

MINUTES
CAS BOARD OF DIRECTORS TELEPHONE CONFERENCE
JANUARY 9, 2002

Present

Board Members: Phillip Ben-Zvi, Ralph Blanchard, Amy Bouska, Stephen D'Arcy, Gary Dean, Janet Fagan, David Hartman, Frederick Kist, Michael Miller, Janet Nelson, Deborah Rosenberg, and Susan Witcraft

Immediate Past President: Patrick Grannan

President: Robert Conger

President-Elect: Gail Ross

Executive Director, Cynthia Ziegler; Assistant Secretary-Board of Directors, Joanne Spalla

Vice Presidents: LeRoy Boison, and Gary Josephson.

Vice Presidents Not Present: Chris Carlson, Mary Frances Miller, Roger Schultz, and Sheldon Rosenberg.

Other Attendees: Michael Boa – Manager, Communications and Research, CAS staff; Todd Rodgers – Manager, Finance and Administration, CAS staff

Pat Grannan called the meeting to order at 9:05 a.m. (Eastern) on Wednesday January 9, 2002.

1. IAA PUBLIC STATEMENT RE “THE ROLE OF THE ACTUARY IN PRUDENTIAL SUPERVISION OF INSURANCE COMPANIES”

The CAS has been asked to vote on release of an IAA public statement on “The Role of the Actuary in Prudential Supervision of Insurance Companies.” The IAA Committee on Insurance Regulation prepared the paper. Dave Hartman is Vice-Chair of this IAA Committee. The CAS VP-International, LeRoy Boison, and VP-Research & Development, Gary Josephson, have coordinated a review of the IAA document. The IAA deadline for voting is January 11, 2002.

The EC discussed the paper at its December meeting, and decided to elicit the input of representatives from the Committees on Ratemaking, Reserving, Valuation, Finance and Investments, and the Casualty Actuaries in Regulation. In general, while the reviewers supported the articulation of the actuary’s role in regulation/supervision, the general conclusion was that the paper goes too far in placing too much responsibility in the “whistleblower” role that is identified for the actuary.

In an EC teleconference held January 7, 2002 to discuss the statement, an EC member suggested that a more fundamental question for the Board to consider is whether the CAS should support a paper of this nature from the IAA. The EC concluded that the CAS should support a paper of this nature. The paper would provide a model for emerging insurance markets that would identify the role of the actuary as a regulatory framework is developed. However, the EC concluded that the CAS could not support the paper as written, but that the CAS should support the objective of articulating the actuary’s role and offer CAS support and involvement on subsequent drafts. The EC provided suggestions as to how the paper might be redrafted to be acceptable to the CAS.

Dave Hartman provided a history of the drafting of the document and added that the AAA Committee on International Issues provided input. Dave Hartman noted that this document differs from other public statements that have come before the CAS Board, as this document is a work-in-progress on which the CAS Board can provide input. Dave Hartman said the primary purpose of the paper is to provide internal direction to the IAA; it is not intended to be a public statement. However, the document would be public information. It was also noted that actuaries in other countries do not unanimously support this paper.

Gary Josephson described the process the EC used to evaluate the IAA public statement. A Board member questioned whether the terms “supervision” and “regulation” were synonymous in the document. Ralph Blanchard replied that the terms are used synonymously overseas.

Dave Hartman noted that in several countries, such as Canada and the U. K., actuaries have more direct responsibility to the public than in the U.S. A Board member asked whether this responsibility is a fiduciary duty, which would imply a higher duty than the standard to which management is held. It was also noted that in these countries, the actuary’s duty is related to solvency regulation rather than market conduct. It was also noted that Canada requires the actuary to perform dynamic capital adequacy testing.

There was further discussion about whether the CAS should recommend that the IAA seek consensus on the actuary’s role from IAA members.

There was a motion that the CAS supports the concept of a paper outlining the actuary’s role in the prudential supervision of insurance companies, to the extent that consensus on this role is achievable among IAA members. It was seconded and approved unanimously.

The Board then discussed releasing the current version of the paper. Board members expressed concerns about the actuary’s role as a “whistle blower.” It was felt that it is necessary to recognize that the U. S. legal system differs from other countries. It was noted that it is important to distinguish between the actuary being involved in areas of company management and being responsible for company behavior. It was also noted that it is difficult to define “market conduct” responsibility. There were also concerns about the competency of some actuaries to perform a “market conduct” role.

The following motion was made:

The CAS votes “No” with respect to releasing the current version of the paper. The CAS supports the enhanced involvement of the actuary in the management of the company, and also in providing information to regulators to assist them in the prudential supervision of insurance companies. However, we believe the paper goes too far: it places too much responsibility on the actuary as an individual rather than as a member of a management team (or as a consultant to that management team); it describes roles that are not consistent with the cultural, legal, and regulatory environments in the United States; and in some respects it goes beyond the current competency of some actuaries. Specifically, while the actuary’s *involvement* in market conduct issues would be constructive, we do not believe the actuary can hold the ultimate *responsibility* for a company’s market conduct. And, when the actuary is not able to satisfy concerns that the company is not acting in the best interests of the policyholders or claimants, the requirement that the actuary contact the relevant authorities changes the actuary’s relationship to the company, may circumvent the actuary’s obligation to his/her employer/client, and could pose a conflict of interest.

The motion was seconded and approved unanimously.

The Board then discussed modifications to the paper.

There was a motion to include the suggested modifications developed by the EC and the following statement in the CAS response to the IAA:

The CAS has formulated several comments regarding modifications to the paper, and we are pleased to share these comments with the IAA and other interested parties. These comments are attached.

The motion was seconded and approved unanimously.

The Board directed Gary Josephson, Bob Conger, and Leroy Boison to finalize and submit the CAS comments to the IAA, based on the input provided by the Board in its discussion.

There was a motion that the CAS response state that “the CAS is willing and prepared to participate in the development and discussion of subsequent drafts of the paper.”

The motion was seconded and approved unanimously.

2. REVIEW OF ELECTION PROCESS

There was discussion regarding an e-mail from a member inquiring whether the Board was considering a reevaluation of the CAS election process given the considerable attention that was drawn to the process during the recent election. The Board reviewed an October 12, 2001 CASNET posting by a member suggesting four potential changes to the CAS election process:

1. Release the vote counts for all CAS elections.
2. Only have the Nominating Committee act if there are too few candidates for an office. (We need at least one candidate for President-Elect and four for the Board of Directors.) Otherwise all candidates have to satisfy the same requirements of being an FCAS and getting enough signatures. There would be no "official" nominees.
3. Encourage more discussion of issues by candidates on CASNET, the CAS Discussion Forum, etc.
4. Allow Associates who have been members for 5 years or more to vote.

The Board was supportive of a review of the election process and discussed the best way to undertake the review. It was suggested that the review should revisit the 2000 Report of the Task Force on the CAS Election Process, chaired by John Purple. Cynthia Ziegler was asked to distribute the Task Force report and the minutes of the Board's response to the report.

The importance of Board involvement in the task force was emphasized. It was noted that membership on the task force should include Board members, as well as representatives from the general membership, and should reflect a diversity of opinions. It was agreed that the task force should interview recent candidates for President-Elect for their input on proposed changes to the election process. In order to implement changes in time for the 2002 elections, the Board will need to discuss a proposal at the March 16-17, 2002 Board meeting. It was suggested that the task force develop both long and short-term proposals.

It was agreed that a Board member should chair the task force, and that the task force should include Board members, one experienced Fellow to be selected by the Board, a representative from the New Fellows Committee, and two members-at-large. Susan Witcraft agreed to chair the task force; Janet Fagan, Mike Miller and Debbie Rosenberg volunteered to serve on the task force. Susan Witcraft will send an e-mail to

CAS members to solicit volunteers to serve as members-at-large; if there are more than two volunteers, the volunteers will be randomly selected.

There was debate about including in the charge of the task force the question of allowing Associates to vote. The Board noted that this topic is part of a larger issue concerning the rights of Associate members and decided to exclude it from the charge of this task force.

The Board agreed to charge the task force to make recommendations to the Board on the following three questions:

- Should the Nominating Committee always nominate a slate of candidates for all positions or only when insufficient numbers of candidates are nominated by petition?
- Should the CAS encourage more discussion of issues by candidates and, if so, how?
- Should the CAS release the vote counts for all CAS elections?

A preliminary report is due to the Board from this task force by March 8, 2002. If the task force is unable to make recommendations on all three questions by that date, a final report can be made at the Board's May 2002 meeting.

3. ADJOURN

The meeting was adjourned at 10:27 a. m. (Eastern)

Respectfully submitted,

Joanne S. Spalla
Assistant Secretary - Board of Directors

Approved March 25, 2002