SOCIETY OF ACTUARIES

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Editor's Corner

New Role for Actuaries:

The Regulatory Actuary

by Christopher Hause

Those of you who are familiar with these pages have noted that a large amount of activity in our industry is spent on compliance with regulatory activity. That is one of the reasons that we are dedicating a fair portion of this issue of NewsDirect to emerging regulation.

Bill Burfeind, of the Consumer Credit Insurance Association, gives us the industry position on the "predatory lending" issue that is emerging on a local, state and federal level. This is one of my favorite examples of a negatively charged moniker given to a movement, calling to mind a large voracious animal, preying on a much smaller and helpless victim. As usual, there are at least two sides to any issue. Bill continues his excellent service to our industry by presenting the credit insurer's point of view.

Rick Campbell, the Managing Partner of Mitchell, Williams, Selig, Gates & Woodyard, P. L. L. C. in Little Rock, provides us with a very concise history of the "Small Face Amount" activities at the NAIC level. This movement was formerly championed by a regulator who has left office, so it is very helpful and timely to get an idea of the current status and direction.

I, on the other hand, want to take this opportunity to jump on my soapbox about the amount of time (and my clients' money) that I personally spend helping companies comply with regulation. That volume of time does not even compare with the unreimbursed time and energy spent trying to keep abreast of emerging regulation, so that we are in a position to help. This time can be especially unproductive if the emerging issue fails to be enacted.

Many times I question regulators as to the intended target of certain regulation. For instance, making its way through the NAIC now is a revision to the Actuarial Opinion and Memorandum Regulation. This revision eliminates the small company exemption for Asset Adequacy Analysis.

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I believe that, as a minimum, a few things should be done with any "Section 7" actuarial opinion. The first is a reserve adequacy test. The second is an analysis of the assets backing the reserves. Comments should be recorded as to the quality, yield and liquidity. Other observations can be made with regard to the apparent investment strategy. This can be compared to the stated investment strategy for consistency. The last is a memorandum to management as to the emerging issues that may have an effect on their business. This includes regulatory, economic and risk-related issues.

Chris Hause

In the grand scheme, elimination of the "Section 7" probably will not lead to significantly more security for customers of small companies who are already doing sufficient analysis of reserve adequacy and cash flows. Is it correct to say that the increased requirements are not "aimed at my clients?" What is the benefit of this increased regulation?

I have heard it said that many a regulation is aimed at the lowest performers, the mavericks and renegades of our industry. These are the ones who offer deceptive and confusing contracts, do not establish proper reserves, and do not take time to properly insulate themselves against risk. This leaves the whole industry at risk of loss of credibility, integrity and viability. Therefore, I believe that corralling these mavericks is worth the many hours we spend complying with well-intended regulation.

In the final analysis, I believe it is largely an unappreciated role, that of protecting the insurance-buying public, that the fine men and women who regulate our industry have assumed. They protect our consumers from deception and the economic uncertainty of a failed company. These are things any of us would support. I also believe that we owe it to our companies and our consumers to help in this process, to make it as effective as possible.

I would love to visit more, but I have to go figure out my Triple-X X-factor Monte Carlo testing program. The darn thing says my reserves still aren't high enough.