

CAS BOARD OF DIRECTORS MEETING

June 1, 2003

Philadelphia, PA

Minutes

Present

Board Members: Phillip Ben-Zvi, Ralph Blanchard, Janet Fagan, David Hartman, Gary Josephson, David Oakden, Michael Miller, Janet Nelson, Deborah Rosenberg and Patricia Teufel

Immediate Past President: Robert Conger

President: Gail Ross

President-Elect: Mary Frances Miller

Vice Presidents: Chris Carlson, Donald Mango, Thomas Myers, John Narvell, Sheldon Rosenberg and Roger Schultz

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

Board Members Not Present: Gary Dean and Oakley Van Slyke

Other Attendees: Michael Boa – Manager, Communications and Research, CAS Staff; Todd Rodgers – Manager, Finance and Administration, CAS Staff; and Jeanne Swanson, Chair of the Future Education Task Force (for FETF Discussion item). Mavis Walters, Chair of the Actuarial Foundation, Sarah Sanford, Executive Director of the SOA and the Actuarial Foundation, and Eileen Streu, Director of the Actuarial Foundation attended for the discussion of The Actuarial Foundation. Clive Keatinge attended as an observer.

Bob Conger called the meeting to order at 8:35 a.m. on Sunday June 1, 2003.

1. MINUTES OF MARCH 10-11, 2003 BOARD MEETING

The Board discussed the wording of the approved Big Audacious Goal in the minutes of the March 10-11, 2003 Board meeting, debating whether the goal should state “*the* preeminent resource” or “*a* preeminent resource.” There was a consensus that the minutes should reflect the Board’s deliberation between the two phrases and the fact that the Board changed the word “organization” to “resource.” In addition, the minutes should reflect the fact that the choice of “*the* preeminent resource” anticipated that Mutual Recognition would be approved and that the Board might reconsider the wording of the goal if Mutual Recognition is not approved. In a straw vote between the phrases, eight members endorsed the word “the” and four favored the word “a.” It was suggested that this section of the minutes be revised and circulated to the Board for approval by e-mail.

A Board member requested that section 1. ii) of the minutes be revised to clarify that “voluntary” donations do not refer to dues. There was a motion to provisionally approve the minutes with this amendment. The motion was approved with ten members in favor and three abstentions. The final approval of the minutes will be conducted by e-mail.

2. CONSENT ITEMS

There was a motion to approve the following items on the consent agenda:

- i) Member Reinstatements: the Board resolved to waive its right to assess back dues and reinstated two members subject to payment of a \$500 reapplication fee in addition to the current year's dues (\$330).
- ii) Reinstatement Bylaw Amendment: the Board approved the voting package, included as attachment 3 of the agenda material, for a Fellows' vote on amending CAS Bylaws Article VII, Section 4: Dues-Reinstatement.
- iii) IAA Draft Submission on the European Commission Paper for the Solvency Subcommittee: the Board resolved to direct the CAS IAA representative to approve the release of the IAA draft response on the European Commission's Paper for the Solvency Subcommittee, "Considerations on the design of a future prudential supervisory system" and to record the comments drafted by Louise Francis and affirmed by Phil Heckman on behalf of the CAS, which were included in attachment 4 of the agenda material.

3. GUIDANCE FOR LONG RANGE PLANNING COMMITTEE

Gail Ross presented four options for assigning responsibility for the integration and implementation of the long range plan, which were detailed in attachment 5 of the agenda material. At the 2003 Leadership Meeting, CAS Committee Chairs began to develop Significant, Attainable, and Measurable (SAM) interim goals, objectives and strategies. The LRPC is distilling the feedback from the meeting, which will result in SAM goals that will affect all committees throughout the CAS. For the "Vision of the CAS in 2014" to be successful, a significant integration and monitoring effort will be necessary to embed the long range plan throughout committees, which tend to have a short range focus as they address day-to-day issues. The vision will be identified as a high priority objective of each Vice President, and SAM goals will be included within each committee's goals. Cynthia Ziegler reported that the LRPC has formed two subgroups: one is looking at barriers to implementation and the other is refining and grouping the SAM goals from the Leadership Meeting according to the current committee structure. She noted that based on past experience with change management, there needs to be administrative oversight to keep the big picture in focus.

The Board discussed the following four options offered by the LRPC:

- Option 1: President-Elect Oversees Implementation
- Option 2: VP-Administration and CAS Executive Director Oversee Implementation
- Option 3: Create a New Vice-President of "Change Management" to Oversee Implementation
- Option 4: Modify the Charge of the LRPC to Oversee Implementation

The Board agreed that it is important to ensure that the momentum created by the LRPC is sustained. However, Board members debated the need to create a separate group to monitor implementation activities rather than integrating the task into current CAS processes. In discussing whether a Vice President should be charged with overseeing the implementation, Board members expressed concern that the three-year VP term might hamper the implementation of a long range plan. The Board agreed that a group charged with overseeing the implementation should have a direct relationship with the EC. The Board also agreed that it would be beneficial for members of the implementation group to be aligned with the Vice Presidents.

There was a motion to appoint a Task Force, comprised of a Chair plus approximately five members and the Executive Director, which would report to the Board and focus on implementation and integration of the Big Audacious Goal. The Task Force members would be aligned with the Vice Presidents. The Executive Director will serve as the liaison between the Task Force and the EC. The motion was seconded and approved unanimously. The Past President, President and President-Elect will develop a proposal to staff the Task Force.

4. MUTUAL RECOGNITION AND CONSTITUTION AMENDMENT

Mary Frances Miller presented alternative wordings for a Mutual Recognition Constitutional Amendment, included as attachment 6 of the agenda material. Board members debated the options, and generally favored more restrictive wording. The Board took a straw vote and agreed to narrow the choice down to Options C and D as presented in the agenda material.

After further discussion and revisions to the wording, there was a motion to adopt the following wording for the Mutual Recognition Constitutional Amendment:

New paragraph e) to be added to Article III, Section 2:

e) Mutual Recognition

The Board of Directors may negotiate and implement Mutual Recognition Agreements with other actuarial organizations that qualify actuaries through a process that includes rigorous testing of a comprehensive property and casualty specialization. Such Mutual Recognition Agreements will include requirements that applicants:

- complete the property and casualty specialization requirements and all other requirements for full membership in their home organization,***
- complete the CAS professionalism education requirements, and***
- complete property and casualty experience requirements to be specified by the Board.***

The Board may include additional requirements in the Mutual Recognition Agreements.

Any applicant who meets the Mutual Recognition requirements so agreed, and any other requirements prescribed by the Board, and who is approved by a majority vote of the Board of Directors shall be enrolled as a Fellow.

The motion was seconded and approved unanimously.

Bob Conger asked for the Board's feedback on the cover letter and background exhibit for the voting package. There was discussion about including a statement that the Board unanimously approved the Mutual Recognition amendment. There was agreement that the background provided with the voting package should refer to the Big Audacious Goal.

A memo from the ShawPittman law firm advising on the level of detail required to be included in the CAS Constitution regarding Mutual Recognition was also included in the agenda material. There was discussion about the law firm's opinion that the current CAS Constitution appears adequate to authorize the Board to adopt mutual recognition agreements without putting the issue to a membership vote.

Cynthia Ziegler will e-mail the full voting package to the Board for its information. Ballots will be delivered on August 1st.

5. FUTURE EDUCATION TASK FORCE DISCUSSION

Tom Myers and Jeanne Swanson provided an update on the Future Education Task Force (FETF), included as attachment 7 of the agenda material. The Board created the FETF to review the CAS admission processes and recommend appropriate changes. The FETF has held several meetings to evaluate the current admissions process and conducted a skills survey to better understand the skills that members believe are

important for practicing actuaries. The Task Force appears to be nearing consensus on a broad outline that includes several significant changes and believed that it would be appropriate to update the Board and seek input on its current direction. The FETF also agreed that it was important to update the Board because the SOA Education Working Group anticipates making a final recommendation to the SOA Board in June on its ASA-level educational proposals.

Jeanne Swanson presented several changes that are under consideration. The Task Force has recommended that the CAS exams stop testing calculus. Instead, calculus would be listed as a prerequisite and would be implicitly tested in some probability questions. The Task Force also recommended adding mathematical statistics and including an exam on probability.

The Task Force addressed concerns about the length of time it takes for a candidate to be exposed to property/casualty content by proposing a 2-hour "Exam A" that would include policy forms/coverages, basic ratemaking, reserving, and reinsurance material from the current Exams 5 and 6. It is anticipated that this exam would be taken when a candidate is first employed in a property/casualty job and would have straightforward questions with a high pass rate. The Task Force anticipates that this exam would be required for Associateship. A Board member suggested making the exam more generic and including some international content. Board members proposed having a fixed criterion for passing. Tom Myers stated that this exam could also serve as an attractor exam and could help encourage candidates to pursue the property/casualty exams.

Another related recommendation was to move toward on-demand exams by offering early exams more often. The Board agreed that on-demand exams were important to reducing travel time and urged the Task Force to work with the SOA to move as quickly as possible in this direction. It was stated that Exam A would be well-suited for an online, on-demand exam. However, Jeanne Swanson stated that it would be difficult to offer the on-demand exams initially, but that offering exams three to four times per year could yield the same benefits without overburdening the Examination Committee.

The Task Force recommended expanding the scope of Exam 9 to include advanced reserving, reinsurance and catastrophe modeling topics and to move some advanced ratemaking topics to Exam 5. The Task Force also recommended adding a hands-on modeling workshop. A Board member asked if the workshop would require travel to the U.S. It was suggested that the workshop could be held overseas and that videoconferencing and Web-based methods could be utilized.

The FETF suggested offering a Diploma of Casualty Actuarial Techniques after completion of Exams 1-4 and Exam A to recognize candidates at an earlier point on the way to membership. A small majority of FETF members supported giving candidates who stop taking exams before attaining the ACAS designation tangible evidence of accomplishment. There was little support among the Board for this recommendation.

Board members emphasized that a focus should be placed on reducing travel time and there was concern that the FETF's proposals could be viewed as increasing travel time. A Board member stated that requirements should not be added to the education system until an improvement in travel time has been demonstrated. Tom Myers stated there is already evidence of an improvement in travel time, even though there are not yet members that have earned their designations completely under the new system. Board members were concerned that the recommendations are inconsistent with the Board's decision to limit the exams to nine.

The Task Force had discussed when the ACAS designation should be granted. A minority of the Task Force favored lowering the ACAS designation by one exam, but the Task Force has not finalized its recommendation on this issue. A Board member stated that Associateship should require both reserving and ratemaking exams.

The Task Force developed two proposals for the early exams. The first proposal retains control over the syllabus and level of competency by testing required topics. The second requires candidates to gain some education from non-CAS coursework in line with direction of the SOA Education Working Group's "Validation by Experience." "Validation by Experience" requires a grade of B- or better in appropriate courses from an accredited university or college. Alternative experiences could be accepted at the discretion of the CAS. Jeanne Swanson discussed the pros and cons of "Validation by Experience" and indicated that 60% of the Task Force is against the concept.

Clive Keatinge was recognized and expressed his concern that the FETF proposal was not consistent with the Big Audacious Goal. He also stated that the "actuarial control cycle" should have been considered by the Task Force. The "actuarial control cycle" approaches educating actuaries in a manner consistent with the actuarial process, which includes defining problems and measuring results.

A Board member expressed concern about voting on the FETF report in September, given that the Board would not know the SOA's direction and would not have had sufficient time to integrate the recommendations with the Big Audacious Goal. Tom Myers stated that the FETF has not reached consensus on many of the issues and the majority does not want to make significant changes to the exams. Jeanne Swanson reiterated that many of the FETF members do not believe that the exam structure needs to be completely overhauled.

Board members expressed the belief that casualty actuaries do not need to be knowledgeable in all areas in order to be a Fellow. The Board expressed concerns about the lack of consensus on the Task Force and provided the following guidance to the FETF:

- Travel time should be reduced and pass rates increased.
- Changes to the exam process must be consistent with the CAS Big Audacious Goal.
- The exams should address basic competency rather than specific expertise.
- Learning objectives and level of competence are important.
- On-demand exams are a higher priority. Taking one exam as a test case for on-demand testing was suggested.
- While the CAS should be cognizant of the SOA's direction, it should strive to be proactive rather than reactive. For example, the CAS should begin pursuing on-demand exams immediately.

It was recognized that the Task Force would not be able to fully address all of the issues until the CAS determines how the exam structure should support the Big Audacious Goal.

The Board then took a straw poll on the following items:

- The Board was unanimously in favor of the concept that mastery of certain topics could be demonstrated by a process not administered by the CAS (such as validation by educational experience), with the details to be worked out.
- Twelve Board members were in favor of immediately pursuing on-demand examinations for the early exams. One member was opposed due to a concern that the CAS should be moving jointly with the SOA on this issue.
- Twelve Board members were in favor of an early basic practice exam, similar to the concept of Exam A, provided it doesn't increase travel time; one member was opposed.
- Eleven Board members agreed that the Actuarial Control Cycle should be incorporated in the Task Force's deliberations, with two abstentions.

A Board member emphasized that it is essential to consider the impact of the Big Audacious Goal on the education process and suggested adding this topic to the agenda for the September Board meeting. The Board thanked Jeanne Swanson for her work as Chair of the Future Education Task Force.

6. FUTURE EDUCATION METHODS

Due to time constraints, the Board deferred the discussion of future education methods until the September Board meeting.

The Board adjourned for lunch at 1:10 p. m. Gail Ross presented the COP/COPE Vision and Mission over lunch. The Board raised no concerns with the mission.

The meeting reconvened at 2:00 p.m.

7. WHITE PAPER ON ACAS VOTING RIGHTS

Gail Ross presented the white paper on ACAS Voting Rights, which was provided in attachment 10 of the agenda material. The EC recommended that the Board appoint a Task Force to be chaired by the 2004 President-Elect to review the meaning and purpose of the ACAS designation within the property/casualty insurance arena. The review would include issues such as practice rights, voting rights, and whether other differences between the ACAS and FCAS—such as holding office and differences in dues—should remain in place. The Board debated whether this Task Force should address the requirements for Associateship.

There was a motion to appoint a Task Force to consider the meaning and purpose of the ACAS designation and it was seconded.

The Board requested that a free response question be included on the Membership Survey regarding ACAS voting rights. Some Board members felt that it would be premature to set up a Task Force until after the Mutual Recognition vote. Cynthia Ziegler expressed concern that a segment of the membership that pays the same dues is not represented on the Board. Cynthia Ziegler suggested that the Board consider adding an at-large member of the Board to provide the Associates' point of view.

There was debate about incorporating the meaning of the ACAS designation in the Task Force charge. It was recommended that the Board discuss this issue at its September meeting and then give direction to the Task Force. The Board requested a position paper defining the background and issues, including how the ACAS designation fits in the context of the Big Audacious Goal, prior to the September meeting.

The motion was amended to restate the charge of the Task Force to include consideration of the meaning of the ACAS designation within the context of the Big Audacious Goal. The amended motion was seconded.

The Board voted on the motion to appoint a Task Force on the ACAS Designation chaired by the 2004 President-Elect to consider: (i) the meaning and purpose of the ACAS in property/casualty insurance within the context of the CAS Big Audacious Goal; (ii) whether the ACAS should be allowed to vote; and (iii) whether other differences between CAS Fellows and Associates should exist (e.g., right to hold officer positions, differences in dues). It is further recommended that the composition of the Task Force include two Fellows with more than 10 years membership, two Fellows with less than 10 years membership, two Associates with more than 10 years membership, and two Associates with less than 10 years membership in addition to the 2004 President-Elect as chair. The motion did not pass, with three in favor, seven opposed, and three abstaining. Those voting

against the motion indicated that they wanted a better defined charge for the Task Force before revisiting the issue at the September Board meeting.

8. INFORMATION ITEMS

The following items were provided for the Board's information:

- EC Minutes (March 20 and April 15) and May 20 agenda (Attachment 13)
- Cycle Reports/Progress on 2002-2003 Goals (Attachment 14)
- FY 2003 Q2 Financial Statements (Attachment 15)
- Member Advisory Panel (Attachment 16)
- Learning Objectives for Exams 3, 5-9 (Attachment 17)
- Executive Director's Report (Attachment 18)
- D&O Insurance (Attachment 19) - Sheldon Rosenberg distributed a white paper on the Board's D&O insurance coverage, including a survey of other organizations. The report advised that the current coverages are appropriate. The one-year policy includes individual and entity coverage and does not contain a severability clause. The Board requested an exposure analysis and presentation on how the Board should minimize its exposure.

9. THE ACTUARIAL FOUNDATION

Gail Ross introduced Mavis Walters, Chair of the Actuarial Foundation, Sarah Sanford, Executive Director of the SOA and the Actuarial Foundation, and Eileen Streu, Director of the Actuarial Foundation (TAF). Eileen Streu presented an overview of TAF. The mission of TAF is to utilize the unique skills and abilities of actuaries to increase public understanding, address societal problems and advance actuarial knowledge. TAF's focus will be in three core areas: consumer education, research and youth education. Eileen Streu presented a short video that illustrated how TAF brings actuaries and educators together in voluntary partnerships to enhance student mathematics achievement.

Mavis Walters presented the business plan for the Merger of the Actuarial Education and Research Fund (AERF) and The Actuarial Foundation (TAF), which was included as attachment 11 of the agenda material. Board members inquired about the financial projections and how the ratio of administrative expenses to funds supplied compared to other organizations. Board members also asked questions about the focus of planned research activities. The Board and TAF representatives discussed the \$478,000 annual subsidy for five years from actuarial organizations and the impact of over or underachievement of fundraising goals. TAF is planning on five years of support, and will not ask for additional subsidies should fundraising fall short of expectations. Board members also inquired about plans to track involvement of volunteers from various organizations and ways to encourage more support. It was suggested that the Actuarial Foundation set-up its booth at CAS meetings and the upcoming Casualty Loss Reserving Seminar in Chicago. The Board expressed its appreciation to the representatives of TAF for making the presentation to the Board.

10. SURPLUS: PURPOSE, APPROPRIATE AMOUNT, INVESTMENT POLICY IMPLICATIONS

Sheldon Rosenberg presented a discussion paper on the Purposes of CAS Surplus, included as attachment 12 of the agenda material. During its discussion about changes to the CAS Investment Program, the Board had asked the Finance and Investment Committees to jointly prepare a report to address its questions on (i) the purpose of CAS surplus; (ii) how the targeted surplus range was determined; and (iii) how surplus was considered when developing the CAS Investment Program.

The Finance Committee has completed Part 1 of the study, which addresses the first two questions. The Finance Committee concluded that the current target surplus ratio range of 40% -60% of annual operating

expenses is still appropriate. A Board member asked if the Finance Committee considered the financial impact of a 'disaster' during its discussions of surplus. It was noted that the CAS is currently working on a disaster recovery plan. Another Board member asked about the possibility of jeopardizing our tax-exempt status if the surplus grows too large. Cynthia Ziegler replied that the IRS uses 70% of one year's operating expenses as a guideline. The Board expressed its thanks to the Finance Committee for the report.

The Investment Committee has been provided with the Finance Committee's report and is working on Part 2 of the study. Part 2 will address the third question raised by the Board, which is how surplus was considered when developing the CAS Investment Program. A Board member commented that a significant portion of the assets held in the defined benefit pension plan are also subject to equity risk and should be considered in addition to CAS investments in equities when the Investment Committee conducts its modeling.

11. EXECUTIVE SESSION

The Board held an Executive Session from 4:20 p.m. to 4:45 p.m.

12. ADJOURN

The meeting was adjourned at 4:45 p.m.

Respectfully submitted,

Joanne S. Spalla
Assistant Secretary - Board of Directors

Approved _____