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How is Your Management Quotient?

by Stephen N. Patzman

This article provides some insight into management reporting and documentation process of actuarial items done by actuaries. It will describe the type of reporting the chief actuary's (CA)[1] do to their management—whether board of directors, chairman, president or other senior management. Also, it will provide data on other responsibilities where an actuary provides actuarial certifications.

The data were developed from a survey sent to the CA as identified on the SOA data base. The survey was under the authority of the Committee on Life Insurance Financial Reporting (COLIFR) of the American Academy of Actuaries.

It was originally hoped that there would be adequate data to prepare a practice note for the actuary to utilize. However inadequate data was obtained for this to happen.[2] But the data gathered does provide some insight into what companies do and hopefully this will be an aid to you in the reporting done in your company by providing some insight of other companies.

This article is broken into three parts as to the CAs relationship: (1) To identifying the CA and the CAs relationship to the five certifying actuarial statements[3] in the statutory annual statement, (2) To identify the level of reporting the CA makes to management, and (3) To identify the level of reporting done by each of the five certifying actuary in the company knowing that many of the answers to the survey could be considered proprietary or confidential, the survey was developed to preserve that trust.

Thus the preparers were not privy to the company's name in part 2 and 3 and thus were not able to clarify any responses or comments provided in the survey. Since the purpose is to identify practices that companies use in management reporting, it was felt that actually knowing each company's response was not necessary and the information obtained from the surveys would provide meaningful results.

Part 1

This part of the survey was to obtain information about the CA and to identity the actuary responsible for certifying many of the actuarial certification in the annual statement. Besides identifying the CA, it identified the other individuals that have been appointed by the companies to perform various actuarial certifications. Part 1 provides a profile of the individual holding this job and a description of the information relevant to the actuarial standards of practice that management receive, and insight or the scope of the documentation.

The table below shows the cross section of responses by company size. More than 50% of the surveys were from companies with more than $3 billion in assets[4]. Even though large companies were over-weighted in the survey, there seems to be an adequate cross section of companies by size to get a feel of the reporting done.

Of the 66 responses to company size, a good cross-section by company size is as follows.

Asset Size (1996 Year End)	% of companies
less than $1.0 B**	27%
$1 - $10 B	46%
$10 B or more	27%
Total	100%

In addition, Part 1 found that 85% of the CAs had the title of Vice President or higher and that 91% were FSAs. Service in the CA post ranged from a few months to 18 years.

In Part 1, the CA was asked to identify the actuary in the company who performed the five actuarial certification.

Of the 66 CAs, 57 are the designated company signatory of the Jurat Page of the annual statement. This would indicate that this duty is not normally delegated away from the CA. In the companies where the CA did not sign, there was no clear indication by title who the signatory was. In all such cases the Jurat signer also signed the Actuarial Opinion and Memorandum (AOM) certification.

Fifty-four CAs had the responsibility of signing the AOM. Every one of these individuals also signed the Jurat page. In only three cases were the Jurat page and the AOM signed by different persons.

The next step was to find out how many CAs also signed state certification for the illustration actuary requirements. Nine companies indicated that they did not have to comply with the requirements. Of the remaining 57 companies, 14 of the illustration actuaries were the CA. In all cases, these CAs were in companies with less than $7 billion in assets. When not the CA, in almost all of the cases the company delegated this responsibility to a person whose title indicated he/she was a product actuary.

Next, we looked at the individuals who signed the certification associated with the interrogatory question 3 located between Exhibit 8 and 8A in the annual statement for interest sensitive products. Eight companies indicated that they did not have products requiring this certification. Of the remaining 58, 35 used CAs to sign this certification. Of the 17 non-CA signers, 12 also signed the illustration certification. This shows a tie back to the product actuary.

Last, the survey asked about the individual who signed the dividend certification associated with the annual statement's Schedule M. We found that 28 companies reported that this document did not apply. Of the remaining 38 companies, the CA signed 18 of the certifications. Of the remaining, half were the same individual who signed the illustration certification. Again a strong tie back to the product actuary.

From the above, we see that in general the CA of a company assumes a large portion of the additional responsibilities of certifying actuary. In addition, an actuary who has duties to sign the illustration certification will also have duties associated with interest sensitive product certification and /or dividend certification. In Part 3, more about the reporting responsibilities of these individuals will be investigated.

ASOP Excerpts

ASOP 1 - Redetermination (or determination) of Nonguaranteed charges & /or Benefits for Life insurance and annuity contracts
No explicit indication that a report need be presented to any particular individual or position (Sec. 6.1—"Whenever an actuary advises, an insurance company, … a written report should be *prepared* that documents the advice.")
7—Performing cash flow testing for Insurers
No explicit indication that a report need be presented to any particular individual or position (Sec. 6.2—"A written actuarial report is recommended as a means of documenting the assumptions, techniques, and conclusions reached when providing a professional recommendation or opinion.")
14—When to do cash flow testing for life and health insurance companies
No explicit indication that a report need be presented to any particular individual or position (Sec.1—"A written actuarial report is recommended as a means of documenting the assumptions, techniques, and conclusions reached when providing a professional recommendation or opinion.")
15—Dividend determination and illustration for participating Individual Life insurance policy and annuity contracts
No explicit indication that a report need be presented to any particular individual or position (Sec. 6.1—"Whenever an actuary advises, an insurance company on dividends, … a written report should be prepared that documents the advice.")
22—Statutory Statement of opinion based on asset adequacy analysis by appointed actuary for the life and health insurer
Sec 6.1—"The appointed actuary should provide annually to the board of directors of the company or the board's designee a statement of actuarial opinion … along with a supporting memorandum."
24—Compliance with NAIC Life Insurance Illustration Model Regulation
Sec 6.1—"The illustration actuary should certify annual, as required by the model, stating that the scales used in illustrating non-guaranteed elements are in compliance …"

Part 2

Part 2 was designed to gain insight into the reporting the CA does in complying with the six actuarial standards of practice (ASOP) (See sidebar). Each of the six identified ASoPs requires the actuary to provide some level of documentation or reporting. The CAs were asked to respond for their company about the depth and breadth of the CAs reporting to management as it relates to these six ASoPs. From the responses it is possible to get a feel as to what companies do relative to each of the ASoPs in reporting to various levels of management. It is up to the reader to determine if the actuary is fulfilling the requirements of the ASoP and to what level reporting is being done or needs to be done. It should be remembered that there is no correct amount of reporting, only reporting that meets your company's needs and makes you feel comfortable from a professional point of view.

Part 2 reports on company reporting at a macro level. In all cases below, we have reported the unaltered results from the survey. Since we did not have the ability to go back to the company for clarification, results should not be looked upon as definitive or conclusive.

For each of the ASOPs identified in the sidebar, the survey requested that the CA identify the level of reporting that was done to management defined as: Documentation to file, senior management, the president, the chairman, and the board of directors. For each of these levels of management, the CA was asked to identify the type of reporting done: Written only, oral only, written and oral, and not applicable. In addition, companies were asked about reporting to a parent. However, insufficient responses were received to be meaningful or reportable.

The table below provided the percentages of CAs indicating they report to the different levels of management.

The difference between 100% and the percentage shown reflects the companies that said this type of reporting was not done or was not applicable. In cases where reporting was not done, no reason for the omission was obtained. For example, since ASOP 15 applies only to participating products, about 35 % of the companies indicated that it did not apply to their reporting, presumably because they do not sell these products. For ASoP 24, about 15-25% indicated that as of summer 1997, this type of reporting was not done or did not apply, presumably because companies sell in states that had not enacted the illustration regulation or did not sell a product that fell under the regulation. It could be assumed that this percentage would now be higher as the number of states enacting the regulation has increased.

From the table, we see a falling off of the level of reporting at each level of higher authority. An exception is that there seems to be a higher level of reporting to the board of directors than to the chairman. Since the question was not specific as to what was desired, this may mean that the chairman hears the report for the first time when it is given to the board, rather than being individually briefed in order to determine if the board should be made aware.

From the results it appears that most companies are preparing documentation for each of the appropriate ASoPs for their files but that as the authority level increases, the reporting drops off. Since the survey did not delve into the reporting relationship if the president or chairman has delegated his or her authority to a lower reporting level, these percentages could be significantly inaccurate.

Part 3

This part of the survey was designated to obtain additional information about the

% Reporting to Management

ASOP	Documentation to file	Senior Management*	President	Chairman	Board of Directors
1	92%	83%	66%	50%	42%
7	97%	89%	80%	69%	72%
14	83%	75%	66%	56%	53%
15	63%	54%	52%	41%	47%
22	98%	92%	86%	79%	86%
24	82%	66%	65%	56%	61%

**** In the survey, "senior management" was not defined***

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type of reporting done to management. Only one part of the survey yielded a sufficient number of replies to provide meaningful results.

Although there were inadequate replies for the other four surveys, the data collected seems to indicate that similar conclusions could be reached.

Actuarial Opinion and Memorandum (AOM) Report as to the adequacy of reserves:

The results below will give you a flavor of what the survey collected. Since there is no correct answer or amount of reporting, the data provide a range of reporting done by the valuation actuary (VA) responsible for signing the AOM Report. A total of 61 companies provided complete or partial data for the survey.

Written Year-End Report:
The tabulation of the results shows that in 100% of VAs file a report for the work done. The VAs reported that the full report varies in length from less than 10 pages to as much as 600 pages. In general the majority of the reports were in the 30 to 100 page range. In about 25% of the cases, the VA also prepares an executive summary. While 40% of the time it was 1-2 pages long, most were 3 or more pages in length. The executive summary tended to be a summary of a much a longer report, usually over 40 pages.

Once the report has been prepared, it is communicated to management; in 80-90% of the companies, the VA presents this written report to senior management and to the president. About 40% of the time the report is an executive summary; in general, where the full report is passed on, the report tended to be less than 50 pages.

Each VA was asked about the level of interest in the report shown by management. Based on the VA's perception, it appears that the higher up the chain of authority, the more eyes glaze over. Only about 20% of chairmen have an understanding of the document, and rarely get involved in or provide guidance for the report. However, at the senior management and president levels there seems to be understanding, involvement, and the providing of guidance for the document.

Table of contents:
A number of VAs shared the table of contents of their AOM report. As expected, the topics, organization, and content of the AOM reports varied but all seemed to cover assets, investments, interest scenarios, liabilities and assumptions.

Oral Year-End Report:
At the senior management level, an oral presentation was given in about 75% of the companies. In general 50% of these reports were less than 15 minutes in length. Another 30% were in the 15-30 minute category. About 5% indicated that this oral report exceeded 1 hour.

Very similar percentages were indicated for the oral report to the president. However, only about 50% of the companies reported making oral reports to the chairman and the BOD. At these upper reaches, the report gets shorter in almost all cases and appears normally to be less than 30 minutes.

Regular Non Year-End Reporting:
About 20% of the VAs indicated that non year-end written reports were provided. However, in the range of 40% of the VAs reported they presented oral reports to senior management and the president during the year. Very few reports were made to the chairman or BOD on a regular basis.

"As needed" Non Year-End Reporting:
Here 70-75% of the time the VA indicated that reports were given to senior management and the president. In a high percentage of the cases, it was an executive summary. The reporting decreases to about 50% for the chairman and to about 35% for the BOD.

Along with the "as needed" reporting, the VA was asked about reporting of "bad news." About 90% indicated that they reported such matters to senior management. This number went down to about 75% reporting to the president. In the area of 60% of the chairmen and less than 50% of the BODs hear the "bad news" from the actuary.

Authority & Direct Access:
In over 90% of the time, the VA has authority to go directly to senior management in reporting results: About 85% to the president, about 60% to the Chairman and around 45% to the BOD.

Qualifications:
In virtually every case the VAs stated that they complied annually with the Academy's "Qualification Standards for Public Statement of Actuarial Opinion and Continuing Education." In addition, 75% of the VAs indicated that they rely upon another actuary to perform work for them in preparation for signing the certification and that 75% of these actuaries are members of the Academy. Even though these individuals are not required to meet the continuing education standards (because they are not signing the document to management), about 75% of the VAs require the individual to meet the continuing education requirements.

Understanding by management of the responsibilities of the reporting actuary:
A specific question was asked of the VAs as to the understanding and knowledge by management of the VA responsibilities. About 80-85% indicated that senior management and the president had been briefed on these responsibilities. In over half the companies, this had been done within the last 3 years. For the chairman and the BOD, similar but slightly lower percentages were seen.

Wrap up:
It is hoped that this report will be of use to the VA and others actuaries who have signing responsibility in the Annual Statement. Since there is no prescribed level of reporting, it will be up to you to determine if you are doing enough professionally. If you are not doing some of the things cited above, you might want to review the ASoPs once more to better understand your responsibilities.

This survey did not address those companies that use consulting actuaries to provide the above certifications. Maybe a few of the consulting actuaries who do this type of work might share some of their experiences on this subject.

If this article has raised questions as to the level of reporting that should be done in your company, write to the newsletter editor and propose that the Section do additional research on what companies are doing in specific situations.

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Footnotes

1) For convenience, this document uses CA interchangeable for the title of Chief Actuary or Corporate Actuary or the senior Actuarial officer completing the report (20% of the companies indicated there was no designated CA in the company).
2) The survey had multiple parts. A total of 86 or partial surveys were returned. Since some companies chose not to provide all of the information requested or not to complete all of the surveys, thus less than 86 companies provided usable data for all categories.
3) These five certifying signatures are signing the: 1) Statutory Annual Statement on the Jurat page as the actuary, 2) Actuarial Opinion and Memorandum Report, 3) Illustration Actuary certification, 4) Schedule M interrogatory certification, and 5) Interest sensitive product certification located between Exhibit 8 and 8A.
4) Approximately $3 billion of assets is the breaking point for the largest 100 life insurance companies.
5) 8 % of the companies were less than $500 million and are thus Section 7 companies relative to complying to the Actuarial Opinion and Memorandum regulations and laws.

News Flash! Keynote Speakers/Entertainment

Announced for SOA 50th Meeting

by Cecilia Green, SOA Director of Integrated Communication

Plan now to attend this special meeting, October 17-20, 1999, at the San Francisco Marriott, downtown at 55 Fourth Street. Call now to reserve your room for what is sure to be a sell out: 415/896-1600.

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- Outstanding speakers in a full range of continuing education sessions
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Registration fees are:

- Members of actuarial organizations worldwide:
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  $850 for late registration
- Nonmembers:
  $950 for early bird registration
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  $250 for early bird or late registration
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  Includes 3 continental breakfasts, opening and closing general sessions, Exhibit Hall, Monday evening reception, Gala dinner

These events are being supported by 50th Anniversary Sponsors at levels ranging from $50,000 to $5,000. Visit www.soa.org for details on becoming a sponsor.

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Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA- CREF)

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Canada Life Assurance Co.
Erie Family Life Insurance Co.
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