



SOCIETY OF ACTUARIES

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# Actuaries in regulation influencing future of industry

by Dwight K. Bartlett, III

Historically, actuarial service in state insurance regulatory agencies has not been a career option well-regarded by actuaries. The perception has been that insurance department actuaries were usually poorly qualified individuals with low ambition, who did very routine work, checking reserve calculations or reviewing policy form and rate filings. Furthermore, surveys from the American Academy of Actuaries' Committee on Actuarial Public Service have documented the low compensation of these actuaries compared with what the private sector offered.

These perceptions have always been exaggerated. Insurance departments have employed actuaries of great talent and enormous influence, beginning with Elizur Wright in the 19th century, and more recently exemplified by John Montgomery, retired chief actuary of the California Department of Insurance. Nevertheless, one must acknowledge some degree of validity in general perceptions.

The picture has changed dramatically over the last few years. The number of actuaries employed by state governments and their level of qualification has sharply increased, as evidenced in the following table that compares the profession's 1995 *Directory of Actuarial Memberships* to the SOA 1985 *Yearbook*.

What has made insurance department employment more attractive to actuaries? The Academy committee's survey shows diminished salary differentials between the private sector and state employment.

The National Association of Insurance Commissioners (NAIC) Accreditation Program to regulate the solvency condition of domestic insurance industries requires insurance companies to hire competent staff,

including actuaries, to receive accreditation. In Maryland, for example, I am free to offer competitive salaries to attract competent actuaries to the agency. I believe commissioners of other states have equal latitude.

## State Insurance Department Employment\*

	1985	1995
FSA	20	48
ASA	25	42
FCAS	**	18
ACAS	**	29

\* These numbers do not include MAAAs who are not members of the SOA or CAS.

\*\* figures not available, but 1985-1995 growth presumably comparable to FSA/ASA

Nevertheless, salary differentials still exist. Thus, one must look to the non-monetary rewards of public service. I believe those rewards were always there but have been enormously enhanced in the past few years for those who value the opportunity to influence significant public policy decisions. At the beginning of 1993, not one commissioner was an actuary. Currently, commissioners in Iowa, Maryland, Oklahoma, and Utah are actuaries. This does not count Bob Hunter, FCAS, recently departed Texas commissioner. Clearly, governors, legislatures, and the electorate are placing greater value on the skills actuaries offer in public policy debates.

Actuaries in state regulation have great influence on the following public policy issues:

- Because the federal government failed to undertake meaningful health care reform, the focus has returned to state initiatives. Model legislation has been adopted by the NAIC for small group and

individual policy reform. While many state regulatory actuaries have been involved in crafting these models, Tom Foley of the Florida Insurance Department has played a particularly prominent role.

- Development of risk based capital standards for insurers has involved substantive actuarial input. Models have now been adopted for life and health insurers and property and casualty insurers. Currently, a working group has completed its work in developing a model standard for health organizations with the help of an Academy committee. The NAIC's working group, of which I have been a member, has been chaired by Utah Commissioner Bob Wilcox.
- I am attempting to lead development of proposed reforms for the state-based life and health insurers guaranty association system. These proposals are outlined in my article in the January/February 1994 issue of *Contingencies*. The NAIC has recently charged its Insolvency (Ex5) Subcommittee with considering the need for reforms.
- The life and health and property and casualty actuarial task forces, comprised primarily of actuaries in state regulation, will have extensive agendas. The Life and Health Actuarial Task Force, for example, which John Montgomery and I co-chaired in 1994, completed work on major revisions to the model standard nonforfeiture law for annuity policies. It also will study the need for reform of the standard nonforfeiture law for life insurance policies in light of changes in product design, technology, and economic conditions since the Guertin legislation in the early 1940s.

The model regulation on life insurance policy illustrations is being rewritten by an NAIC group that Bob Wilcox chairs. This model regulation not only has enormous impact on how such products are marketed but also may affect their design.

This is only a small sampling of activities in which actuaries in state

regulation are participating, frequently in leadership positions. They undoubtedly have profound influence on what the insurance industry and its products will look like in the 21st century. I am proud to participate in a small way, but I am even prouder of the major contributions of my actuarial colleagues in state regulation.

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## Reexamination of SOA's Mission Statement

by Sam Gutterman

**A**n effective mission statement must drive both an organization's everyday activities and its policy directions. As a result, it is important to reexamine a mission statement periodically to ensure its continued vitality. For the past six months, the Society of Actuaries Committee on Planning has been reviewing the SOA's Mission Statement in light of current trends and possible future policy initiatives. I am seeking members' thoughts on the significant issues we are examining and the Mission Statement itself.

To provide perspective, here is our current Mission Statement:

The Society of Actuaries is an educational, research, and professional membership organization whose purposes are to promote high standards of competence and conduct between its members and to advance the state of actuarial science. Members of the Society of Actuaries, who currently practice primarily in life insurance, health and retirement systems, and investments in the United States and Canada, are skilled in evaluation of contingent events, in structuring models to describe and measure risk, and reporting the resulting implications. Representing its members, the Society of Actuaries is a part of the worldwide actuarial profession.

A few of the significant aspects we have been intensively examining include:

- **The role that the public interest should play in SOA activities.** To be a professional, an actuary should reflect the public interest in her or his work; this is properly an integral part of our Code of Professional Conduct. Much effort is directed at the promotion of professionalism and education of our members and our relevance to the public. As a 501 (c) (3) education organization, our U.S. income tax position assumes this emphasis. We are gradually beginning to place more emphasis on the importance of the public, as shown in part by our Actuarial Circles program and efforts at consumer education with a Social Security information piece. Should we emphasize or expand these efforts?
- **The growing internationalization of our membership.** For some Associateship exams, more than 11% of the candidates are residents outside North America, mostly concentrated in East and Southeast Asia. Even more surprising, more than 8% of some Fellowship exams are being taken at centers overseas. This is a natural trend that has occurred without any promotion by the SOA. At this point, we have not taken any action to support this growing minority of our membership. In addition, as our traditional fields of practice have become increasingly globalized, Canadian and U.S. members may find it relevant to be more aware of international issues and practices. Although providing the same level

of membership services in each country may not be necessary, we may need to give increased attention to our foreign members and students. Our current review of a revised examination system provides an opportunity to think beyond our historic geographical roots.

- **Increased efforts to expand the scope of employment for our profession beyond the traditional.** Many blue ribbon task forces over the last decade point us in the direction of expanding the scope of our profession's employment opportunities. Some believe that expansion opportunities may be limited within our traditional practice areas. Indeed, one objective in our new educational proposal is to broaden our practice horizon. References in our current Mission Statement to specific areas of practice, while not contradictory to expansion, may not be consistent with these efforts.

In an era of limited resources, we should be sure our organization's efforts are focused in the right direction. I welcome your ideas on these or related issues relevant to our organization. Please send your comments to my *Directory* address, to the SOA office, or through Actuaries Online (73462,27).

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