues/health_reform.asp. I would encourage you to visit this site regularly to see what activities the Academy is involved in to keep the public and legislators educated about the issues surrounding health care reform. The Health Section of the Society of Actuaries (SOA) has also

contributed greatly to the ongoing discussion of health care reform. They have presented several webcasts and worked on joint projects with both the SOA and the Academy to prepare reports dealing with specific issues in the health care reform debate.

Financial Regulatory Reform

After the financial crisis in 2008, the Academy formed a task force focused on educating and working with governmental bodies to help them understand the ramifications of any financial regulation reform. The ongoing challenge for this task force has been how to coordinate discussions and input when dealing with issues that change daily: financial crisis regulation, federal vs. state regulation of insurance and systemic risk regulation. Many volunteers have spent countless hours reading through proposed regulations and monitoring daily the myriad of congressional hearings that deal with how Congress wants to handle possible changes in financial regulation.

Both these issues have been very prominent in the national press, and one was the focus of the administration's agenda for most of the past year and a half. Actuaries have provided valuable nonpartisan insight into the workings of both these issues. These regulatory issues have major future ramifications for the whole insurance industry.

Recent Smaller Insurance Company Section Activities

The Smaller Insurance Company (SIC) Section of the SOA

conducted a membership survey at the end of 2009. Results from that survey are outlined in this issue. One topic that was mentioned frequently was the need for continuing education on regulatory issues. We work with smaller company actuaries to help them stay on top of the challenges of the regulatory environment. The section has had numerous articles in *smalltalk* and a variety of sessions at meetings dealing with the specific regulatory issue of principle-based approach (PBA) and what impact this will have on smaller insurance companies. This major regulatory change is still in the development stages, but progress is being made and change is inevitable. The amount of volunteer time that has been devoted to this is staggering by any measure.

This issue of *smalltalk* has an article that discusses some of the perceived shortcomings of principle-based capital and reserves. Members of the section have also been actively involved in helping guide some of the discussion around this new regulation. An important development in this area was a recent proposal by Katherine S. Campbell, FSA, MAAA, the Alaska Division of Insurance actuary, to simplify the exclusion approach for principle-based reserves (PBR) on certain product lines. The section worked quickly to disseminate this information to our membership in order to get their feedback to the Life and Health Actuarial Task Force (LHATF).

This issue also contains a regulatory article dealing with the recent adoption by the National Association of Insurance Commissioners (NAIC) of the Financial Reporting Model Regulation (the Model Audit Rule). Recently, I heard someone refer to this as “SOX for SAP.” The article discusses the ways in which this regulation will impact our membership.

As part of the Committee for Life Insurance Research (CLIR), the Smaller Insurance Company Section initiated a research project last year to look at the cost and effort required to implement a PBA. Along with the Product Development Section, Financial Reporting Section and Reinsurance Section, this survey, conducted by Towers Watson, should help companies evaluate the unique costs and additional resources necessary

to be ready for PBA. When the survey results become available, the section will inform the membership.

In the past year, our section cosponsored a webcast with the Financial Reporting Section that covered a variety of topics dealing specifically with year-end 2009 issues. Many of the topics were regulatory in nature and were timely to the needs of actuaries working in small company environments. We hope to make this an annual event to help actuaries be up-to-date with all the regulatory issues surrounding year-end work. We have also started sending out periodic blast e-mails updating our membership on current NAIC and LHATF regulatory issues and happenings.

Know What’s Happening on the Regulation Front

All this emphasizes how important it is for small insurance company actuaries to get involved in what is happening in Washington, their respective states and our own industry with regard to future regulation, so that our viewpoint is appreciated and understood. So often, the small insurance company actuary is left to figure out what regulation means and how it impacts his/her job instead of actually shaping regulation.

One thing I have come to appreciate since becoming a member of the Smaller Insurance Company Section Council is how many volunteers are active and sincerely concerned about what impact regulations have, and how we can communicate the smaller insurance company perspective in a constructive and pertinent manner. The quotes at the beginning of this article are not intended to argue for or against the merits of regulations, but to challenge us to consider the ways in which we as actuaries can actively participate in the regulatory process that will go on with or without our involvement.

I welcome your comments, your ideas and your involvement. Contact me at jwilliams@actmanre.com.

Enjoy the issue! ●

NEW REPORT:

COST OF IMPLEMENTING A PRINCIPLE-BASED FRAMEWORK FOR DETERMINING RESERVES AND CAPITAL SURVEY RESULTS

Review the results of a survey on life insurer perspectives and preparedness levels for implementing a principle-based framework for determining reserves and capital. Forty-eight companies participated in the study and offered insight into the stages of their planning, expected cost levels and concerns for implementing the new approach. The report also details additional observations Towers Watson obtained through follow-up interviews with some of the study participants.

View the report today at <http://www.soa.org/pbasurvey>.