1994 VALUATION ACTUARY
SYMPOSIUM PROCEEDINGS

SESSION 18

Professional Standards and the Appointed Actuary

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PROFESSIONAL STANDARDS AND THE APPOINTED ACTUARY

MR. ALLAN W. RYAN: I will represent the consultant's viewpoint with respect to our subject: professional standards and the appointed actuary. The purpose of this session is to increase the awareness of the importance of professional standards, particularly with respect to the work of the appointed actuary (or more precisely, the valuation actuary in general). As a consulting actuary with Deloitte & Touche LLP, providing audit support and consulting services to the life insurance industry, my role is typically that of reviewing the work of others. The next speaker, Shirley Shao, vice president and assistant actuary of The Prudential Insurance Company, will discuss the valuation actuary process of a very large insurance company. Finally, Bob Dreyer, senior vice president and chief actuary of Erie Family Life, will speak as the appointed actuary of a smaller company. Bob is the outgoing Chairperson of the Smaller Insurance Company Section of the Society.

Bob and I are both members of the American Academy of Actuaries Committee on Professional Responsibility, which assisted in sponsoring this session. This committee, consistent with its mission to "promote within the profession knowledge of standards of conduct, qualification, and practice, and suggest ways and means for enforcement, compliance, and monitoring of the effectiveness of these standards," earlier in 1994 produced a questionnaire, which was distributed to chief actuaries (as listed in the directory of memberships) of all organizations with 20 or more actuaries.

This brief questionnaire dealt with whether companies had organized systems in place for promoting compliance with and awareness of standards, and for responding to drafts of standards, policies for review of actuarial work and documentation, and documentation of compliance with standards.

Perhaps not surprisingly, approximately 80% of insurance companies fairly consistently answered "no" to these questions (the percentage of "yes" answers did increase somewhat with size). For consulting firms, the "no" answers were

substantially less, approximately 40%, but still significant. This appears to indicate that there is substantial room for progress.

I believe that "all standards apply to all actuaries." While clearly for most of us, there are many areas of practice where we never will (and are not qualified to) work, the point is that, when an actuary provides professional services, he or she must follow the applicable standards.

Actuarial standards consist broadly of a code of professional conduct, qualification standards, and standards of practice. However, it is important that as professionals we realize that actuarial standards are only part of a "professional environment" that includes legal and regulatory constraints, standards of the actuary's employer, and those of other professions such as accounting, and that a narrow view should be avoided.

The code of professional conduct clearly applies to all work of all actuaries. Qualification standards help insure that we only provide services where we are qualified to do so. Standards of practice include those specifically designated as actuarial standards of practice, actuarial compliance guidelines, and those financial reporting recommendations and interpretative opinions that are still effective. Those standards of practice of particular importance to the appointed (valuation) actuary include the following:

- No. 5, Incurred Health Claim Liabilities
- No. 7, Performing Cash-Flow Testing for Insurers
- No. 11, The Treatment of Reinsurance Transactions in Life and Health Insurance Company Financial Statements
- No. 14, When to Do Cash-Flow Testing for Life and Health Insurance Companies
- No. 21, The Actuary's Responsibility to the Auditor

- No. 22, Statutory Statements of Opinion Based on Asset Adequacy Analysis by Appointed Actuaries for Life or Health Insurers

A particularly important guideline is No. 4, Statutory Statements of Opinion not Including an Asset Adequacy Analysis by Appointed Actuaries for Life or Health Insurers

Important financial reporting recommendations are:

- No. 7, Statement of Actuarial Opinion for Life Insurance Company Statutory Annual Statements
- Interpretations 7-A, 7-B, 7-C, 7-D

Important interpretative opinions are:

- No. 3, Professional Communications of Actuaries
- No. 4, Actuarial Principles and Practices

Increased awareness of standards should help alleviate what could be considered misconceptions concerning standards of practice, based on the questionnaire results discussed previously. For one, there is a tendency to look at standards as important (or at least more important) only to an actuary putting his signature on a public statement of actuarial opinion, or that standards are only important to consultants, who are more likely to have external clients. I do believe that consultants tend to be more aware of the importance of standards because of the environment they work in (particularly, as in my case, with a public accounting firm). As an example, my firm has issued formal guidance concerning the use of actuaries in audit situations, which makes specific reference to actuarial standards of practice, and this is a positive development with respect to the external recognition of our profession and standards.

PROFESSIONAL STANDARDS AND THE APPOINTED ACTUARY
A Large Company Perspective

MS. SHIRLEY HWEI-CHUNG SHAO: My comments will focus on two basic questions:

- How does the appointed actuary in a very large, multiline insurance company like the Prudential get to the point where he or she feels comfortable signing the statement of actuarial opinion?
- How does the appointed actuary make sure that appropriate standards of practice are being followed?

First, it might be helpful to explain some of the characteristics of Prudential's organization that make answering these two questions particularly challenging. Prudential is organized into about a dozen fairly autonomous business units, and eight of them sell and administer life, health, or annuity products that are covered by the appointed actuary's statement of actuarial opinion. Each of the eight business units have their own actuarial staffs, and none of these actuaries report directly to the company actuary, who is Prudential's appointed actuary. The business unit actuaries' responsibilities encompass basic valuation functions and asset adequacy testing for the various product lines they manage.

To make matters even more complicated, the business unit actuaries are located in several different geographic locations in Northern New Jersey, and also in our Canadian branch outside of Toronto. Each business unit has many different product lines, and the assets supporting those product lines are contained in several different asset segments in our general account and (in the case of our variable life and annuity products) in several different separate accounts. In some cases, business units share products, and product lines share asset segments.

A large number of people are involved in the process of valuing reserves and doing asset adequacy testing--probably between 75 and 100. In 1993, the appointed actuary's reserve opinion covered about $150 billion of reserves, if you include separate accounts.

So, mobilizing the forces to produce a final year-end reserve opinion is like mobilizing a small army.

We think that there are several keys to getting the job done. First is the general need for good coordination and communication. A large part of my role in the 1993 preparation of reserve exhibits and asset adequacy testing was to facilitate communication between the appointed actuary and the business unit actuaries and to help the business unit actuaries work with each other. Second, each person's role in the process had to be clearly defined. With so many people involved, it was critical to clarify who was going to do what and when. Third, we tried to document procedures and standards as much as possible. Finally -- and this was clearly the most critical part of our whole process -- we relied very heavily on professional, regulatory, and internal standards in all phases of the work.

Specifically, how did the appointed actuary and her staff view their roles? That can be summarized very briefly:

- Responsibility for overall coordination of the asset adequacy testing process, and the assembly of reserve information for the various annual statement exhibits.
- Review of all methods and assumptions used in the asset adequacy testing process and, of course, review of the results!
- Establishment of internal standards.
- Final responsibility for the statement of actuarial opinion and communication with internal management and Prudential's board of directors.

What did overall coordination entail?

First, we needed to agree with the business unit actuaries on who would test which products. Our goal was to do some kind of asset adequacy testing for 95% of Prudential's reserves and to test every significant block of business and make sure that nothing simply fell through the cracks. With the complexities of our organization structure, and the number of product lines that need to be tested, that was not a trivial problem.

As new people became involved in the asset adequacy testing process, we made sure that we called their attention to all of the relevant professional standards, to the continuing educational requirements of the Academy, and to lists of appropriate reference materials.

I will comment on the subject of reliances again later, but just a quick mention now. In some cases, the responsibility for the basic reserve calculations fell under one actuary's aegis, while the cash-flow testing was done by someone else. And all of the actuaries were relying on investment officers for asset cash flows. Drafting the appropriate reliance statements turned out to be a lot more complicated than we thought.

Another complication was that some of our asset segments support more than one line of business. We had to make absolutely sure that the same assets were not going to be used twice.

Finally, a schedule for each step of the process was drafted and reviewed by all of the business unit actuaries, and by our external auditors.

In addition to documenting the "who-what-when" issues, we, of course, had to pay attention to "how" the process of asset adequacy testing would be accomplished by the business unit actuaries. The appointed actuary reviewed both the methods and assumptions that would be used by the various business units and actuaries, and set standards for documenting the asset adequacy testing process and results. How did we go about doing that?

Basically, we reviewed these reference sources in conjunction with setting our internal standards:

- As mentioned earlier, we encouraged each actuary involved in the process to review the Academy's qualification standards and continuing education requirements. For those people who were not examined on asset adequacy testing, we reminded them of the need to obtain a memorandum from a qualified member and provided a sample of such a memorandum. We even suggested some of the study notes on the SOA syllabus that would be useful to review.
- We encouraged everyone to reread the actuarial standards of practice and the NAIC valuation guidelines.
- We combed through the standard valuation law and actuarial opinion and memorandum and New York Regulations 126 and 128, and compared the documentation of the previous year's asset adequacy testing to the requirements in the regulations.
- We encouraged everyone to review the practice notes published by the Financial Reporting Section. We also held meetings to discuss whether or not we needed to reexamine any of our methods in light of the unofficial guidelines in the practice notes.
- We reviewed surveys that had been conducted by one or two actuarial consulting firms, to see what practices were being used by other companies and how they compared to our practices.
- We looked at some of the Valuation Actuary Symposium materials, particularly model opinions, checklists of things to do, or things to watch out for.
- We met to review notes from the valuation actuary post mortem session, which was conducted to review the 1992 valuation actuary process.
- We discussed possible improvements in our procedures with our external auditors.

One very helpful exercise to prepare for our 1993 asset adequacy testing was to conduct an in-depth review of the methods and assumptions that had been used for the prior year's testing, and the quality of the documentation that had been produced to support

the appointed actuary's opinion. This review was conducted for all product lines. The appointed actuary and her staff then met with the business unit actuaries to discuss what changes should be considered for 1993 testing.

In particular, we agreed with the business units that common standards should be followed in the following areas:

- The "as of" date for asset adequacy testing. For 1992, some of our asset adequacy testing had been done using data from the prior year-end---that is, from December 31, 1991. We agreed that, at the very least, everyone should use September 30, 1993 data as the basis for our testing. In a few cases, the business unit actuaries actually used 12/31/93 data.
- We also asked the business unit actuaries to document, in advance, the types of analyses and tests that they would look at to ascertain whether or not anything significant had changed between 9/30 and 12/31 that may affect their confidence in the adequacy of their reserves.
- We also reviewed the treatment of the interest maintenance reserve and asset valuation reserve in the asset adequacy testing. In particular, we agreed upon a set of common default assumptions for various types of fixed-income assets that we felt would be sufficiently conservative. The business actuaries were free to adopt even more conservative assumptions if they wanted to.
- We also discussed the length of the projection period for each major product line, including some of the unique requirements under New York Regulation 126.
- All of the business units tested at least the seven basic interest rate scenarios defined in the actuarial opinion and memorandum, plus an inverted yield curve scenario. The shape of yield curve assumed for each interest rate scenario, and the spreads for different asset classes were centrally defined, so that we had a consistent set of interest rate assumptions being used.
- Fixed-income cash flows for all business units were generated by the same asset model, which is maintained by our investment area -- again, resulting in consistent methods. For equity investments, that is, real estate and common

stock, we agreed on some very simple (and we think very conservative) modeling assumptions.

- Finally, we all agreed on future assumptions for federal income tax rates, and for short-term borrowing rates if any of the tests generated temporary negative cash flows.

Other product-unique assumptions, such as, mortality rates, lapse rates, and expense rates, were also reviewed for reasonableness.

To establish standards for what should be included in the business unit memoranda, which were relied upon and included as a part of the appointed actuary's memorandum, we relied heavily on the requirements as outlined in the actuarial opinion and memorandum. The regulation is actually quite specific about the nature of the documentation that is required; the open question is what level of detail is necessary.

To assure that our documentation would be adequate, we provided detailed outlines of the expected contents of each business unit's memorandum for the products the units were responsible for testing. We included sample language for the nonproduct-specific portions of each memorandum -- again, drawn from the requirements of the actuarial opinion and memorandum. Of course, each business unit actuary was free to modify that language if it wasn't appropriate for the products he or she tested.

How did we decide on the right level of detail to ask for? That was up to the appointed actuary. In general, though, we didn't ask for large volumes of mortality, morbidity, lapse, or expense data to be included in the documentation. It was easier, and we think more meaningful, to describe the assumptions in conceptual terms.

The appointed actuary did impose one additional requirement that goes beyond the standard valuation law. That is, she required a business unit memorandum to include an opinion on the adequacy of the reserves for each major line of business. While we feel

that the appointed actuary's review of the methods, assumptions, and results of the asset adequacy testing was as thorough as possible, the fact is that the business unit actuaries are closer to their products and the assets that support them, so they should be willing and able to write a reserve opinion, too, as an additional control procedure. Of course, the appointed actuary could not rely on any of these internal actuarial opinions in her official statement of actuarial opinion.

While a lot of work was done up-front to discuss methods and assumptions for asset adequacy testing, the review process continued as the testing was performed. Checkpoints were established for "early warnings," and in fact, we identified one line of business for which our statutory reserves needed to be increased. Another round of reviews of methods and assumptions was conducted, particularly to discuss any changes from 1992 to 1993 testing. Finally, the actuarial memoranda that were written to support the statement of actuarial opinion went through two or three drafts before we felt that they were complete enough and clear enough to be understood by a qualified third party, such as a state regulator.

My comments so far have focused on the process of asset adequacy testing of Prudential's reserves. What about the basic reserve calculations themselves? The same organizational complexities exist here, because of the number of different actuaries in different business units who are responsible for different product lines. However, because we made virtually no reserve changes, 1993 was a fairly boring year for basic reserve calculations. The appointed actuary did conduct a spot review of methods and assumptions; in a more active year, she would also have discussed any proposed basis changes and communicated with the New Jersey Insurance Department.

For 1993, though, the primary dialogue involved changes in New Jersey's guidelines for aggregating reserves.

Another area of concern was making sure that Prudential was meeting the aggregate reserve requirement in all states that had passed the latest version of the standard valuation law. Verifying what the requirements are in each state and checking to assure if we met them for each major line of business turned out to be quite a bit of work. The appointed actuary asked each business unit to provide written documentation on its "this state" research and the manner in which the unit tested its reserves against these requirements.

Allan asked specifically that we comment on the issue of "reliances." As you might guess, Prudential's complicated organizational structure made identifying who was relying on whom and drafting the appropriate reliance statements a bigger project than we had guessed. Ultimately, the appointed actuary's staff provided sample reliance statements for everyone involved, and made sure that our documentation accurately reflected the reliances.

Why was this such a big project? In part, it was because everyone who was going to take responsibility for providing data or for providing cash flows took that responsibility very seriously. Actuaries writing asset adequacy memoranda sometimes relied on other actuaries for liability data. Actuaries relied on investment officers for general account fixed-income data, but not for assumptions about real estate or common stock cash flows -- and that had to be clarified in our documentation. Different investment officers were responsible for separate account versus general account asset data. And we had a whole different set of reliances for Canadian data.

We know now that it's very important to nail down all of the reliances very early in the process.

Another issue Allan asked us to comment on is what kind of opinion the appointed actuary wrote for those states that have not passed the new version of the standard

valuation law. Basically, Prudential used a Section-8-type opinion in all states in 1993, with three variations.

One variation was filed with New Jersey and the "new" standard valuation law states. This opinion said that the reserves and related actuarial items meet the requirements of the insurance law and regulation of the State of New Jersey, and, to the best of the actuary's knowledge, are at least as great as the minimum aggregate amounts required by the state in which this statement is filed. This wording reflected the fact that we engage in a very active dialogue with our state of domicile, New Jersey, on reserve issues and, therefore, we are very confident that we understand and meet New Jersey's requirements. The wording also reflects the fact that, while we conducted a due diligence review of the reserve requirements for all other states that have passed the new version of the standard valuation law, we have not engaged in such active dialogue with all of these states.

The second variation of the appointed actuary opinion reflects the fact that the state of New York has certain unique reserve and/or allocation of surplus requirements. We refer to these unique liabilities in the wording of the actuarial opinion.

Finally, we used a third version of the actuarial opinion in the remaining states that have not passed the new standard valuation law. This wording simply says that the reserves and related actuarial values "meet the requirements of the insurance law and regulation in the state of New Jersey."

Most of my remarks were oriented toward describing how Prudential organized its asset adequacy testing to meet the requirements of the new standard valuation law. We have been testing our single pay life and annuity products under New York Regulation 126, of course, for quite a few years. And, for calendar year 1993, New York had not adopted the new standard valuation law and actuarial opinion and memorandum.

Our goal was to make the testing of our annuity products as consistent as possible for both Regulation 126 and the standard valuation law, while continuing to meet the unique requirements of Regulation 126. Specifically, we used the same methods and assumptions to generate the asset and liability cash flows -- that is, the same basic interest rate scenarios, asset default assumptions, mortality and lapse rates, expense rates, and so on. In fact, it would be hard to explain why you wouldn't do that.

However, Regulation 126 does have some special requirements. For example, the time horizon for testing certain deferred annuities is ten years under Regulation 126; based on our experience with these products, we feel that these liabilities do stay in force longer than that, so we produced results at ten years for Regulation 126 and for 20 years for the standard valuation law testing. Regulation 126 also requires calculation of surplus using market value assumptions at various points in time, so we did that.

A major difference between New York Regulation 126 and the standard valuation law lies in the nature of the actuarial opinion that is required. Regulation 126 assumes that there may be a number of different qualified actuaries who are calculating, testing, and opining on the adequacy of reserves for different product lines. Therefore, each qualified actuary can write his or her own actuarial opinion on the reserves. The standard valuation law requires that one actuary, the company's appointed actuary, write the reserve opinion for all of the company's reserves and related actuarial items, without reliance on any other actuary's opinion -- a different philosophical approach.

Again, we provided a specified format to the business unit actuaries to follow as they documented the assumptions, methods, and results of their Regulation 126 testing--and their actuarial opinion on the adequacy of the reserves. We included sample language drawn from the regulation, which they were free to modify if the circumstances warranted. The company actuary (who is also Prudential's appointed actuary) wrote a coordinating memorandum to tie the separate actuarial opinions together, but did not write an opinion per se.

I hope that some of the processes I've just described on how we tried to define and follow professional standards for our 1993 asset adequacy testing will be useful to you in your companies. And perhaps, now, you feel better knowing that you were not alone in struggling with these requirements.

PROFESSIONAL STANDARDS AND THE APPOINTED ACTUARY

MR. ROBERT H. DREYER: As mentioned by Allan, this panel discussion is being sponsored by the American Academy of Actuaries' Committee on Professional Responsibility. The position of appointed actuary is a particularly important one from the committee's point of view, because its high level of visibility requires a commensurately high level of attention to our professional standards. Some of you may remember that Jim McGinnitie, the original Chairperson of the committee, addressed this group, during the luncheon at Saddlebrook in 1991. His presentation described the early activities of the committee and the perceived need for an increased awareness of professional responsibility and attention to our standards. The Valuation Actuary Symposium is one of several venues the committee uses to promote its objectives.

In keeping with its charge to increase the awareness and use of our professional standards, the committee developed a brief survey of appointed actuaries. The survey had two objectives: First, we wanted to gain a preliminary indication of how appointed actuaries view the applicability of our professional standards. Second, we wanted to provide a benchmark against which future progress might be measured. The greater the understanding and use of our professional standards, the more respect we will get from the regulators, legislators, and other publics with whom we must interact.

The survey was developed by the committee for initial exposure at this symposium, but the full committee has not yet seen the results. It will be on the agenda for our meeting next month, and a write-up of the committee's analysis will be submitted for publication in *The Actuarial Update.* For this presentation, however, any analytical comments or conclusions should be viewed as being solely mine.

The toughest challenge at any meeting is to be the last speaker, at the last session, on the last day. My problem is further compounded by the fact that my material

consists primarily of so-called dry statistics. Rather than having you squirm in your seats, I will "bottom-line" my presentation for you by talking about the last question first, and then going back to fill in the details.

To that end, question 7 in the survey, for those who did not receive it, was: "I Do/Do Not (circle one) maintain specific documentation of compliance with the Standards." Roughly one-half of the respondents said they documented their compliance with the standards. Before you judge this too harshly, note that the question asked "Did you document?" not "Did you comply?" But more on this later; let's go back to the start of my presentation.

As yet, no one has compiled a mailing list of appointed actuaries, a void that I hope the profession will soon fill. Therefore, the survey was addressed to the chief actuaries of life insurance companies in the U.S., with a request that it be passed on to their appointed actuary. Table 1 shows that 588 surveys were mailed, and of the 159 responses, 154 (26%) were useable, an excellent response. Of the other five, two were from property/casualty actuaries and three were blank. In addition, 62 respondents were kind enough to include a blind copy of their opinion letters. (Nothing has been done with these, as yet, but they should prove helpful to the committee in the future.)

The first question on the survey (see Table 2) dealt with the type of opinion letter that was filed. Some 108 (70%) of the responses indicated that they filed a Section 8 letter, and 35 (23%) checked Section 7, while only two continued to use the "old form." Of the other nine responses, six varied their letter according to each state's requirements, while three responses covered multiple companies in different situations.

TABLE 1

Survey Data

Questionnaires Mailed	588	
Responses Received	159	(27%)
Useable Responses	154	(26%)

(Of the 154 useable responses, 62 (40%) included one or more sample opinion letters)

TABLE 2

Type of Opinion Letter Filed

Section 7	35	(23%)
Section 8	108	(70%)
Old Form	2	(1%)
Multiple Response	9	(6%)
TOTALS	**154**	

The next question attempted to identify the distribution of companies by size. Unfortunately, our assumption that the appointed actuary would remember his or her own company's size category, in terms of the letter designations in the regulations, proved to be faulty. Of the 17 companies who responded size A, less than $50 million in assets, eight indicated they had to file a Section 8 opinion because of their size. It doesn't take a rocket scientist -- or even an actuary -- to figure out that most, if not all, of these respondents thought "A" was the largest category. Table 3 shows the answers as they were tallied. If we assume that those eight really should have checked D, the resulting distribution of 9, 18, 32, and 91 would appear to be more reasonable, although that may not be 100% reliable.

TABLE 3

Company Size

A	(< $20 Million Assets	17	(11%)
B	($20 Million ≤ Assets < $100 Million)	18	(11%)
C	($100 Million ≤ Assets < $500 Million	32	(21%)
D	(Assets ≤ $500 Million)	83	(54%)
Multiple Responses		3	(2%)
No Responses		1	(1%)
TOTAL		**154**	

As to why companies filed a Section 8 opinion, the reason given was "size" more than 80% of the time. The remaining data in Table 4 are all from companies smaller than size D. Of the "Other" responses, three did not indicate what their reason was, one is doing cash-flow testing as a matter of company policy, and one made a vague reference to Academy standards. Finally, five size C companies indicated that size was their only reason for filing a Section 8 opinion. Whether these five were companies that have to do cash-flow testing only every third year, or that they misinterpreted the size definition, could not be determined.

The next aspect to be investigated was the extent to which the appointed actuary expressed reliance on others. Some 131 responses indicated reliance on some other party, listing 277 different sources. Table 5 shows both the number and percentage for each response, allowing for multiple answers. Written responses referring to investment aspects other than just the data, were deducted from the "Other" category, and counted with the investment data answers. Consulting actuaries were mentioned in ten responses, so that has been added as a separate category. As you might expect, "in force" and "investments" were very heavily cited, being mentioned in 73% and 84% of the responses, respectively. "In-house actuaries" was a distant third, at 37%.

TABLE 4

Reasons for Section 8 Opinions

	Single Reason		Size Plus:	
Size Only	94	(82%)	N/A	
(a) Cap. + Surp.	3	(3%)	0	
(b) Annuities	4	(3%)	2	(2%)
(c) "Junk Bonds"	1	(1%)	*	†
Other	5	(4%)	2	(2%)
No Response	3	(3%)	N/A	
			114	

* *One (1) company responded: Size, (b), and (c)*

TABLE 5

Reliance on Others
(Part 1)

In-House Actuaries	49	37%
In-Force Data Sources	96	73
Investment Data & Policies	110	84
Reinsurance Actuaries	8	6
Consulting Actuaries	10	8
Other	4	3

* *131 Responses; multiple answers counted.*

I felt it might be instructive to see if these ratios would change if we looked at selected subsets of the original group of 131. Table 6 compares the original group with those that filed a Section 8 letter and those from size "D" companies. While small variations may not be statistically significant, the comparison suggests that the more refined the subset, the more reliance on other in-house actuaries. (Removing the five size "D" companies that did not file a Section 8 opinion would further increase this ratio, while not changing any of the others.) The other noticeable difference was that those actuaries filing a Section 8 opinion were more likely to express reliance on others for investment data than those who did not.

TABLE 6

Reliance on Others
(Part 2)

	A	B	C
In-House Actuaries	37%	41%	45%
In-Force Data Sources	73	73	69
Investment Data & Policies	84	92	88
Reinsurance Actuaries	6	3	5
Consulting Actuaries	8	9	8
Other	3	4	4

A: 131 Responses (Part 1)
B: 107 Section 8 Opinion Letters
C: 85 Size "D" Companies ($500 Million or more Assets)

Of these 131 responses, 106 (81%) indicated that they received and attached formal reliance letters in every case. (See Table 7.) Another 15 (12%) got them in some cases, while only seven did not seek and/or attach reliance letters, at all. While short of 100%, this suggests a very high compliance rate for this early in the development of the appointed actuary procedures.

TABLE 7

Reliance Letters

Obtained in all cases	106	81%
Obtained in some cases	15	12
Not obtained at all	7	5
No response	3	2
TOTAL	**131**	

(Excludes 23 companies not responding to the previous question.)

Table 8 deals with the form of the opinion letter. Some 101 (65%) used one or two specific sources in drafting their letter, while 50 (32%) indicated that they developed their own letter. Those who listed more than two sources were considered to have developed their own letter. If anyone in the audience received feedback on his or her letter from any of the regulators, it would be of interest to all of us, including the committee, if you could share your experience with us during the discussion period.

Moving on to Table 9, the most common model mentioned was the model regulations and/or the NAIC instructions, which appeared 61 times, or 54%. Eleven more mentioned the regulations of specific states, including three listing New York's Section 126, even though that was designed for annuities. The remaining responses were about evenly split between Donna Claire's sample that was presented at the 1993 symposium, consulting actuaries, and a group that failed to specify what model they used.

TABLE 8

Source of Opinion Letters

Followed a specific model letter	90	(59%)
Specified two models	11	(7%)
Developed own letter*	50	(32%)
No response	3	(2%)
TOTAL	**154**	

* *Includes any responses listing more than two sources.*

TABLE 9

Model Letters Used

Model Regulations and/or Instructions	61	(54%)
A Specific State's Regulations	11	(10%)
Valuation Actuary Symposium	13	(12%)
Consultants	11	(10%)
Unspecified	11	(10%)
All Others	5	(4%)
TOTAL	**112**	

Now we return to the last question and Table 10, the bottom line I gave you at the start. This is the question that has the most bearing on the work of the committee. We wanted to ask a question that would give us some idea of how much the appointed actuaries were aware of and followed the professional standards, but we wanted to do so in a nonthreatening way. We felt that, if we sounded like a watchdog about to blow the whistle, we would not get a meaningful response. The committee's objective is to improve the understanding of, and compliance with, the

standards. We do not want to be viewed as investigators or disciplinarians, because such an image would seriously hamper our attempts to fill the role assigned us.

TABLE 10

Documentation of Compliance

Do maintain specific records	76	(49%)
Do maintain specific records	76	(49%)
Do not maintain records	75	(49%)
No response	3	(2%)
TOTAL	112	

Our professional standards include both requirements of things that must be done and prohibitions against things to be avoided. They also provide for deviating from specific guidelines, if there is adequate justification and well-reasoned documentation. The standards provide numerous areas that we could have explored in a survey, and many questions that might have been asked. However, the broadest issue, the one that is impacted by everything else we do, seems to be documentation. So, instead of asking the appointed actuaries if they complied with the standards, we asked if they maintained documentation of their compliance with them.

As Table 10 shows, we have a virtual tie between those who did document and those who did not. The good news is that half of those surveyed not only complied with the standards, but also had the time to document their compliance, as required. The less good (but not necessarily bad) news is that the rest of the group did not say that it did not comply with the standards, merely that it did not document its compliance. I hope the actuaries in that group now have a better understanding about the importance of the documentation requirement and will find time to complete their documentation files before next year-end. If this is true, then our committee will have been at least partially successful in one aspect of its charge.

There was an interesting sidelight with regard to this last question. The roughly 50-50 split, between those who documented compliance and those who did not, was also observed in almost every subset of data I looked at. The data were broken down by type of opinion letter, size of company, reliance on outside investment assistance, and various combinations of the three. Even the super-select group of size D companies, filing a Section 8 opinion, relying on others for investment support, and using reliance letters in all instances, only showed a 37 to 34 edge for documentation over nondocumentation. The only subset I could find that showed a significant variation from relative equality was the size B companies, where those with documentation held an 11 to 6 edge. Perhaps, the less work needed, the more time available for documentation, but don't tell that to a smaller company actuary.

Speaking of smaller company actuaries, our original plan for this session was for me to make some comments on the concerns of small companies versus those of the large companies. My remarks will be very brief, because the survey provided more material than we had anticipated. Furthermore, a check of the preregistration list for this session showed that fewer than 20% of you are members of the Society's Smaller Insurance Company Section, and many of those attended a previous session on smaller company issues.

This leaves me with little to say other than to put in a plug for the Smaller Insurance Company Section. The section is trying to provide its members with some of the advantages that actuaries in larger companies have, such as research and information sources and the opportunity to interact with other actuaries. Keeping up with everything that is going on today is next to impossible without the ability to absorb the overhead created by a person or staff that has little or no production-oriented responsibility. This is a luxury that, at least at the actuarial level, few small- and medium-sized companies enjoy. By pooling our talents, section members hope to solve some of these problems and share the results.

Small does not have to be a function of numbers, and certainly is not limited to the one-man or one-man-plus-assistant department. If you want a number, however, consider *small* as having five or fewer members of the Society in your company or business unit. With that in mind, do you think you might be interested in the kind of sharing we are suggesting? I will venture a guess that many of the 80% of you who are not now members of the section could benefit from the kind of interchange our members are trying to achieve. Furthermore, many of you have something that you could contribute to the group, and those who contribute have found that they have multiplied their returns.