



SOCIETY OF ACTUARIES

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Task force focuses on raising DFCA's visibility

Since the second edition of the *Dynamic Financial Condition Analysis Handbook* was released in May 1996, the SOA Task Force on the DFCA Handbook has been involved in several projects. Many have focused on increasing SOA members' awareness of DFCA and the information in the handbook. Following are some of the events and activities of the past year.

Action in Canada

In Canada, DFCA (called dynamic solvency testing [DST] in that country) is now required by law. An annual report of every company's DST analysis must be filed with Canada's Office of the Superintendent of Financial Institutions after it has been presented to the company's board of trustees. This new requirement appears to be well accepted by the industry and the actuarial profession. In 1998, property and casualty actuaries also will be required to carry out and report on DST studies. The government is considering extending this analysis to banks that are acquired by insurance companies.

In the United States

The American Academy of Actuaries' Task Force on Insurer Solvency is working with the NAIC to consider possible additional incentives to encourage companies to undertake DFCA. The emphasis has shifted from solvency to viability of the company. The SOA task force chairperson, James Reiskytl, has been working with the Academy task force on DFCA-related issues.

The SOA's DFCA Handbook task force has identified a number of potential incentives to encourage companies to do this analysis. These ideas will be shared with the Academy committee at its next meeting. They include:

- Credit on the risk factor RBC C-4 (miscellaneous business risks), which could reduce a company's capital requirements and free up assets
- Permission to continue providing a Section 7 opinion, saving the time and expense involved in doing the required cash flow tests

- Quadrennial rather than triennial exams by state insurance departments, saving insurers time and money
- Granting credits against guaranty fund assessments by the life and health insurance guaranty associations, reducing costs
- Working to communicate the value of DFCA to rating agencies, which might view companies using DFCA in a more positive light

The basic incentive for doing DFCA is always there: being a well-managed company. Any other incentives, such as those listed above, would just be "something extra" to encourage companies to commit the resources and time necessary to put a DFCA process into place.

SOA activities related to DFCA

Though a new paper version of the handbook will not be published in 1997, Chapter 1 has been updated. Both the new chapter and the entire handbook are available through Actuaries Online on CompuServe through October 1997. The second edition of the handbook incorporating the new opening chapter will become available through the SOA Web site (www.soa.org) this month. Updates to Chapter 2 and to the sample report in Appendix A are planned for later in 1997. They, too, will be available through Actuaries Online and the SOA Web site.

A session on DFCA at the 1996 SOA annual meeting in Orlando was well attended. Participants were given an update on U.S. and Canadian changes in this area. Also discussed was the latest research to develop techniques used in DFCA. A transcript of the session will be available on Actuaries Online and the SOA Web site in late June.

Activities for later this year include: articles on DFCA in various publications; Session 120 ("DFCA Update") at 8:30 a.m., October 29, at the SOA 1997 annual meeting in Washington, D.C.; and a November 14-15, 1997, seminar in Albuquerque, N.M. Participants at this seminar, through the use

of small groups and two case studies, will have a hands-on opportunity to do DFCA and to develop a recommended course of action for their companies' managers.

The task force welcomes your comments on the handbook and your ideas and reactions to the Academy and NAIC projects to encourage DFCA through incentives. Comments can be forwarded to Reiskytl at his *Directory* address or to Judy Strachan, education actuary, at the SOA office (e-mail: jstrachan@soa.org).

Copies of the *Dynamic Financial Condition Analysis Handbook*, published in a loose-leaf binder format for easy addition of updates, are available through Cathy Cimo in the SOA Books Department (phone: 847/706-3526; fax: 847/706-3599). The cost is \$40 for the complete handbook. Updates to the first edition cost \$15.

Forecast 2000

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policy issues should be considered as most important." "I'm heartened to see the development in direction," said Kurt von Schilling.

For updates on activities of Forecast 2000, see current issues of the Academy's *The Actuarial Update* and the April issue of *The Actuary*. They carry articles of actuarial contacts with legislators, regulators, and other organizations and report on monographs and studies of the issues. Although these articles do not always identify activities as part of "Forecast 2000," you can be confident that the work being reported is all part of meeting Forecast 2000 objectives.

Tony Spano, now retired from the American Council of Life Insurance, is the Society of Actuaries representative to the Forecast 2000 Advisory Group. He can be reached by e-mail at aspano3803@aol.com.