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OUTLOOK FOR THE 90s – INCREASED RESPONSIBILITIES AND INCREASED LIABILITIES

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MS. DAPHNE D. BARTLETT: Events of recent days have made it clear that the scope of the work of the actuary could be broadened even within our traditional areas of expertise. Although it should have always been obvious, it's now become painfully clear, that solvency doesn't only depend on the accuracy of the calculation of the liabilities. There's an opportunity for us to follow in the footsteps of our British actuarial peers and become more involved in the asset side as well. Let's not let that opportunity pass. Someone who is very involved in both the asset and the liability side was supposed to be our keynote speaker. However, unfortunately, John Baily was taken quite ill, and his doctor advised him not to travel.

However, John put me in touch with some people. We have a good keynote presentation for you. John, however, is very good, and he needed two people to substitute for him. Representing the liability side, I would like to introduce Steve Hildenbrand, FSA. He's a partner and national director of Life Actuarial Services for Coopers & Lybrand. He's had 18 years in the life insurance industry, and prior to consulting, he was vice president and chief actuary for a small stock life insurance company. He now does life company consulting and primarily is involved with merger and acquisition analysis, financial reporting, strategic planning and product development.

On the asset side, I'd like to present Ken Koreyva, CPA. Ken is an audit partner with Coopers & Lybrand based in Philadelphia. He's a member of that company's national life insurance services group. He has 14 years of experience with Coopers, specializing in the insurance business including three years in the firm's accounting and SEC technical directorate in New York. His audit clients include insurance companies whose business lines touch all facets of the products, from traditional to second-to-die, as well as a significant number in the property and casualty business, in lines such as medical malpractice, and environmental liability. Ken is a member of the AICPA Task Force for rewriting the life insurance audit guide. On the asset side, I give you Ken Koreyva.

MR. KENNETH KOREYVA: I'd like to start with a little bit of background. In our case, we need two people to make up for one. John Baily asked Steve and I to hop on the plane yesterday. The fact that two of us are here reflects what our firm has done. We have been trying to break down the walls and break down the barriers. For 12 years, I was an audit partner involved in the accounting business. Accountants typically keep score. I was asked to join a life insurance services group, which is really a reflection of what our firm has seen, that we need to break down those walls, and be on the same team. So I'm a member of the life insurance services

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group and affectionately, inside the firm, I live with all the actuaries. We're both in the risk business. We both need to be on the same team.

Before I tell you a little bit about the state of the insurance business, I'll talk about medical malpractice. I don't know if many of you are aware, one of the leading causes of why people sue the medical profession is the lack of effective communication. Some people call that bedside manner. But it was interesting to see some of the statistics. It was not because of negligence. It was not because of a variety of other technical aspects, but the leading cause was poor communication. And I found that interesting, because that's no different than what is happening in our industry.

The state of the insurance industry is somewhat stormy. There are a lot of disturbances. The watchword today is "accountability." And the question is, "Who is accountable for this industry?"

And our response is, "We are." I found it interesting as a nonactuary, looking at all the things on your agenda for this meeting: expense management, commercial real estate, securitized assets, the independent audit process, financial management of diverse portfolios, and managing risk. And I hear some discussion about the nontraditional roles, so I see not only a broadening, but a joint proposition that we need to manage this business together.

Our agenda is somewhat shorter. We're going to give you a perspective of what's happening in the political arena and in the press and what's happening at the FASB, AICPA, NAIC and the SEC. We'll talk a little bit about what we think is the impact on us as accountants, as well as the actuaries, and then we'll follow that with some of our suggestions. We'll start with a little bit about the political arena and what's happening in the press, and I'll turn it over to Steve.

MR. STEPHEN G. HILDENBRAND: The reason why Ken brought me along is so I can translate what the actuaries are saying to the accountants. I say that in jest, but sometimes in many client situations, I'm brought in as a simultaneous translator, which I think is somewhat of an unfortunate commentary on the profession. However, I think communication is getting better and it behooves us to keep up what we do in terms of effective communications, because what we do is extremely important, especially what's going on right now in the insurance industry.

Unless you've been hiding under a rock someplace, many things are going on right now. Obviously in Washington, there's a tremendous amount of political activity and I'll throw out some names: Metzenbaum with respect to asset valuation; Brooks and solvency; Byron, Hollings and Nunn have scheduled hearings in the near future on these issues and related issues; Congressman Dingell is involved in industry issues; the Government Accounting Office (GAO) is looking into the NAIC. And then you cannot pick up the *Wall Street Journal* or any financial press or even the general media and miss what's going on right now in the industry with respect to solvency and some of the problems that are cropping up. This is happening shortly out on the West Coast and in New York as well. There is a tremendous amount of pressure on both the industry and the regulators to perform. And I guess the fact that we are primarily the industry is what Ken and I are going to talk about. There's tremendous amount of pressure to perform. I'm really interested more in Ken's perspective

because I think mine is more actuarial. His is from the accounting perspective, and I'm looking forward to Ken's comments on where, in his role as an auditor, primarily, and as an accountant and business advisor, he sees things going.

I've represented clients who worked with insurance departments and have actually worked for some insurance departments during the past 18 months or so, and it's very interesting to see the change in the climate that is taking place in the insurance departments. Basically, regulators are becoming very concerned on numerous fronts. Obviously, they have concerns about their own client companies, what's going on with them, how healthy are these companies. But the insurance department also are looking over their shoulders because they have Washington chasing after them. Their concern is that if something big were to go awry and it's not handled well by the regulators in combination with the industry, it's going to open the door for the federal government to jump in and perhaps all bets are off at that point in time.

Ken can talk a little bit about some of the regulatory issues and related matters.

MR. KOREYVA: One of the things that the industry is faced with is that it needs to raise capital. The regulatory body that somewhat regulates the capital markets is the SEC. And when the SEC makes noise, a lot of people listen because it has the authority to just impose rules. These are rules that all of us might take issue with and disagree with, but nonetheless, the SEC makes the rules for the capital markets.

The SEC's perspective is that it perceives abuses in the insurance industry. When it perceives abuses, it immediately takes steps to put a stopgap measure in. And it doesn't need a lot of due process. I think we've all started to see what happens in the insurance industry when the SEC starts to put in stopgap measures. During 1990, the SEC made a lot of noise that it wanted all financial institutions, including insurance companies, to hold assets at market value. A lot of the insurance companies say, this is unfair. It's only one side of the picture. It doesn't matter. The SEC wants to put everyone on the same playing field. So the argument that it's not really fair, or it's not conceptually appropriate, doesn't carry significant importance to the SEC.

In addition to looking at assets is the SEC is questioning why there are different sets of rules for different sets of companies. Many mutual life insurance companies file with the SEC, because they sponsor mutual funds. Keep in mind the SEC's role is to monitor the investment marketplace. So the issue at the SEC right now is GAAP for mutuals. And it's not GAAP disclosures, it's GAAP accounting. The regulatory process is still a self-regulatory process without federal government intervention. And the question is, How long can it stay like that? And the answer is, it'll stay that way if we step up to the plate. But at the same time, as Steve mentioned, we have to be somewhat concerned that there isn't, what I call, a perceived crisis that gets worse. The body that sets the rules in terms of accounting is the FASB. And the FASB attempts to have a comprehensive due process. It will float things through of a variety of mailings, and especially when it floats things that are somewhat negative as perceived by the investment or by the accounting community, it usually comes out in the form of a "Let's disclose what something might do."

And then after a while, that disclosure becomes sort of gospel, and then comes the accounting rule. That's the kind of process that the FASB is now sort of taken to, to float a lot of ideas that don't necessarily improve the financial position or results of operations of companies. The FASB is under intense criticism by its constituency, because it has, unfortunately, passed many rules recently that people don't understand how to implement. And although they are probably in all cases, conceptually appropriate – at least there is a consensus that they're conceptually appropriate – the accountants are having a hard time implementing them. That's the first issue. The second problem is that, even if you implement the rules and you get appropriate guidance, the readers don't understand them.

A couple of significant things happened at the FASB this year that impact the insurance industry. First, the FASB passed a statement that asked companies to disclose all of the arrangements that are not necessarily recorded on the balance sheet, calling them off-balance-sheet deals. Second, the FASB also wants a lot of disclosure about the risk inherent in your business, categorizing that risk in sort of a checklist, by looking down the balance sheet and looking inside an account, and asking questions of what's inside the account. So the pressure is on for more disclosure. Pick up any one of your annual reports and you'll see that the disclosures now far outweigh the first three or four pages of financial statements.

When the FASB passed the financial instruments disclosure rule, people scurried around asking, What does this all mean? Well the first exception to the rule was, it does not apply to insurance products. I believe the rationale was that the risk in the insurance products is addressed by the actuaries. Let's talk about some of the other risks. These are risks like reinsurance arrangements, sale leaseback deals, financial instruments in the form of hedges, swaps, option contracts, futures contracts and about a thousand other things. And then we come to the classical asset portfolios, and try to determine the risk inside a company's mortgage loan portfolio, in terms of concentration or types of assets that act as collateral. What's the profile in regard to real estate and other securities? What's the percentage of securities in one company or one industry, as it relates to the company surplus? How leveraged are you? How cushioned are you? And lastly, what are the levels of nonperforming assets that the investment people have modified?

That's the trend in terms of off-balance-sheet risk disclosures. Another thing we did this year at FASB was look at the liability side, and FASB floated, at least two or three years ago, the concept of accruing for retiree liabilities. It's a GAAP concept right now, at least on the accounting side. I don't think it's long before the statutory world takes hold of this concept and requires statutory scorekeeping.

Like most things, when you increase liabilities, you get a negative reaction, because people haven't kept score with that. The new rules that are somewhat negative in terms of depressed financial position and depressed operating results, are sort of used as convenient excuses. I can recall when IBM recently released its first quarter earnings. The headlines indicated that the reason IBM's earnings were significantly down was because of new accounting rules. This statement was followed by, "We have some business lines that aren't doing so well." But the accounting rules got the headlines.

In terms of market to market where the SEC has made a big push, the accounting profession has been successful in sort of trying to impose a due process. The AICPA stepped up to the plate, and said, "This is what we're going to pass in terms of a disclosure rule, as it relates only to debt securities." And I think if you asked anyone about debt securities or fixed-income-type instruments, most people would say it doesn't appear that difficult to compare what you're carrying on the books as compared to the market. But for many people, after they read the rule and went to their company and said, "Let's put a market value on these securities," -- it's not that simple. What happens when you have a portfolio of private placement securities for which there is no active market? What happens when you invest it in foreign-owned perpetual-type instruments that look like debt securities? Maybe they're equity securities. What happens when you have a whole bunch of different securities that have different attributes of different things? So even though when you looked at the rule, and it didn't appear that difficult, the implementation of it was not that simple. Meanwhile, the critics are out there waiting for all the insurance companies now to report to the public that their asset portfolios were significantly underwater. As an aside, some mutual life companies said that they didn't have to disclose any of this. The reason was because this is a GAAP concept and mutuals don't use GAAP.

With all that said, and given the fact that we live in a stormy arena, and with a lot of people out there who perceive a lot of different things about this industry, the reaction to this proposed rule only supports the views of people who are not educated about the insurance industry. The AICPA has an insurance companies committee that acts as sort of the liaison between the insurance industry and the FASB. And it tries to influence the FASB at least down the path that the insurance companies -- and the insurance companies are the constituency here -- believe are the appropriate accounting rules.

The AICPA has created a number of documents this year to help the accountants understand the risk in the life insurance business. So in essence, it is trying to educate the people who keep score, so that the users and the readers of the financial statements can understand them. The self-regulatory accounting process does not want audit failures, and the way to prevent them is to educate the people who are in this business. The rewriting of life insurance guides will bridge the actuarial profession and the accounting profession.

Turning to the statutory side, the NAIC is sort of the rulemaking body in the statutory world. It wants to be like the FASB. The FASB sets the rules and everybody follows them. But because, as you know, each state of domicile sets the rules, this is not easily accomplished. For anyone who has ever picked up a statutory financial statement and read the accountant's opinion, the first paragraph says what the accountants examine. The second paragraph attempts to describe in one paragraph, what an audit means, because it was perceived that people didn't understand what the audit meant or what the scope was. And then a third paragraph says, "The financial statements are fairly presented, in accordance with the rules that are either prescribed or permitted by the applicable state insurance department." And a lot of people have difficulty with that because, as many of you know, the rules are not the same. The NAIC has taken up this issue, the AICPA insurance committee is working with the NAIC, in trying to pass what they would call their version of FASB rules for all insurance companies in the statutory world. What that means is, that they're

trying to put everybody on the same playing field. But because of the political process and structure in this industry, the states are not going to necessarily just let that happen. So the proposal right now as it stands is that (and this is going to be continually addressed, argued, and changed in the next twelve months). Each company will have to account for its business in accordance with one set of rules. And those rules will be prescribed in a book called the *NAIC Accounting Policies and Procedures Manual.*

The proposal currently states that if a state has permitted you to use another accounting method or alternative method, you'll have to disclose all of those variations and differences in the footnotes. Just think about that for a second. The footnotes are twice or three times as long as the financial statements now. Just think about how we have to start describing what's prescribed and for those of you who have walked through some of these state insurance codes, it's not easy to determine what's prescribed. So then you fall into what's permitted? And we can't even agree on what's permitted. Is it permitted when you send a letter to a state insurance department that says, "Here is what we're doing, if you have a problem, write us back." We call that negative confirmation. And you hope you send it to the right address. So what we're trying to do in the statutory world, is put everybody on the same playing field.

The state insurance departments, just like the accountants, need to be educated. The state insurance departments function for the state and the consumer. Some recent newspaper articles have talked about the premium taxes that companies pay to states and compare the level of premium taxes to the operating budget of the state insurance department. So if the state insurance department needs to be educated, and it can't get the funds to put the proper resources in place, the only alternative it has to defend against criticism is to hire outside consultants to help the insurance department monitor the insurance business in its state.

Who is going to pay for that? The answer is, you and I. Every time there's a problem, the insurance departments can call in outside consultants and the company, which in effect, they're reviewing, pays the bill.

I've given you a little bit of where the FASB, SEC, AICPA, NAIC, and the state insurance departments are. We have a lot of regulatory players. Next up, the Actuarial Standards Board (ASB).

MR. HILDENBRAND: The title for this session is, "Increased Responsibilities and Increased Liabilities." The core of the issue is basically the financial well-being of life insurance companies, in particular, and what's our response to it. And when I say "our response," I mean we as actuaries. Regarding the ASB, I know that our accounting friends are very happy to see its existence and its growth. They still think it's got a fairly long way to go. However, let's focus in on one particular aspect of that, and that's the valuation actuary concept. And I think it's extremely appropriate at this point, and when I think of that, I think of basically three things – there's an opportunity, obviously, there's a tremendous responsibility; and along with the responsibility comes the liability. I don't think the latter two can be separated.

With respect to the opportunity, as Ken said, the time is now. We're in the position to take a holistic approach to the company and not just look at one side of the balance sheet, which we've historically done, and we've talked a lot about looking at the asset side as well. It's become evident to me, that in my last two-and-a-half years with an accounting firm, having to sit down with my accounting partners, and explain to them, when I say I'm giving an opinion on reserves, what the heck does that mean? And that gets back to the issue of communications. My accounting friends are very concerned about how and what we communicate in the reports that we give them. The responsibility aspect of the valuation actuary is that we are the best. We ought to be the best equipped to deal with the perspective, like Ken talks about, well we just did accounting or we took the pulse and we're alive today, but what about tomorrow? We have to be the best equipped to make a judgment, and that's what it's going to be, an assessment of what the prospective well-being of the company is. It's at the point right now, where it's our responsibility to step up and take that responsibility. Obviously, with that responsibility comes liability and a whole host of things will jump into your mind. One of which I think of was two weeks ago talking with the chief actuary, and he said, "I'm really concerned. Because at some point, I'm probably going to be appointed the valuation actuary of the company and I'm going to have to really test and take a look at the company from all aspects, and basically, deliver a report." And he's concerned about what the report is going to say, and what the reaction of his superiors is going to be, his senior management. I mean he's in a very interesting situation right now.

But the point is, and I know what the accountants want from us and really our audience, we've got to be clear in what we communicate. You can also think about valuation analysis and merger/acquisition situations. What are we really saying in those reports? What about in pricing? When we communicate to our marketing and to senior management and those people responsible in the financial areas of the company, what are we saying? What's our responsibility? How good are the assumptions that we're making, how credible are we? We have to be definitive in what we're saying, and I hope, when the valuation actuary concept is approved that we will be required to be very definitive. And you have to be willing to stand behind the work that you do, in that it's communicating clearly enough so that when it's delivered to somebody like the audit partner on the company, he can read it, understand it, and make his own judgments. And that's extremely important. We have to get the qualifications out of the way. In other words, we have to understand the whole picture.

It's at this point, I think, we, as a profession, have to take control of these matters. If we're not the right ones to do it, then really who is it? I mean, I just can't conceive of another segment of a profession that is able to do that.

The last point on that is our maintaining credibility. The type of job that you do with respect to looking at the entire company is going to determine what type of credibility we're going to have as a profession going forward. We hope, people are going to really do their homework, do their job, stand behind what they feel, be very realistic, consider all angles and our job will be done. We won't need anybody jumping in to take over and tell us how a company should be run and what shape the company is in.

Ken and I have had some discussions about this issue, and I'd like to get the accounting perspective: (1) What do you think of this valuation actuary concept? (2) How are you going to react to it? And you can even think of situations where the accountants say, "Well, you know, based on the current situation, the company looks good," and so on. But what happens if I walk up to him and give him a valuation actuary's report that says, "I have some strong concerns that the surplus that's being held today is not adequate? And here's why." Now what's he going to do? And what are the readers of this report going to do? So with that, let me turn it over to Ken.

MR. KOREYVA: Let me backstep just a second to put this into perspective, so that you understand my response to that question. When someone asks the question, "What are the oldest professions?" the accounting profession usually is one of the answers. And the accounting profession as a group always has looked backwards. You know, the classic case in the audit role was we add injury to the injured. So it's a backwards look. We base an opinion on what took place three or four months after the fact. To even accentuate that look backward, think about what the IRS does. It comes in years later, even after all the estimates are done, and the issues are settled, and then makes adjustments. So as a profession, looking forward is really what the actuary's business is from an accountant's perspective. And the probability of the event will happening is virgin territory to us.

Three or four or five years ago, the accountants came out with some rules on when someone asked you to give some comfort on prospective information -- what came out was not understandable. We couldn't understand what to do with it. What was clear was that any time you were asked to provide some kind of comfort on forward-looking information, you had to have it looked at by eight people. And each of those eight people had a different opinion. And what took place, at least in the accounting side, was every time someone looked at it, more caveats were added. So that there was no risk in case something didn't happen. We couldn't get sued. Or at least we'd be defensible in a lawsuit.

Well it got to the point when we did a report, at least from an accountant's perspective, and we were asked to provide comfort because somebody said the company needed comfort, we needed someone to take a look at it, who had some credentials, who knew something about what you're doing, and we did all this work. You present a bill that's a lot larger than people think it should be, and then you deliver the report that has a thousand caveats. It doesn't sit well. And that's why we need the valuation actuary. That's why the accountants need to be educated. We need the valuation actuary to help us with solvency. Our accountant's opinion basically says, right now, "We take a snapshot in time, and based on the rules of recognition, right or wrong, here's the financial position." That report also presumes that that company will be in business for at least 12 months. Look what's happened to the rating agencies. Look at what's happened to their credibility over the past two years. Look at how easy it is to take shots at rating agencies.

As an accountant and in rendering an opinion, the valuation actuary probably, in terms of the insurance business, ranks at the top in terms of helping the accounting profession stay educated on the risk looking forward. That's from the liability side. But in order to get to the liability side, you need the asset side. And what's

happening in the asset side, given today's environment, is that it's getting very complicated. And I need support to understand the complicated asset side. When you get into real estate, when you get into mortgage loans, when you get into a lot of different securities, I need help from people who specialize in that business.

I went to a seminar last week. It was an internal seminar. We brought in some real estate consultants. And if you've ever gone to a seminar where you listen to an economist, you'll walk away thinking, "Gee, I ought to sell everything and move to some island." But listening to the real estate consultants was interesting, because they had good news and they had bad news. They talked about what they believed would happen given demographics, business populations, and movement, etc. in certain geographic locations. They picked apart all the real estate assets, in terms of hotels and office buildings and apartment complexes and farms and resorts and gave their perspective on what will happen in those particular investments over the next five years. And it was very interesting because one of the things they talked about that caught my attention is office buildings, which comprise the majority of many insurance company mortgage loan portfolios. And they weren't too optimistic. That's the kind of information that we need to use in looking forward. So, the accountant's role has gotten a lot more complicated because of the level of education and support that the profession needs from people like the actuaries, real estate consultants, etc.

So we continually need to be educated and I use the accountants' reaction to prospective information as just an example of what we don't need from the actuarial profession. We need to be educated and understand what it is that you think. It's pretty tough to conclude, I think, in one paragraph, your opinion in looking forward on a company. From my perspective, I need to understand what it is that influences the number of possible results. So I look to Steve to explain to me the significant assumptions that an actuary has used in looking forward. So if I understand, then I can draw my own conclusions, based upon the body of knowledge that I have around me. So I don't really need an opinion, I just need to be educated.

What has our firm's response been to this? We tried to break down the walls by just thinking about our own organization. How integrated are the actuaries and the financial people? We've, at least internally, all tried to belong to the same family. As you know, the larger an organization gets, the wider the walls become sometimes. And the only way you counter that is you change and you make the organizational structure a little fluid. When we provide an audit opinion, we can't provide an audit opinion on an insurance company without having the concurrence of people like Steve, that says, "We agree on how you did the audit on those accounts that have to be actuarially determined." So he has to agree with my strategy. I also have to use technical specialists in the audit role. Plus, I have to understand a degree of materiality. And what are the risks and what are the lines of business that are more risky than others?

We also have to ensure that the training occurs, so that the actuary understands the role in an audit, and the accountant understands the role of the actuary. How many times, as an actuary, do you provide the comfort to the financial people on the liability side and whatever reserves, and I, as an accountant, ask the financial people, "Well,

why did this number change so drastically?" And you know what the common response is? "Ask the actuary."

That can't continue. We need to manage our risk, so if we can effectively communicate and understand each other, we will be positioned to effectively, what I would call, help the industry survive in the shark-infested waters.

MR. HILDENBRAND: In closing, life insurers as we know, make long-term commitments, and based on the nature of the business that they're in, it's essentially that they're promising to be around. How do they make good on that particular promise and what do they base that promise on? I mean right now what are those promises based on? It's basically like Ken said, a snapshot that as of right now, we seem to be okay. It's obvious that this is where we should come in as a profession. Actuaries should be the knowledgeable, authoritative and credible source upon which that promise is based. It is very appropriate for us to step up to the plate, keeping in mind who our audience is? And this goes back to effective, clear and concise communications. Our audience comprises the accountants, for whom I have a great appreciation of the predicament that they're in and what their needs are now, the regulators, obviously company management, stockholders, company owners, and last, and certainly not least, the policyholders.

MR. ARMAND M. DE PALO: I think your presentation was very well done. I'd like to add that there is another item beginning to have major importance that sits between the assets and liabilities, and it's called surplus. What is surplus and how it will function as a regulatory tool is beginning to grow as an issue. As many of you know, Moody's has come up with its own surplus formula, and the NAIC and New York state are trying to develop meaningful surplus formulas, but what does it mean when a company doesn't have enough surplus? Can the regulatory agencies bring the company into receivership or close monitoring? It's very hard for the courts to deal with the question. A company is in trouble. If it only has 5% surplus. Surplus must have another meaning, and where it's going, what it means, has to be addressed. I've seen some surplus formulas, especially the one used on audit by New York state, that while the general terms look reasonable, especially the C-4 item, and may be meaningful for one line of business, isn't applicable to all the lines of business and needs further work. So I'm saying that the actuary has to get involved with the surplus issue and explain what the surplus means. What does the confidence level mean and when is surplus adequate, and why isn't it adequate? I'd like you to expand on that if you have a few moments.

MR. HILDENBRAND: Let me start with that. Armand, that's a very good comment and one of the things that we did mention but it's underneath and you've seen from a number of states now, is what they're calling their risk-based capital, talking surplus, whatever you want to call it. And I agree with you; that's just one set of criteria that they're looking at. Just looking at that the same way you look at minimum capital and surplus requirements that the state says, it's $1.5 million or whatever and is that good or bad? Who knows? It gets back to the analysis, it seems to me, that has to be done by us, we hope. Given thorough analysis on your particular lines of business and the assets that the company has, is the level of surplus that we have appropriate and sufficient? I mean you're going to have to deal with these risk-based capital-type formulas, and let's say, the New York formula for your company creates a situation

where the regulators basically say you're undersurplused, what are you going to do about it? And it seems to me that if the valuation actuary concept has the credibility that it ought to and if we get moving with this, that's what you use to approach the insurance department or the regulatory agency or whoever is causing your problem, and sit down and explain to them why the amounts of surplus that you have are appropriate and you can support them.

MR. KOREYVA: Let me follow up with what Steve said. This is a double-edged sword. Because if you rank what's the most important in terms of your industry, as Steve mentioned, it's your promise to be around in the future. So it's the perception of this risk-adjusted capital idea which effectively can do you more harm than good. If you're perceived to have a higher risk than somebody else by a rating agency, that's reflected in a rating. And look what's happening in the market now, with people who buy products. Because they don't really understand the insurance industry to the degree that we all do, they rely on rating agencies. So your greatest risk in this is not in the accounting side or the financial report; it's the perception that it's going to leave on the audience. So as Steve said, you have to cater to your audience. The first process is to educate the audience and one of the groups to continually educate are the people who effectively rate you. That's where I think your greatest risk is. The accounting profession can deal with what I call risk-adjusted capital, if there is some formula and there are some standards. What happens in an accountant's report if there is some significant area of doubt? If there is some significant area of controversy? The accountants basically put in more disclosure so that the reader can at least understand that here's the opinion, but there's that "but" in the opinion. So the accounting profession can deal with that. It's the perception that it leaves, and unfortunately, part of the problem is it is because we're not on a level playing field. When the rules are set by individual states and you can't get the common ground right or wrong, then somebody is looking to say, "Well, give us the common denominator for which we can compare insurance companies." And right now, that common denominator seems to be the rating agencies.