

**CAS BOARD OF DIRECTORS TELEPHONE CONFERENCE MEETING
JUNE 22, 2001**

Present

Board Members: Amy Bouska, Charles Bryan, Ralph Blanchard, Stephen D'Arcy, Janet Fagan, Frederick Kist, John Kollar, Michael Miller, Gail Ross, Deborah Rosenberg, Michael Toothman and Susan Witcraft

Immediate Past President: Alice Gannon

President: Patrick Grannan

President-Elect: Robert Conger

Vice Presidents: Abbe Bensimon and Mary Frances Miller

Executive Director, Tim Tinsley; Assistant Secretary-Board of Directors, Joanne Spalla

Other Attendees: Nancy Braithwaite, Chairperson of the Contingent Payments Objectives Working Group; Clive Keatinge and Glenn Meyers.

Vice Presidents Not Present: LeRoy Boison, David Chernick, Gary Josephson, and Sheldon Rosenberg .

Alice Gannon called the meeting to order at 12:05 p.m. (Eastern) on Friday, June 22, 2001.

1. REPORT OF THE CONTINGENT PAYMENTS OBJECTIVES WORKING GROUP

Nancy Braithwaite, Chairperson of the Contingent Payments Objectives Working Group, referred to a summary of the report of the Contingent Payments Objectives Working Group Proposal to the CAS Board for Course 3 – CAS, distributed by e-mail to the Board on June 19, 2001. The Working Group was formed to examine the contingent payments objectives and material in order to define what level of coverage would be appropriate for CAS members and to determine whether it would be feasible to develop a Course 3 exam that would be substantially similar to the joint exam, but with less emphasis on contingent payments. The objective of the Working Group was to come up with an exam that would share a good deal of material and questions with the current joint Exam 3, and that would be administered at the same time as the current joint Exam 3. In addition, the Working Group carefully evaluated the minimum level of contingent payments material that should be included in a CAS-only exam. Nancy Braithwaite stated that the Working Group reached consensus that the objectives and the CAS-only exam represent the best alternative that could be achieved given the framework and the timeline; however, most members of the Working Group don't think the proposal should be implemented.

The Working Group believes that contingent payments should be roughly 40% of a CAS-only exam. For purposes of exam questions, the 10-15% decrease in this subject will be proportionally reassigned to the other topics currently on Exam 3. The 40% of the exam that covers contingent payments will comprise some questions that are identical to Exam 3; some that are similar, but reduced in complexity; and some that are entirely unrelated. The Working Group recommends that consistent standards for minimum competency be set across the two exams.

Specifically, the Working Group recommends the following modifications for a CAS-only Exam 3:

Life Contingencies/Survival Models: Bowers will be cut down to the level of the old Exam 4A, with the exception that a section of Chapter 3 has been added. Sections 11.1-11.3 of Bowers will be added to the exam, and the Snader paper from the old Exam 4A will be reintroduced.

Ruin Theory: Chapter 13 of Bowers will be cut. Questions on the topic of "ruin" will continue to be asked, but adjustment coefficients and the associated math will not be used.

Nancy Braithwaite also discussed some of the issues in the report that the Working Group felt the Board should consider in making the decision whether to implement this contingency plan, noting that there are significant expense/administrative issues that will need to be resolved. She emphasized that the Working Group feels strongly that, given the division of opinion of the people involved on this issue, it would be imprudent to make a decision to adopt the plan without exposing the proposal to the CAS membership. Some of the members of the Working Group feel the whole question of joint exams should be exposed to the membership for comment. Given the strong split of opinion on the issue, the Working Group feels that it is likely that strong criticism will ensue whatever decision the Board makes.

2. EXAM 3 STATISTICS

Glenn Meyers' analysis of some statistics from the May 2001 exam sitting, which was distributed to the Board on June 19, shows that differences among the student subpopulations are decreasing. He stated that the main difference in the statistics is between full-time students and all other candidates. Differences between SOA and CAS workers are also diminishing, probably due to the availability of prior exams. (Note: the statistics referred to here are subject to change and represent exam scores, not pass/fail results since the passing score has not yet been determined.) Glenn Meyers' analysis also included an examination of questions on the May 2001 exam that would be omitted from a CAS-only exam. The analysis concluded that, since the differences between CAS and SOA workers on these questions were actually smaller than the differences on the material that would remain on the exam, the relative results of a CAS-only exam would be the same as the joint exam. He noted that the questions that Steve D'Arcy had identified at the May 5-6, 2001 Board meeting for which the percentage correct for CAS workers was less than 80% of the percentage correct for all other candidates would not be eliminated from the CAS-only syllabus. Glenn Meyers believes it is important that casualty actuaries learn how to juggle the concepts of risk and time, and that the best source of this material at the present time is life contingencies.

3. LETTER FROM GINDA KAPLAN FISHER (THOUGHTS ON EXAM 3 CAS-ONLY PROPOSAL)

A letter to the Board from Ginda Kaplan Fisher, a member of the Contingent Payments Objectives Working Group, was also distributed to the Board on June 19. Ginda Fisher discussed the advantages and disadvantages of the joint exams and the CAS-only exam to candidates, Fellows of the CAS, employers of CAS candidates, and to the CAS and SOA.

4. DISCUSSION

The Board then asked questions of the representatives of the Working Group.

There was concern on the Working Group that the CAS-only proposal would only be a temporary step because of QRS.

A Board member asked about whether there was complete consensus among the Working Group about not implementing the CAS-only proposal in November 2001. Nancy Braithwaite replied that the most important consensus reached was on the need to solicit more input from the CAS membership before making this type of change, and the Working Group felt that we should not implement a CAS-only exam 3 at all.

Another Board member asked if we were anticipating a change in Part 4. Nancy Braithwaite replied that the Working Group was not directed to review Exam 4. One Board member thought that the problem with Exam 4 was due to the type of questions rather than the material.

A Board member asked if we need to know more about the SOA's 2005 changes. Mary Frances Miller has asked for copy of what the SOA Board is considering this summer. She thinks the SOA is defining a QRS level syllabus, and wants to give university-based credit for a lot of it, but will require sitting for a least one exam. It is likely the SOA would partition the exams. Mary Frances Miller also thought that the SOA was interested in reducing travel time.

Steve D'Arcy summarized his June 22 e-mail to the Board, which included a table of exam score statistics.

Mary Frances Miller described the spreadsheet prepared by the SOA that estimates the costs of two alternatives for administering a separate CAS Exam 3: Alternative 1) requires students to declare which exam they take when they register and Alternative 2) allows students to decide which exam they will take at the exam site. Alternative 1) has an estimated total first year cost of \$79,250 and an ongoing annual cost of \$58,500. Alternative 2) has an estimated total first year cost of \$97,750 and an ongoing annual cost of \$85,500.

A Board member asked which of the two options (stay with current Exams 3 and 4 or institute a CAS-only Exam 3) would be the more effective in increasing pass ratios. Nancy Braithwaite thought that the biggest impact on pass ratios was from publishing past exams. A Board member also felt that continuing the joint exams for November 2001 would have the best chance of improving the pass ratios because of the availability of sample exams.

A Board member asked about the progress of writing new study material. Glenn Meyers replied that Stuart Klugman has made substantial progress on a study note integrating loss distributions and survival models and thought it would be available for either the May or November 2002 exam.

A Board member asked whether this dual exam proposal would produce 60% pass ratios very quickly. Mary Frances Miller replied that she did not think the proposal was sufficient to accomplish this. A Board member clarified that the Board had not set a policy for a 60% pass rate. There was also debate about whether it was necessary to increase the pass rate to 60% in order to achieve an acceptable travel time. Nancy Braithwaite responded that the Working Group expects that pass ratios may will be lower on a new CAS-only Exam 3 because the better CAS students will opt not to take it.

A Board member asked whether Howard Mahler's notes, which were mentioned on CASNET, were a useful study aid. The Board clarified that it would be willing to fund study notes. The Board member then stated it is important that the Board focus on other factors, such as the report of the exam consultant. Mary Frances Miller replied that the consultant was asked to focus on exams 5-9. A Board member suggested that we ask the consultant to evaluate exams 3 and 4.

A Board member asked if the Working Group feels that the exams are adequate and appropriate for the CAS learning objectives. Another said that the exam committees are learning how to ask the right kinds of questions. There are some differences between the CAS and SOA learning objectives for life contingencies, but the differences are easy to master. A Board member asked Glenn Meyers whether the right kind of questions for the CAS are the same as for the SOA. Glenn Meyers thought there would be some differences, but once a student masters the CAS objectives, it is not that difficult to master the SOA objectives.

A Board member asked whether the May 2001 improvement in the exam scores will be sustainable or whether it is due to better students taking the exam. Glenn Meyers thought it was due to having more past exams to study from and to having better questions.

A Board member asked questions about the material added in the CAS-only Exam 3 proposal. Nancy Braithwaite replied that there is a net decrease in material. The Snader paper is an application of life contingencies for Workers Compensation, and the additional Bowers material makes it easier to apply the model. Glenn Meyers added that there would be a reduction in page count. Nancy Braithwaite clarified that the 10-15% decrease that was mentioned in the proposal pertained to the relative weight of material, not necessarily pages of material.

A Board member asked whether postponing action on Exam 3 was a viable option. Nancy Braithwaite felt the CAS membership should be surveyed on the question of whether or not there should be a joint Exam 3 before making any changes. Nancy Braithwaite felt that postponing action on Exam 3 until it can be examined in a broader context would be an appropriate course. Glenn Meyers also felt that no change to Exam 3 is the best option.

There was a motion that the Board agrees not to proceed on the proposed dual Exam 3 option for November 2001. It was seconded and approved unanimously.

The Board debated a member's suggestion to have a separate pass score for CAS candidates if the problems continue. Mary Frances Miller pointed out several disadvantages of such an approach.

There was concern about what would happen in 2005 if the SOA implements QRS, especially the impact on the joint exams. There was a suggestion to move to separate Exams 3 and 4 as soon as possible to better position the CAS for QRS in 2005. A member proposed that the CAS examine the whole education process and that the CAS become more proactive in the QRS development. Nancy Braithwaite said that she supports the Chauncy Group's recommendation to ask the CAS membership what an actuary needs to know.

A Board member proposed establishing a panel of test takers (at least for Exams 5-9) this summer that take the test cold before the exam is administered and that the questions then be adjusted to get to a 60% pass ratio.

There was a motion that the Board reaffirms its commitment to encourage the Admissions Committees to continue focusing on 1) improving the Exam 3 syllabus material and using funding as appropriate for study notes; and 2) improving examination questions focusing on Exam 3. The motion was seconded. Following a discussion, the motion was withdrawn because funding was previously approved and efforts are underway.

There was a motion to direct the Admissions Committees to start working on a longer-term solution, determine a reasonable time frame to implement the two-exam proposal in the Exams 3 and 4 Contingency Plan Task Force Report, and report to the Board at its September 13, 2001 meeting. Following a discussion, the motion was not acted upon.

Mary Frances Miller advised the Board that she is preparing a proposal for the EC's July 19 telephone conference that a task force be formed to examine the whole education process, with an end result that travel time is reduced.

The Board asked when the Chauncey report would be made available to the Board. Mary Frances Miller replied that the Admissions Committees were still developing positions on the recommended actions. Their

objective was to have these recommendations by the August 15 EC meeting. The Board asked to have the report distributed as soon as it is available.

There was concern about waiting until 2005 to revise Exams 3 and 4. It was pointed out that there were some areas of consensus on the Exams 3 and 4 Contingency Plan Task Force. Gail Ross enumerated the items of consensus that the Task Force reached, including agreement that less material than is currently on Exams 3 and 4 is desired (reduce life contingencies; delete ruin models; less coverage of regression, forecasting, time series, stochastic processes and simulation).

There was agreement that, while the Board was concerned about acting in haste on the current proposal, it did not want to delay action until 2005. A member indicated that the pass ratio, which is the biggest issue, is a concern for all exams. A member indicated that the number of questions to answer in the exam time frame was an important issue. It was felt that the exam consultant might be able to help address these concerns.

Alice Gannon directed Mary Frances Miller to propose options to address the Board's concerns at the September 13 Board meets.

5. ADJOURN

The meeting was adjourned at 3:10 p.m.

Respectfully submitted,

Joanne S. Spalla
Assistant Secretary - Board of Directors

Approved September 13, 2001