



March 6, 2018

National Association of Insurance Commissioners  
1100 Walnut Street, Suite 1500  
Kansas City, MO 64106-2197

Re: NAIC Proposals on the Attestation Requirement for the Appointed Actuary and the Experience Requirement

Dear Colleagues;

We are writing on behalf of the CAS Task Force to Review the NAIC Appointed Actuary Job Analysis, a task force formed by the Casualty Actuarial Society to provide comments to the NAIC on the job analysis and related proposals. We have discussed the proposals from the NAIC on the appointed actuary attestation requirement and experience requirement. Our comments are provided below.

To start, we would like to thank the NAIC for their efforts on behalf of improving the qualification process with regard to the appointed actuary. However, we have serious concerns about the attestation proposal as presented. We hope you find our comments helpful.

**Appointed Actuary Attestation:**

**Working with Professional Actuarial Societies:** In this letter, we identify a number of areas of concern with respect to the current attestation proposal. We urge the NAIC to work closely with the professional actuarial societies that are currently engaged in the education, standard setting, discipline, and qualification of actuaries. There is a century long tradition in the US of these bodies successfully serving the regulatory community, the actuarial community, and the public. Current practice is based in these societies, and the current US Qualification Standards provide a strong framework, which can be modified to serve the needs of the NAIC in these regards. We think that working closely with the societies will go a long way towards accomplishing the NAIC's objectives.

**Use of the Knowledge Statements:** We believe the knowledge statements can be an effective tool to evaluate an educational system, both basic and continuing education. However we don't believe that the large number of knowledge statements contained in the NAIC proposal is an effective way for the regulator to evaluate an individual. We believe a better approach to



evaluating the qualification of appointed actuaries is to evaluate the basic and continuing educational system that appointed actuaries are required to complete. We believe that the educational requirement in conjunction with the experience requirement is an appropriate approach by the regulator to validate that actuaries are qualified. This ties into the point above that working with the actuarial societies to achieve the changes the NAIC requires to the qualification of signing actuaries would be an efficient, effective, and appropriate way to move forward, as opposed to introducing a wholly different system for appointed actuaries.

We believe the use of knowledge statements with a “yes/no” checkbox leads to a number of questions, such as:

- i), how many “yes” answers are required;
- ii) which answers are critical; and
- ii) the depth of knowledge required to respond with a “yes”.

Additionally, much of the knowledge that is acquired by an actuary will be through a combination of education (basic and continuing) and experience. As such, many actuaries may be hard pressed to identify the source of the knowledge. So to leave this up to the individual seems to give the appearance of a level of precision that isn't really there.

Also, as a practical matter, we believe the ability of the NAIC to evaluate an individual's answers to 103 knowledge statements is an insurmountable challenge. Does the NAIC plan to audit the actuary's answers to make sure that they have met the requirements? If not, two actuaries with the same skills could answer the questions differently or an individual may stretch his or her competency. A clearer path to validating qualifications is through education and experience. The proposed attestation form itself now implies this in the “how obtained” column, and the “your credentials” row, by framing the question around credentials and exams achieved. Clearly credentials should be required, but not for each knowledge separately, for each opinion issued.

**Experience Matters in Qualification:** We think all would agree that experience matters, but the approach of the 103 knowledge statement seems to focus on the individual and education. We would likely all also agree that if we needed surgery, we would prefer a surgeon with a great deal of experience rather than one newly out of even the best schools. We urge the NAIC to consider experience, and not just training, in thinking about qualification. The qualification of an actuary is better grounded in experience, education, and demonstrated credentials, rather than a very detailed list of knowledges.

**The Role of Expert Advice:** When doing their work, a well-qualified actuary will often seek out and incorporate the input of experts, be that claim counsel, another actuary with experience in a different area, underwriters, or finance professionals. For example, for an actuary with an appropriate background, gaining knowledge of case law for a current claims issue might be best accomplished by discussing it with claims counsel, rather than a training course. Often in the course of their work, an actuary will do so, and develop knowledge of a situation that may not have even been known at the start of the work. Examples of this could be the development of assignment of benefits issues in Homeowners, or macroeconomic factors during the credit crisis, or the susceptibility of certain breeds of dogs to health issues in pet health insurance, to name a few. The point is, these are not knowledges that are amenable to a checkbox system. Instead the best approach to evaluating the ability of the actuary to assimilate these situations is



100 Years of Expertise,  
Insight & Solutions

through education and experience, which enables an actuary to know when to seek expert advice because they have seen these types of situations before. So this too argues against detailed knowledge lists for individuals, and robust education, credentialing, and experience instead.

**Litigation Risk:** Related to this clarification is the impact on litigation risk created by a standard of mastery for an appointed actuary that could be interpreted so broadly that no individual may ever be able to meet it. While we know it is not the intent, others may attempt to interpret this extensive list for their own ends. We think without proper context and clarification, the risk created to not just actuaries, but insurance entities' Boards and managements who appoint actuaries, could be very significant. We think the risk is heightened to such a degree it might discourage actuaries from stepping into the appointed actuary role.

**Offer to Assist:** We know many actuaries contributed to the list, but believe that was more around validating the content rather than crafting the wordings. We believe the list as drafted could benefit from a team of actuaries going over the statements, reviewing wording and clarifying the content. Our review identified a number of items for which the intent is unclear. In addition, we believe that there are a number of areas of redundancy among items in the drafted list, and some are overly broad. We believe there would be ample volunteers to create clearer wordings for the knowledge statements.

### **Experience Requirements:**

We understand the NAIC request for input as to experience requirements is not in regard to specific proposals, but instead a request for comments to the brief charge in the February 15 e-mail.

To open, we would like to comment that working with the actuarial organizations is important on this topic as well, per the discussion above.

**The US Qualification Standard (USQS):** Currently there is a three year experience requirement for actuaries to be qualified, and this is strengthened for actuaries issuing specific statements of actuarial opinion for the annual statement (SSAO) under the specific qualification standard. We think this is the right basic framework. We suggest that if the NAIC wishes for a higher standard for actuaries issuing SSAO's, that this take the form of modifying the specific qualification standards in the USQS.

We discussed the areas that could be strengthened, and these include (1) documentation, (2) length, (3) content, and (4) review. Our thoughts are attached as attachment 1.

### **In Closing:**

We think any changes should be measured, and proportionate, to achieve the needs of the NAIC but without creating a burdensome bureaucratic process, or in a way that would restrict the ability of actuaries who are truly capable to provide the required appointed actuary services.



100 Years of Expertise,  
Insight & Solutions

Similarly, as the NAIC reviews these requirements, we recommend that the framework already in place by the US Qualification Standard and the discipline process of the profession be utilized. It seems not to make sense to reinvent a system of professionalism that has worked well and evolved for nearly a half of a century.

The CAS could help to recruit volunteers to help the NAIC with this in cooperation with the professional societies, and we believe the other professional actuarial organizations would as well.

We thank the NAIC again for your efforts in this important work.

Sincerely;

A handwritten signature in blue ink that reads "Chris Nyce". The signature is written in a cursive, flowing style.

Chris Nyce, Chair  
CAS Task Force to Review the NAIC Appointed Actuary Job Analysis

CAS Task Force to Review the NAIC Appointed Actuary Job Analysis:

Brian Brown  
Andy Doll  
Leslie Marlo  
Gary Josephson  
Chris Nyce



## Options for Strengthening the Specific Experience Requirement

**Documentation:** As it stands the documentation requirement for having met the experience requirement is that the actuary states that they are qualified in the SSAO. Options would include requiring self documentation, similar to the way an actuary self documents continuing education achievement today. This could be made specific to require the actuary to document the work performed, the period it was performed, the responsible actuary who reviewed the work, and a discussion of why the work is relevant. This documentation could be required to be available to a regulator reviewing the SSAO, so that it can be reviewed as needed. It could also be subject to the reviews, similar to the continuing education reviews, conducted today by the CAS and SOA of a sample of the membership.

At the option of the NAIC, it could also be required to be presented when a change of appointed actuary takes place, along with other notification requirements. A similar experience summary is required by the Bermuda regulator today when an actuary is appointed.

**Length:** As it stands the length is three years of experience relevant to the subject under review by an actuary qualified to issue the SSAO. This is the same length as under the general qualification standard. One change to consider is whether a five year experience requirement might be more appropriate. This needs to be balanced with the consideration that an actuary working at a small company, for example, may not easily be able to obtain this type of experience with another qualified actuary.

**Content:** As it stands, the content is required to be “relevant to the subject of the Statement of Actuarial Opinion.” This seems the right content to us, and we can’t think of any reasonable strengthening of it.

**Review:** As it stands, the specific experience requirement says the experience must be under the review of an actuary who meets the specific experience requirement. One drawback of this, an actuary working through exams as the only actuary for a small company would not meet that requirement if work is reviewed by a CFO that is not an actuary. But the work could be reviewed by a consultant who is qualified. This is as it stands today.

Right now, that review is not formally documented. One option would be to require the reviewer to document that reviews that took place over the experience period. This could be in the form of a letter outlining the experience, and observations on tasks the actuary is able to perform. This may need to be several letters, if the candidate actuary gained the experience working under more than one actuary. If the NAIC wishes to go this way, that could form part of the documentation discussed above.

**Role of the Reviewer:** We view the primary role of the actuary performing the review role as not teaching technical skills, which are gained under the basic and continuing education. But more how to apply those skills in a real world environment. (We would note that, in some



assignments or over time, these skills could be reviewed by several different actuaries.)

These include:

- i) Appropriate ethics, especially when a situation may include pressure from a principal to arrive at certain conclusions;
- ii) Professional skills, in applying actuarial methods in a manner appropriate for the situation involved;
- iii) Peer review of work, so the experienced reviewer passes on learnings from real world situations;
- iv) Application of skills, so that the candidate actuary not only knows the technical learnings, but which methods to apply in a bespoke situation;
- v) Communication skills, so that the candidate actuary can clearly communicate findings, and inform non-actuary principals, and actuary principals, on what is appropriate, especially when differences arise, as they often will;
- vi) Common pitfalls, since we all learn from challenging situations, and the candidate actuary can learn from the challenges the reviewing actuary has encountered.

It would be the responsibility of the candidate to document they have achieved these learnings, or to seek further instruction as needed. So in short, the reviewing actuary (or actuaries) acts as a true mentor to the candidate actuary.