



SOCIETY OF ACTUARIES

Article from:

# The Actuary

February 1995 – Volume 29, No. 2

## Environmental liability (continued from page 3)

### Funding of environmental liabilities

Is it enough to identify, value, manage, and disclose environmental liabilities to the company's stakeholders and other interested groups? Does this relieve corporate directors and officers of personal liability?

If corporate directors would adopt programs involving externally held, professionally managed environmental liability funding, they can alleviate much of their concerns and those of officers, shareholders, creditors, environmental authorities, and the public. The segregated funds — an annual sum equal to the amortization payment required to fully fund the environmental liability over the estimated lifetime of the company — would cover the costs. An insurer could set up a specially designed deferred environmental liability policy, and premiums could be charged against operations as business expense. Under this scenario, the company is more likely to satisfy authorities that it has acted with "due diligence" if anyone brings allegations of negligence.

Engineers and environmental specialists would need to assist in applying actuarial technology to the management of environmental liabilities. Financial vehicles, probably insurance, also would be required, chosen after studying taxation and legal considerations. Trusts could be used, such as those set up for pension plans.

Actuarial technology is suited to the valuing, management, and funding of environmental liabilities and risks, borrowing on the experience of the actuarial profession in guiding the affairs of insurance companies and pension plans. The subject requires regulation by government in setting minimum and maximum criteria and by the actuarial profession in setting practice standards and guides to professional conduct.

### Standards of practice

By its nature, the management of environmental liabilities is likely to be the source of conflicts over standards: remediation standards, legal standards, and actuarial standards. Situations are bound to arise where funding proves to be inadequate, and legal action may follow.

Actuaries who practice in this field must be prepared to act with professional integrity and independence. They must be able to stand up to pressures from clients.

The process of setting actuarial standards in this area already has begun. The Canadian Institute of Actuaries has appointed a task force on environmental liabilities to define how actuaries can approach environmental liability valuations with skill, credibility, breadth, independence, and dedication. So far, only a few actuaries are aware of the scope of the challenges.

**Donald R. Anderson is a consulting actuary and president of D.R. Anderson Associates and Venture Link Management Corporation in Toronto. He is chairman of the Canadian Institute of Actuaries' Committee on Environmental Liabilities. He also is a director of the International Environmental Liability Management Association and the Canadian Industrial Innovation Centre/Waterloo.**



## Factuaries

*This is another in a series of profiles of members of the Society's Board of Governors.*

**Name:** Paul R. Fleischacker

**Current hometown:**  
New York City

**Current position and employer:** Vice president and chief actuary with Empire Blue Cross & Blue Shield

**Marital status:** Married

**Children's names and ages:** David, 29; Michael, 26; Melissa, 25; and Anita, 22

**Birthday:** July 15, 1942

**Birthplace:** Des Moines, Iowa

**My first job was:** Soda jerk (some still think I am)

**With experience, I've learned:** Being an actuary is better (sometimes) than being a soda jerk

**I completed my FSA in:** Five years

**The movie I'd most like to own the tape of:** *Top Gun*

**The TV show(s) I stay home to watch:** None

**When I'm feeling sorry for myself, I:** Work crossword puzzles

**If I could do anything, I'd:** Be a star basketball player

**I care most about:** Susan, my wife, and my four children

**My favorite way to spend a Sunday:** Work crossword puzzles, watch the football games, and stroll the streets of New York with my wife

**My proudest actuarial moment:** Passing all the actuarial exams and being elected to the Board of Governors