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A Letter from the Chairman...

# The Financial Reporting Actuary: A Play Maker

by John Bevacqua

**T**his being my first article as incoming chairperson of the Financial Reporting Section Council, I would like to begin by thanking Barry Shemin for his outstanding leadership of this group during the past year, as well as outgoing council members David Rogers and Jim Greaton for their extensive and important contributions to the section for the past three years. During my tenure on the section council, I have been amazed at the council's ability to consistently serve the section with a sustained level of enthusiasm and commitment. I look forward to working with the council, including newly elected council members Dan Kunesh, Tom Nace and Barbara Snyder, in what I am sure will be yet another outstanding year.

This has been an unprecedented year in the world of financial reporting and corporate governance. Accounting scandal after accounting scandal has rocked the corporate world, and we have seen the "Big Five" accounting firms become the "Final Four." As I have watched these events unfold, I have found myself renewing my professional vows to serve my clients and those that both directly and indirectly rely upon my work with the highest level of professionalism. It has been my observation that actuaries are well-versed in their ethical obligations, primarily to the members of the financial programs that they are responsible for managing — including members of defined benefit pension plans as well as policyholders of life insurance companies. This should not be too surprising, as our work has historically centered on the design and management of these programs to ensure that they operate in a financially sound manner, to the benefit of their members. However, the financial reporting actuary also has an obligation to investors and potential investors in the organizations that employ them or otherwise retain their services. The current environment highlights the importance of respecting the interests of these stakeholders, and the importance of serving this interest with the same level of professionalism that we have served policyholders. Therefore, such tasks as developing DAC amortization schedules and building actuarial appraisals — exercises that are a step removed from the interests of policyholders — must be performed with the same level of integrity as, say, reserving and pricing.

As regulators and other interested parties revisit how corporate America serves the interests of investors, a fundamental question that will be posed is whether investors are being provided with information that allows them to understand the financial condition, or change in financial condition, of a corporation. When I ponder this current state, it reminds me

of my days as an athlete when my football coach would ask "when the game is at stake, do you hope for a chance to make a play or do you hope that somehow someone else will make a play?" I often look at the financial reporting system within which our industry must operate and question whether the results reported by this system really communicate the financial state of a life insurance company to an end user. Recent breakdowns in the U.S. accounting model certainly confirm that it is not a perfect system, meaning that there is opportunity for improvement.

Who will "make the play" in this tumultuous world of financial reporting? Well, as I walk through the corridors of my employer and take notice of the black U.S. GAAP textbook on the shelves of my CPA colleagues (usually with numerous page markers protruding), it is clear to me that actuaries will need to step up and lead the way in developing information that will help investors better understand the financial condition of an insurance enterprise. Some specific opportunities that exist in the near term include:

**Evolving U.S. GAAP Standards:** The AICPA is currently addressing a number of GAAP issues relating to life insurance. A draft SOP on non-traditional long duration life insurance contracts was released earlier this year and, as of the writing of this article, is currently receiving comments. Other active working groups are assessing such issues as appropriate accounting for internal replacements and purchase accounting. Actuaries must play a significant role in these dialogues and continue to educate others about the underlying economics involved in these issues. Hopefully, this will help produce a result that will successfully communicate these economics to a reviewer of a financial statement.

**International Accounting Standards:** The International Accounting Standards Board has embraced a fair value model for reporting the financial performance of an insurance enterprise. This shift toward a prospective model will clearly result in an increased demand for actuaries, especially those knowledgeable in this area. Given today's climate, I cannot think of a more appropriate time to revisit the current U.S. GAAP financial reporting model, which should increase the likelihood that the IASB's model will become an accepted accounting model.

Will you "pass" on these opportunities, and hope someone else will make the play? I hope not. I encourage you to be heard and to take an active role in shaping the future financial reporting model for the U.S. life insurance industry — the investing public is depending upon it! ☒



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