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Results of U.S. Appointed Actuaries survey

by Maria Thomson and Donna Claire

The new Appointed Actuary (AA) requirements were in place for U.S. life insurance companies in 1992. Much work needs to be done to develop a body of knowledge and standard practices that will make the AA Opinion consistently meaningful.

To help with this work, the American Academy of Actuaries Committee on Life Insurance Financial Reporting and the Society of Actuaries Financial Reporting Section surveyed Appointed Actuaries on:

- The usefulness and practicality of current literature, guidelines, and regulations
- Areas where AAs would most profit from additional research and guidance (such as that provided by Practice Notes)
- Practices employed in 1993

Committee and Section members Donna Claire, Doug Doll, Henry Siegel, and Maria Thomson prepared a survey with two parts. Part 1 asked actuaries to evaluate the major documents intended to guide valuation actuaries. Part 2 asked questions on the practices actuaries followed to reach their reserve Opinion.

Surveys were sent to about 650 U.S. companies in March 1992. Responses were received from 141 actuaries, with some representing more than one insurance company. The authors presented preliminary results at the "Postmortem on 1992 Reserve Adequacy Analysis" seminar sponsored by the SOA on June 3-4, 1993.

This article gives a summary of the final survey results for Part 1. A future issue of *The Actuary* will include results of Part 2. The articles also will include information gathered at the seminar and how this information has been used to date.

Chart 1
Model Regulation and Actuarial Opinion
Rankings of Multiple Choice Results

	Usefulness	Familiarity	Clarity
Section 8. Opinion Based on Asset Adequacy	1	2	1
Section 9. Memo Including Asset Adequacy	2	4	3
Section 6c. Exemption Eligibility	3	1	2
Section 10. Additional Considerations	4	5	5
Section 7. Opinion Not Including Asset Adequacy	5	3	4

As shown in Chart 1, actuaries were far more familiar with Sections 8 and 9 of the Actuarial Opinion and Memorandum Regulation than they were with Sections 7 and 10. Not surprisingly, their assessment of the usefulness (this probably translates to applicability) of the various sections correlates somewhat with their familiarity with the sections. The unfamiliarity with Section 7 ties in with the fact that only about 30 of the responses received were from actuaries who represented exempt companies. The regulators at the June semi-

nar believed this distribution of responses may have been representative of the general population of companies.

At the time this survey was taken, Section 10 still referred to the MSVR, which led to several negative comments on clarity. This problem has been corrected by the NAIC.

Regarding Section 6.c., four actuaries believed there should be no exemptions, and five believed there should be additional exemptions. On Section 7, only one actuary mentioned that the requirement to provide each state with the date the commissioner was notified of the actuary's appointment should be eliminated. However, in Part 2 of the survey, most actuaries said they are not complying with this requirement.

Six actuaries requested that sample or standard Opinion and Memorandum formats be provided.

Chart 2
SOA Publications
Rankings of Multiple Choice Results

Publication	Familiarity	Clarity	Usefulness
ASOP 14	1	4	3
ASOP 7	2	2	4
Draft ASOP (Opinions)	3	3	2
Role of Appointed Actuary pamphlet	4	1	5
Life & Health Valuation Law Manual	5	5	1

It is interesting that in Chart 2 the respondents were least familiar with the *Life & Health Valuation Law Manual* and rated it last for clarity, yet it got the top rating for usefulness. All the comments on this document related to ways to make it even more useful.

The draft ASOP re Opinions (now ASOP #22) generated considerable comment. A partial summary follows:

- What constitutes reserve adequacy, and what is considered passing for a test? (Most of the comments related to this.)
- Relationship between reserves and surplus
- Materiality
- Interim results

The final document does not address the issues raised, so they will have to be addressed in other ways (see the response to suggested new Practice Notes in Chart 5).

The full title of the pamphlet referred to in Chart 2 is *The Role of the Appointed Actuary in the United States for Life Insurers in 1992*. This was prepared by the AAA and SOA as "a communication piece for use by the actuary with insurer management and its board."

Chart 3 provides the distribution of responses to more detailed questions about this document. These questions were directed at statements in the pamphlet considered potentially controversial or problematic.

Chart 3
SOA Publications
Role of Appointed Actuary Pamphlet Responses

Statement in Pamphlet	Appropriateness					Have Met Impediments to Compliance?			Comments
	Very			Not Very		Have	Will	Won't	
1. The AA has duty to be continually aware of adequacy of reserves & to advise mgt. of concern	83.1%	13.2	3.7	0.0	0.0	15.4%	33.1	51.5	Impediment is difficulty of obtaining asset data from others
2. Mgt. are AA's principal, and must allow AA access so that he can present advice	69.1%	23.5	4.4	1.5	1.5	15.8%	31.6	52.6	Impediment is that Directors not always involved in co.'s affairs
3. AA advises mgt. of effects of their actions re reserve adaq. & would be consulted on significant proposals	65.4%	26.5	5.9	2.2	0.0	23.0%	47.4	29.6	
4. If disagreement (with mgt.), the profession or the regulators might be approached for assistance	38.2%	23.5	22.1	8.1	8.1	4.6%	40.0	55.4	As part of mgt., it's wrong to make actuary quasi-regulator. Actuary must accept some, but not all of responsibility
Overall									If AA ever opines on total assets, i.e. on reserves & surplus, impediments will get much larger

More than 90% of the respondents believed the first three statements listed in Chart 3 were appropriate in defining the role of the Appointed Actuary. Unfortunately, almost 50% have met or expect to meet impediments in applying the first two assertions. A disturbing 70% have or expect to meet impediments in applying the third assertion. In other words, Appointed Actuaries are not close to top management or a part of the top management team in most companies.

Only 62% of the respondents believed the fourth statement was appropriate. There was only one comment (shown in Chart 3), but it probably expresses the sentiments of many.

Chart 4 shows a good correlation across the board on responses to the familiarity, clarity, and usefulness questions.

Chart 5 shows the level of interest in suggested new Practice Notes.

Chart 4
Practice Notes
Rankings of Multiple Choice Results (Current Notes)

Practice Note	Familiarity	Clarity	Usefulness
• Wording for Opinions	1	1	1
• General Considerations	2	2	2
• Accepting or Resigning Position as App. Act.	3	1	3
• Reliance Upon 3rd Parties	4	3	5
• Use of AVR/IMR	4	5	4
• Interest Rate Models	5	4	6
• Modeling Bond Default	6	6	7
• Alternative Methods of Testing	7	9	10
• Modeling CMOs	8	8	9
• Modeling Mortgage & Real Estate C-1 Risk	9	7	8
• Issues Involving Structured Settlements	10	10	11
• Issues for Single Prem. Group Annuities	11	11	12

Chart 5
Practice Notes

Those Who Indicated Strong Interest (1 or 2 interest level)
In Suggested New Notes

Suggested Note	# of Responses
• Aggregating Results & Forming Opinions	122
• Reinsurance	85
• Health Insurance	78

Chart 6 shows the greatest area of interest in new Practice Notes or research in asset modeling and behavior. Current Practice Notes on these topics got very poor ratings.

Chart 6
Suggestions for New Practice Notes/Research

Suggestions	# Requesting
• Modeling misc. assets & research on asset behavior	19
• Dynamic formulas (lapse, loan)	7
• Sensitivity testing (what, how many)	7
• Health: Details on each product type	6
• Expenses, overhead, taxes	5
• Misc. balance sheet (shareholder div., holding co. debt, voluntary reserves)	5
• Show cash flow test examples from beginning to end	5
• Par insurance/reflection of non-guar. element practice in testing	4
• Variable products (testing, guaranteed funds)	4

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