



THE ACTUARIAL REVIEW

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AUGUST 1994

From the President

Irene K. Bass

What's in a name, anyway? I believe that names must be important (despite what they say about roses smelling as sweet), or else today Cary



Grant would still be known as Archibald Leach and Marilyn Monroe would be Norma Jean Baker. We may have made the same kind of mistake when we began referring to the concept of the appointed actuary a couple of years ago.

The concept of "appointed actuary" was intended by the CAS Board of Directors to apply to an effort directed by the CAS to educate actuaries about the "other side" of the balance sheet, thereby expanding actuarial work to the asset side. What we really mean by this concept is "dynamic financial analysis." Dynamic financial analysis connotes the vibrant and vigorous type of analysis that we actuaries have always been

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Discipline Committee Explains the Expulsion of CAS Member

by Michael Fusco

Editor's Note: In the last issue of the AR we reported without comment the expulsion of Neill W. Portermain from the CAS. The news had reached the AR too late for us to be able to seek and obtain the background on this news item. We have now obtained the relevant facts and they are reported in this issue for the information of our readers.

On February 2, 1994, the CAS Discipline Committee conducted a hearing into the charges made against Neill W. Portermain. The committee, in the course of its deliberations, relied upon the investigation and the following findings of the Actuarial Board for Counseling and Discipline (ABCD):

- Neill W. Portermain and his wife were found by the United States District Court for the Northern District of Texas to have taken money under false pretenses and to have perpetrated a fraud and/or breached fiduciary duties as directors and officers of Bercanus Insurance Company, Ltd. of Bermuda (Bercanus).

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Insurers Must Manage Exposures to Natural Catastrophes Better, Panelists Say

BOSTON, MA—Insurance companies need to do a better job of assessing and evaluating their exposure to losses from catastrophes, panelists told CAS members at the 1994 Spring Meeting held here in May.

"The lessons of the Northridge Earthquake, Hurricane Andrew and the emergence of the property catastrophe companies really are that the industry has not adequately or properly measured its exposure," said Donald Kramer, chairman of the board at Tempest Reinsurance Company, Ltd., a catastrophe reinsurance company located in Bermuda.

Kramer said that the California-based 20th Century Insurance Company suffered

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Editorial

Evolution

by C. K. "Stan" Khury

Evolution can be viewed as a continuous, gradual process of transformation and therefore looking for significant milestones of evolutionary change requires a substantial block of time.

CAS meetings have evolved. Upon only a bit of reflection, one would easily conclude that the CAS May meeting in Boston is a worthy milestone to contemplate. It occurred to us to go back 25 years to see the comparison we could draw between May 1994 in Boston and May 1969 in Tamiment-In-The-Poconos (Pennsylvania).

According to the official record, the Poconos meeting was attended by "92 Fellows, 45 Associates and 28 guests in addition to 35 wives." The Boston meeting was attended by 252 Fellows, 191 Associates, and 186 guests (including many *husbands* and wives). In 1969, the Insurance Commissioner of Pennsylvania (a man) was unable to attend as scheduled while in 1994 the Commissioner of Insurance of Massachusetts (a woman) kicked off the meeting with a heart-to-heart talk with actuaries on how they could improve their relevance to the insurance transaction.

The business session in 1969 included voting to incorporate the CAS as an Illinois not-for-profit corporation and admission of four new Associates and one new Fellow. In Boston, the business session included admission of 149 new Associates, 17 new Fellows, and a presentation of the Hachemeister Prize to a German actuary.

In 1969 there were four concurrent sessions and one *Proceedings* paper. In Boston, there were four general and 18 concurrent sessions, and four new *Proceedings* papers.

In 1969 the president reported that the new CAS recruiting brochure titled "The Essential Executive" was in the printer's hands and thanked Neill Portermain for his efforts in bringing this project to a successful conclusion. In 1994 the president reported that Neill Portermain had been expelled from the CAS.

In 1969 it was reported that consideration was being given to producing a *Casualty Contingencies* textbook in cooperation with Georgia State University. In 1994, a key topic under development is the development of dynamic financial analysis.

In 1969 Charles Hewitt announced that the ASTIN Colloquium would be held in Poland later in the year and that a conference on "Analysis of Decisions Under Uncertainty" would be jointly sponsored with the SOA. In 1994 it was reported that the AFIR meeting was held earlier in the year in Florida under joint sponsorship with the SOA.

In 1969 a dinner meeting was held at which the golf tournament prizes were given out and an outing to a Pennsylvania Dutch farm was organized. In 1994 a reception and dinner was held at the Museum of Science and Industry, right next to a physical representation of the incidence of the normal distribution and a machine that demonstrated the concept of multiplication using rows of light in three dimensions.

In 1969 the meeting was organized from A to Z, by the then (one and only one) vice president. In 1994 the meeting was organized in sections: the physical arrangements and facilities were organized by professional meeting planners employed by the CAS office (that included a well-received type of name-and-ribbon badges of different identifying colors), the meeting content was organized by a large and effective committee serving under the guidance of a CAS vice president (one of five CAS vice presidents) who is dedicated to the task of organizing the CAS's two semi-annual meetings, and the

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Changes in Auto Insurance Require Industry-Wide Attention

BOSTON, MA—As the cost of automobile insurance continues to rise, the insurance industry and regulators must implement reforms to increase efficiency and lower costs, panelists told members of the CAS at its Spring Meeting here in May.

“The inefficiency of the auto insurance industry impoverishes us all,” said Andrew Tobias, noted author and founder of the Coalition for Common Sense Auto Insurance. “Pay-at-the-pump, private, no-fault is the way to solve the uninsured motorist problems, increase efficiency and eliminate sales and underwriting costs of direct mail companies.”

By dividing the state of California into homogenous groups of 5,000 vehicles, insurers would bid for the right to cover these groups of drivers, virtually eliminating legal costs because it would be “true” no-fault, Tobias said.

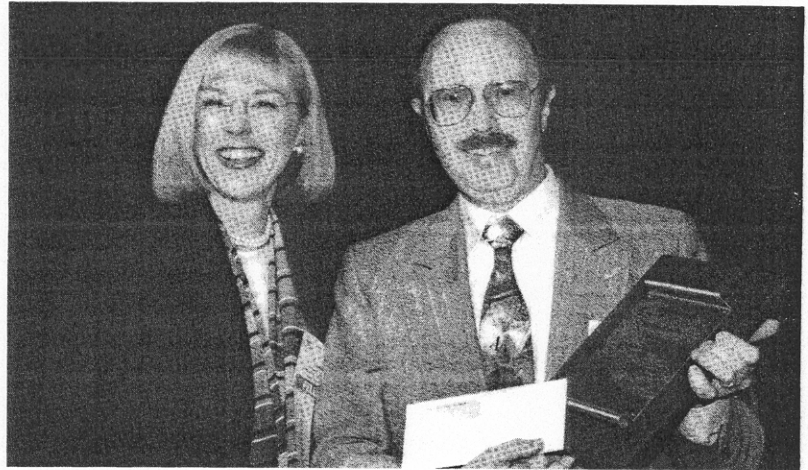
The proposal would cut costs further by eliminating duplicate reimbursements and incentives to fraudulently “build” claims, and by creating a schedule to limit pain-and-suffering payments.

Under the current system, the victim isn’t compensated and the wrongdoer doesn’t pay, but the insurance company does. In California, only nine percent of actual lost wages and medical claims are paid by the automobile insurance system for the most seriously injured claimants, according to Tobias.

The key to the plan, said Tobias, is that all unreimbursed medical expenses and lost wages would be covered. “By getting rid of lawyers and implementing no-fault, the profit incentive to pad a claim will disappear and fraud should be significantly reduced.”

Richard G. Woll, a senior actuary for Allstate Research and Planning Center, endorsed aspects of Tobias’s plan, including no fault insurance, scheduled

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Mack Receives First Hachemeister Prize

by Kelly Bauer

BOSTON, MA—Dr. Thomas Mack was the recipient of the first annual Charles A. Hachemeister Prize at the CAS Spring Meeting held here in May. James A. Hall, III, chairperson of the International Relations Committee, presented a plaque and a check for \$500 to Dr. Mack. Mack’s paper, “Which Stochastic Model is Underlying the Chain Ladder Method,” was chosen over several others that were judged by a specially appointed CAS committee.

The Hachemeister Prize was established last year to recognize Charles A. Hachemeister’s many contributions to Actuarial Studies in Non-Life Insurance (ASTIN) and his efforts to establish a closer relationship between the CAS and ASTIN.

Mack is currently working with Munich Reinsurance in Germany. He has served on the *ASTIN Bulletin* Committee and some of his articles have appeared in the *ASTIN Bulletin*.

Also, Yong Yao was named the 1994 recipient of the Harold W. Schloss Scholarship Fund at the CAS 1994 Spring Meeting. Yao, who was unable to attend the meeting, will be awarded a scholarship check for \$500.

Based upon need and academic excellence, the Schloss Scholarship is awarded to actuarial students at the University of Iowa. The student recipient is determined by the

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Proposed Health Care Reform Will Drastically Change State Workers’ Compensation Systems

BOSTON, MA—Hidden beneath the big picture issues of health care reform are potentially dramatic consequences for state workers’ compensation systems, said Richard Victor, director of the Workers’ Compensation Research Institute.

Frederick W. Kilbourne, an independent actuary for the Kilbourne Company, moderated the panel on health care reform at the CAS Spring Meeting held here in May, which also included Debra T. Ballen, senior vice president of policy development and research at the American Insurance Association (AIA), Edmund F. Kelly, president and chief operating officer at Liberty Mutual Insurance Group, and Michael Pritula, who is a partner at McKinsey & Company.

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From the Readers

Can Nominees Address Issues?

To the Editors:

I recently received the list of candidates chosen by the nominating committee for various CAS offices. As usual, the list is impressive and I am sure it will look more impressive when the ballots come out accompanied by the usual resumes. But what issues do the candidates find important? On what basis have they chosen their priorities and what methods of resolution do they have in mind?

I would like to have in hand when I vote, a brief exposition from each candidate addressing three or more issues of their choosing. The expositions could be brief, but still answer the foregoing questions. Each candidate could conclude with a statement as to why they can serve well in the office for which they have been nominated.

This touch will add representative features to what has been and I believe should continue to be a senatorial process. I believe such change is a practical necessity as our membership increases and practice diversity continues to expand within the casualty actuarial community.

Sincerely,
Jerry Degerness, FCAS

What Sets Us Apart

To the Editors:

"What Sets Us Apart" by Charles L. McClenahan seems to do a disservice to the broad membership of the CAS by attempting to define the members of the society through a series of stereotypes and with smug condescension.

I initially read through "What Sets Us Apart" with a smile while awaiting the punchline. It never came.

What is the value of perpetuating the stereotype of the actuary as someone who is better able to interact with computers and numbers than living beings? Why not fill in the picture? We prefer computers to dogs. We play Dungeons and Dragons when we are not studying. We wear pocket protectors, have calculator watches, and would rather compute free-throw percentages than actually play ball. We read *The American Mathematical Monthly*. They read *Rolling Stone*. We wear coke-bottle glasses. They wear contact lenses. We use a keyboard. They use crayons.

I do not dispute that there is no legitimate excuse for someone to turn a blind eye to the facts just because they are couched in mathematical language. Rather than derision though, we should be fostering a spirit of cooperativeness.

If we want them to listen to what we have to say, we must make the effort to show that what may initially be viewed as mathematical mumbo-jumbo can be seen as non-threatening reality. Ridicule and a tone of superiority will not aid in bridging the gap between us and them. If it really must be an us-versus-them proposition, we should strive to walk the high ground, keeping our minds open and working to gain mutual acceptance and understanding.

In my opinion, it is fortunate that "What Sets Us Apart" is within the *Actuarial Review* rather than being promulgated as a potential recruiting tool. Needless to say, I don't feel that a fair line between us and them has been drawn that would do any great service to those of us who are supposed to be on this side of the line.

And, some of us buy lottery tickets.

Respectfully,
Will Atkinson, ACAS, MAAA

Editor's Note: Charles L. McClenahan's response: "And some of us enjoy subtle humor."

Badges are Beautiful!

To the Editors:

Hurrah and a standing applause for those responsible for the printed programs and name badges at the Boston CAS meeting. After years of trying, we are as close as we can be to perfection. Don't change a thing.

Sincerely yours,
Jerome A. Scheibl, FCAS

Journal of Actuarial Practice Calls For Papers

Actuaries and other interested parties are invited to submit articles to the *Journal of Actuarial Practice* on any subject matter related to actuarial science or insurance. The journal accepts technical papers, commentaries, essays or book reviews; however, all articles must have some relevance to actuarial practice.

If you are interested, send (by fax or mail) a short abstract (150 words or less). Five (5) copies of the completed paper must be submitted by October 1, 1994 to:

Colin M. Ramsay
Journal of Actuarial Practice
PO Box 22098
Lincoln, NE 68542-2098
Phone & Fax: (402) 421-8149. ☐

Reinsurance Accounting Changes

To the Editors:

In "Reinsurance Accounting Changes" in the May 1994 edition, Frank D. Pierson presents a cogent summary of recent accounting changes enhanced by practical insights. However, one sentence begs for further comment, namely "Our profession was remiss in abdicating to the accounting profession the definition of risk transfer, something I believe we are best equipped to define." The term "abdication" overstates the facts in many ways.

As a fellow practitioner, I am unaware of any abdication by casualty actuaries. Accounting opinions follow accounting rules, just as actuarial opinions comply with actuarial principles and standards. If an actuary is engaged in providing analyses in support of an audit opinion, accounting definitions for risk transfer apply. Likewise, if an accountant is engaged to test data in support of an actuarial opinion, actuarial measures of materiality apply. Neither accountants nor actuaries have abdicated a professional responsibility by affording services in support of the other's profession. By working together, the two professions provide more valuable service.

Thus, in deciding whether transfer of risk exists for accounting purposes, the appropriate approach in any situation depends on a variety of considerations. Sometimes the decision is fairly straightforward. In other cases, an actuary is needed to properly model the insurance/deposit situation and communicate the conditions that generate losses. It is then the accountant's task to decide whether these facts are significant in terms of accounting criteria. The actuary's role in such engagements is not to opine on accounting decisions, but to provide information that accountants require in forming their opinions. The situ-

ation may be exclusively accounting or interdisciplinary depending on the circumstances. It is an accounting responsibility to evaluate the circumstances since the result will be an accounting opinion.

The term "abdication" also does not apply because FAS 113 is not a definitive solution. If FAS 113 were a definitive solution to insurance accounting issues, it would be applicable to primary insurance as well as reinsurance. It would need to consider expected profit to the reinsurer, not just potential loss. It would address pricing issues such as the accuracy of actuarial predictions—the less variance in an actuary's prediction, the less risk is transferred. And so on.

In short, there are many outstanding issues suggesting that FAS 113 is one step in the progress of insurance accounting, not a definitive solution. Since debate continues, abdication can not have occurred.

An incomplete solution is not an abdication, especially when it is not endorsed by any actuarial organization. Casualty actuaries are a vital force in reinsurance. Rumors of their death in the risk transfer area are greatly exaggerated.

Sincerely,
Alfred O. Weller, FCAS

Pierson Responds...

To the Editors:

This letter is in response to points raised by Al Weller in his recent letter to you.

Mr. Weller misunderstood me when I stated that our profession abdicated its role in developing a definition of risk transfer. I was not referring to the evaluation of risk transfer in any particular situation, but rather with respect to the definition of risk transfer itself. In SFAS 60, the accounting profession correctly required risk transfer be present for a contract to be treated as reinsurance. I believe, however, that once that requirement was established by the accounting profession, our profession, being the most qualified, should have developed the methodology to measure whether risk transfer was present. Instead, our profession played a fairly passive role in developing the definition that was ultimately included in SFAS 113.

As Mr. Weller points out in his letter, SFAS 113 is not a "definitive solution" in that it fails to address a number of key issues. I believe the reason that the definition of risk transfer contained in SFAS 113 is not more definitive is that our profession did not develop a definition of

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Quotable Actuarial Quotes

"But they are all actuaries . . ."

Katherine Simon (Mrs. LeRoy Simon) responding to Charlie Hewitt's observation that there were twice as many men as women present at the recent CAS past presidents dinner.

Have you heard a good one lately? AR welcomes contributions to this department, with or without attribution. □

From the Readers, Cont'd.

Pierson Responds...

Continued from page 5

risk transfer that addressed the issues mentioned by Mr. Weller.

Perhaps abdication was too harsh, but I still believe that our profession should have taken a more active role in developing the standard for risk transfer.

Sincerely,

Frank D. Pierson, FCAS

Describe the Authors

To the Editors:

I wonder if it would be helpful/appropriate to include—at the end of each article in the *Actuarial Review*—a brief description of the author. For example, it might make sense to note at the end of the May 1994 article “Bet on Bermuda!” that the author, Brian MacMahon, is the vice president and actuary of Centre Re in Bermuda.

Certainly those of us who are CAS members can always look up an author's affiliation in the latest yearbook. However, this look-up process does take some time. Also, presumably some readers of the *Actuarial Review* are not members of the CAS and do not have access to the *CAS Yearbook*.

On the other hand, I know including these additional lines of text would either increase the number of pages in our fine publication or take space from other worthwhile articles.

I'm sure there are additional arguments for and against including a brief description of the authors of the various articles. However, my own vote would be to include with the article a brief description of the author.

Sincerely yours,

John Pierce, FCAS, MAAA, MBA

Editor's Note: Thank you for your fine suggestion. You'll find brief descrip-

tions of authors commencing with this issue of the AR.

Benchmarking in Boston

To the Editors:

Readers of the *AR* may be interested in news of the “Benchmarking Corporate Actuarial Departments Workshop, Part 2”, held at the 1994 CAS Spring Meeting.

As a follow up to the November 1993 “Benchmarking” exercise when 49 companies responded to 49 loss reserving practice questions, Phillip N. Ben-Zvi, Charles A. Bryan and I led a discussion of best practices.

We had evaluated the responses to the November 1993 questionnaire, and had identified several areas of interest. ROE were somewhat higher for those companies stressing teamwork. The amount of technical analysis did not seem to improve the company's performance. Companies' use of staff varied considerably, and no conclusions could be drawn. Few companies did any reserve “tuning” to any major extent. Quality control did not appear significant in terms of profitability.

Much of the workshop time was spent discussing the actuarial merits or demerits of having separate versus overlapping duties in pricing and reserving. The session concluded with a general recognition that best practices are elusive for corporate actuarial reserving but that several benchmarks displayed were very useful to the participants.

The CAS office will retain a copy of: (1) benchmarking and best practices introductory reading material, (2) the 49 question survey, and (3) a spreadsheet of anonymous responses to the questions based on the November 1993 workshop of participating companies. You may re-

ceive a photocopy from Ms. Gwynne Hill at the CAS office, (703) 276-3100.

Sincerely,

Lee Steeneck, FCAS

'Prime' Candidate Requests Eleven Examinations

To the Editors:

As a serious mathematics student, recognizing the strong numerical forces driving our lives, my prime interest is in finding a career most suitable to my *Weltanschauung*. The *1994 CAS Yearbook* contains a lot of information that makes me think a career as a casualty actuary could be perfect for me.

As examples:

- I was immediately struck by the fact that the number of founding members of the CAS (97) is prime—clearly this lays a solid foundation for the society. And of course the sum of its digits (16) corresponds to the 16 Precepts of the Code of Professional Conduct: 16, the square of the first non-trivial square, connotes honesty and is obviously an appropriate base on which to build the Code of Professional Conduct!
- The CAS name was adopted on May 14, 1921; this date, expressed numerically as 5141921, is prime, as is the sum of its digits (23).
- The number of current members, 2,083 is prime, as is the sum of its digits (13).
- The sum of the numbers noted above in parentheses (97, 16, 23, and 13) is 149, another prime and the square root of the CAS's zip code, 22201.

I was further comforted to note that the CAS exams are offered in the fifth and eleventh months, upholding the

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'Prime' Candidate Requests Eleven Examinations

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prime relationships underlying the CAS's vital statistics. It is nice to know that there are seven Associateship exams and three Fellowship exams, but I feel it is far more important that the total number of exams be prime. *Please* consider increasing the number of exams to 11!

Recognizing that today, 6/28 is a doubly perfect date to send this letter, I am,

Yours Sincerely,

P. Ashe

Prime Actuarial Candidate

Editor's Note: AR editors appreciate the irrational humor and definitely concur the author is a prime candidate (but not necessarily for our institution). Readers are invited to further research the prime number connections to the CAS.

Actuarial Sighting

From the
National Review,
February 21, 1994

His Family Approves

Mr. William (not Commodore) Perry

Has the mien of a bushed actuary,

But the President glows

Like St. Nick in repose,

While the brass carry on and make merry.

by W. H. Von Dreele

Submitted by Bruce R. Spidell,
FCAS.

Quarterly Review

Meritocracy and Management

by Sholom Feldblum

The One Minute Manager, by Kenneth Blanchard and Spencer Johnson
(New York: Berkley Books, 1982); reviewed by Sholom Feldblum

The actuarial career path is framed by objective markers. Promotions depend on successfully completing the examinations, quickly and accurately performing rate reviews and reserve estimates, clearly coding computer programs, and cogently documenting the results of any analysis.

Yet people get lost in this meritocracy. Many highly capable actuaries, keenly aware of their professional requirements but oblivious to human needs, consistently lose the people who report to them. Actuarial departments often are filled with such "managers," who, having advanced rapidly through the exams, are proud of their technical expertise, and steadfastly judge subordinates by objective criteria of "excellence," but who slowly turn their environs into hotbeds of simmering resentment.

Yet the subjective, almost "touchy-feeling" philosophy espoused by human resources gurus is rightly derided even by managers who do care about people. Insurance companies are profit-making organizations, not summer camps. Week-long management seminars, even when supported by the companies and praised by the participants, are often avoided by time-conscious actuaries who cannot spare the hours away from work.

A satisfied worker, who is fairly treated, informed, and rewarded, is more productive. An hour spent on developing management skills may save weeks of future frustration when disillusioned workers lose the incentive to perform effectively.

Some actuaries purchase thick textbooks on management, thumb through the preface, then leave them to adorn their bookshelves. The resolutions to refine management skills wither as the day-to-day "crises" mount.

So take an hour of your time and read *The One Minute Manager*, by Kenneth Blanchard and Spencer Johnson (New York: Berkley Books, 1982). I received this slim volume in my first management seminar many years ago, and I am continually reminded of it as actuaries who report to me take management seminars of their own. This book is ideal for serious actuaries. It is clearly written, with almost "common-sense" advice that is, nevertheless, often unheeded.

The three linchpins of Blanchard and Spencer's management style involve setting goals, bestowing praise, and giving reprimands. Actuarial students who "rotate" to new assignments frequently complain that their supervisors fail to clearly state what is expected in the new job. Blanchard and Spencer recommend a one page, 250 word *written* summary of the goals of each new project, which both supervisor and worker can use to measure performance.

Actuaries understandably praise the spectacular. The good manager, however, *searches* for praiseworthy accomplishments. Actuarial projects are complex, interwoven tasks. The proper execution of each segment goes unnoticed, and the worker is left in the dark as to the value of his or her efforts. The good manager carefully examines the work of subordinates, not to highlight the errors, but to praise work that is well done, thereby ensuring that it will be performed no less competently in the future.

In most companies, performance is evaluated annually. Subordinates dread these reviews, and managers are put off by the antagonistic settings which they establish. Annual reviews, which encompass overall employee performance and salary increases, too

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Special Interest Seminar Focuses on Health Care

by Gary R. Josephson

The CAS Committee on Continuing Education will hold a seminar on "Medical Cost Containment and Health Issues," October 11 to 12, 1994, at the Hyatt Regency Hotel in Minneapolis.

Health care costs and the health care delivery system play an increasingly complex role in claim costs in the property/casualty insurance industry. This seminar will examine how casualty actuaries can assess the impact of changes in the health care system on casualty insurance products.

The committee is planning many session topics that focus on current developments in the national movement to reform health care, including topics that will focus on reform initiatives at the state level, the impact of health reform on casualty insurers, and medical cost containment strategies for casualty insurance.

Additional details about the seminar and registration information will be mailed to CAS members soon.

Gary R. Josephson, FCAS, who serves as chairperson for the CAS Committee on Continuing Education, is a consulting actuary for Milliman & Robertson, Inc., in Brookfield, Wisconsin. □

First Hachemeister Award Presented

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CAS Trustees in conjunction with the chairperson of the Actuarial Department at the University of Iowa.

Kelly Bauer is the receptionist/administrative assistant at the CAS office. □

Brainstorms

Large Claim Inflation Looms

by Stephen W. Philbrick

Inflation marches on, albeit at amounts reduced from a decade ago. And, as everyone knows, inflation on large claims exceeds the overall inflation amount.

Or does it? I run into many people who accept, as an article of faith, that inflation on larger claims will exceed the inflation on smaller claims. While at least one article has been written on the subject (for example, Rosenberg's 1981 Discussion paper, and perhaps readers will remind me of others), I think there are several unanswered questions.

- Has this occurred?
- Is it still happening?
- Does it happen in all lines of business?
- Is it related to *accelerated* inflation, in which case the opposite phenomenon might be occurring today?
- How do we measure it?
- Why should we care?

I will leave it to others to address some of the questions; I wish only to address the last two points.

It isn't difficult to explain why reinsurers might care about this issue (although this is a good time to emphasize that I am *not* talking about the leveraged effect of inflation on claims above a fixed retention, but the possibility that "million-dollar" claims are growing faster than "thousand-dollar" claims). Primary companies should also care, especially if their insureds are buying high-deductible coverage.

I recently reviewed the experience of a block of business, where an important question related to the appropriate inflation rate on the larger claims (the insured was switching to a large deductible policy).

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New Superfund Bill Could Make Insurers Financially Responsible

The House Energy and Commerce Subcommittee unanimously approved the mark-up of the revised Superfund legislation in late June, but some insurers say the bill's revised provisions could be damaging to the insurance industry.

The bill is significant to insurers who provide property/liability coverage because its new language eliminates provisions that allow insurance companies to recover litigation costs. Furthermore, insurers acting as lienholders will face greater financial responsibility for the cleanup of polluted sites, especially in cases where the property owners are bankrupt or insolvent.

Chubb Corporation President Richard Smith told CAS members at the 1994 CAS Spring Meeting in May that environmental-related liabilities pose a very serious threat to the financial health of the insurance industry.

He pointed out that the insurance industry has about \$170 billion in surplus compared with the potential cost of a national environmental cleanup, which is estimated at \$1 trillion.

During the drafting stages of the bill's language, Smith described negotiations among the Clinton administration, congressional leaders, potentially respon-

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Exam Committee Dialogue

by Glenn M. Walker

"I recently studied for Part 10. I received a list of topics from the CAS office, and the list of publications is shown in the CAS Syllabus of Examinations. Historically, current events is worth about 10 points. You can imagine my frustration when no current events topics were tested on Part 10." Jeff Eddinger, Boca Raton, FL.

There are several reasons why this could occur. First, any exam is only a sample of attained knowledge. A score of 70 does not imply that you know 70 percent of the material. Rather, it means you know 70 percent of the portion of the material that appeared on the exam. Ideally, the exam is a representative sampling of the entire exam.

To this end, the CAS Syllabus Committee produces a blueprint for each exam. This blueprint suggests to the Examination Committee how many points to assign to each category on the syllabus. It also suggests the portion of the exam to assign to memory, comprehension, assimilation, etc. This does not bind the Examination Committee, but should guide the writers.

Second, the Examination Committee rarely composes questions during the final review of the exam. Too often, these questions prove defective. If we discover an irreparable problem with a question during final review, we believe it is better to deviate from the blueprint than to quick fix a problem question in deference to the blueprint.

Third, and the direct answer to your question, sometimes the chairperson for that exam part does not like the questions the committee submits. The part chairperson can then:

1. do nothing, and not test the topic,

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CAS Membership Listing Now Available on Diskette

The CAS office is now offering subscriptions to the membership listing diskette service. For \$20, members can receive the membership listing that reflects the most recent information for CAS members (including those appearing in the *1994 Membership Information Update*). Subsequent annual subscriptions, which include two diskettes per year, will cost \$35.

The diskettes are compatible with common database packages including Foxpro, PFS File, and dBase. The membership file on the diskette will include the following fields:

- full name,
- designation and designation date,

- title,
- company address,
- telephone number, and
- facsimile number.

The service is available to CAS members only. Subscribers to the service will receive a membership diskette in January and July for the directories published in the *CAS Yearbook* and the *CAS Membership Information Update*, respectively, as well as a renewal notice every November.

To subscribe to the service, complete the form to the right, include proper payment, and return it to the CAS office at the indicated address.

Notice of Examinations Available

The CAS office has announced that the mailing list for the Notice of Examinations has been reduced. The list is now comprised of candidates and associates who have taken a CAS exam in the last two years.

Fellows and Associates who have not taken an exam in the last two years may obtain a copy of the Notice of Examinations by contacting the CAS office, (703) 276-3100.

Exam Results Summary

May 1994 Examinations			
Exam	Exams Taken	Cands. Passing	Passing %
3B	441	186	42%
4A	486	211	43%
4B	888	311	35%
5A	359	135	38%
5B	343	126	37%
6	628	233	37%
8/8C	334	129	39%
10	297	100	34%

YES! I would like to subscribe to the Membership Information Diskette Service. Enclosed is \$20 for the most recent update.

Name: _____

ACAS

FCAS

Company: _____

Address: _____

City, State, Zip: _____

Phone Number: _____

RETURN THIS FORM WITH YOUR PAYMENT TO:

The Casualty Actuarial Society
PO Box 425
Merrifield, VA 22116-0425

Committee Forms Task Forces

by Robert A. Bear

The CAS Committee on Reinsurance Research recently established task forces to accomplish the following goals:

1. develop a reinsurance bibliography;
2. develop a 1995 Call Paper Program;
3. identify and define reinsurance issues related to the appointed actuary concept;
4. initiate research on clash pricing methods;
5. initiate research on how much risk transfer there is in reinsurance transactions;
6. initiate research on reinsurance collectabilities;
7. initiate research on susceptibility to single events;
8. initiate research on the impact of loss sensitive contracts;
9. stimulate research on loss distributions for non-standard lines;
10. stimulate research on loss development patterns for non-standard lines and layers.

Robert A. Bear, who is the committee's chairperson, encourages CAS members who have a strong interest in these goals and a willingness to contribute a significant amount of time to these efforts to join a task force. Contact Jeffrey H. Mayer at (212) 279-7166 to discuss your interest and he will direct you to the appropriate task force. For further information about these goals, contact Robert A. Bear at (201) 301-8080.

Robert A. Bear, FCAS, is vice president for Signet Star Reinsurance Company in Florham Park, New Jersey. □

Regional Affiliates

by William J. VonSeggern

Casualty Actuaries of Greater New York

The spring meeting of the Casualty Actuaries of Greater New York (CAGNY) was held on April 22, 1994 in Newark, New Jersey at the Prudential Insurance Company.

The morning was kicked off by a discussion of the new catastrophe marketplace in Bermuda. Dan Pacicco of Ernst & Young and John DeMartini of Risk Management Solutions, Inc. spoke about the capitalization of those companies, why they were formed, what impact they have had on the U.S. property catastrophe market and how they approach the pricing of their business.

Allan M. Kaufman, president-elect of the CAS, discussed current issues of interest to the CAS Long Range Planning Committee. These include health care reform, solvency testing and the appointed actuary, continuing education and professionalism, and greater participation of the CAS membership in international actuarial conferences such as ASTIN.

Another panel covered a topic of interest titled "Cost Cutting in the Insurance Industry—Is Your Job Safe?" Michael Flaharty of Coopers & Lybrand discussed ways in which companies reduce claim settlement costs such as attorney fees. Dr. Raymond Manganelli, president of Gateway Management Consultants, spoke about how insurance companies are using re-engineering instead of downsizing to increase productivity and reduce costs. Then, Carolyn Ott of Leigh, Hecht, Harrison spoke about the types of individuals who survive a downsizing effort and why.

In a follow-up to a session on Lloyd's of London held a few years ago, Jack McGuinness, president of John S. McGuinness Associates, gave an historical perspective on

Continued on page 16

Board Approves New Dues Policy

CAS Fellows voted to approve a revised dues policy and the Board of Directors adopted this amendment of the CAS bylaws.

The revised policy will be effective October 1, 1994, and includes the following changes:

- the retirement age for permanent exemption from payment of dues is reduced from 62 to 55 years;
- the condition for a retirement exemption is revised to "and deriving little or no earned income," which replaces "and retired from full-time employment";
- automatic eligibility for a waiver of dues when a member is on temporary leave from the actuarial profession (for specified situations) is extended

for up to five years (currently limited to three years), and can be renewed annually with a written request;

- the condition for a waiver of dues while on temporary leave from the profession is revised to "and deriving little or no earned income"; and
- a provision is added for a deferral of dues due to unemployment while actively seeking employment. This provision can be renewed for a second year, with deferred dues to be paid when the member becomes employed.

The revised policy will be included in the 1995 CAS *Yearbook* and printed on 1994-95 dues notices that will be mailed to the CAS membership in October 1994. □

Random Sampler

Status of Solvency Opinions by US Actuaries

by Allan M. Kaufman

One of my responsibilities as president-elect this year has been monitoring developments related to the potential role for actuaries in providing solvency opinions. This *Random Sampler* describes the current regulatory status in the United States and the directions of the CAS.

AAA Position and Current Status

In 1992, the American Academy of Actuaries (AAA) issued its position paper on insurer solvency. The position paper proposed that regulatory officials establish a requirement that "...insurance company management...obtain each year a written report on surplus adequacy by an appropriately qualified actuary. That report should evaluate the company's financial status, both currently and under a range of future financial conditions." The AAA position paper also suggested the establishment of a central committee of actuaries to review the appointed actuary reports on behalf of the regulators.

Regulators have not adopted this approach. The reasons are numerous and include the following:

1. The actuarial profession is not yet ready with the techniques, education, standards, etc., needed to properly provide this evaluation.
2. Pressures following the failures of Mutual Benefit Life and Executive Life have subsided as those situations have been resolved.
3. Property/casualty insolvency funds have successfully protected the "small" customers (small in premium, large in numbers) from insurer insolvencies.

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Fellows Vote to Amend CAS Bylaws

By a vote taken during June and July, 1994, CAS Fellows approved various changes to the CAS Bylaws proposed by the Board of Directors. The affected articles were: III-Duties of Officers, V-Discipline of Members, and VII-Dues.

The duties of the treasurer now reflect the financial auditing schedule involving a CPA firm that was culminated in a report to the Board of Directors in February for the previous fiscal year. The treasurer will include an audited financial report in the *Proceedings*.

Two sections of Article V were amended to incorporate the changes adopted in the rules of procedure for the CAS Discipline Committee. In sections 2 and 3, the rights of a member in a disciplinary action were expanded to include the right, if there is a recommendation for public disciplinary action, to appear not only personally and by counsel before the CAS Discipline Committee but also "by other representatives." Other changes to section 2 include waiver, if

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From the President

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known to apply to insurance liabilities. On the other hand, "appointed actuary" conjures up notions of yet another compliance document to be completed.

This concept could be one that will serve to expand the horizons of casualty actuarial work in many respects. First, it can serve as the means of expanding our areas of expertise beyond our love affair with the loss development triangle. This, of course, does not mean that we have fully realized our potential with respect to estimating loss reserves. There is still just a tad bit of work left to do.

Second, it can serve as the means of providing those "value-added" services to our employers. If developed correctly,

dynamic financial analysis will be more than merely estimating the future financial results under a variety of parameterized circumstances in order to figure out what the balance sheet will look like. It could easily become the actuary's key to the active role in insurance management for which I have heard so many voice a desire and to which many believe we can make significant contributions.

This effort is now in the hands of the CAS Executive Council. We believe this effort is so pervasive that to have a single committee attempt to implement the 50 recommendations of the report from the Task Force on the Appointed Actuary would be impossible. So, the Executive Council, with President-Elect Allan Kaufman serving as the convener, has integrated this task into its goal this year. And we have also established an advi-

sory committee, headed by Brian Scott, to make sure that we stay on track.

But it won't be an easy task, and it will surely take more than a year to complete. You may already have started to notice the efforts in this area if you have seen the registration forms sent out for the CAS special interest seminars on finance, two of which have been offered since January.

Our challenge is at the same time ordinary and unique. It is ordinary in that each day presents its own set of opportunities to us to extend the ways in which we can contribute to the consumer of our services. It is unique in that it has been and will be a long time before an opening with such great potential presents itself again.

So what's in a name, anyway?

CAS Recognizes New Fellows



Pictured at left are CAS President Irene K. Bass and the new Fellows who were recognized at the CAS Spring Meeting held in May at the Boston Marriott Copley Place. They are:

Richard R. Anderson
Benoit Carrier
Stephen R. DiCenso
Shawn F. Doherty
George Fescos
Allan A. Kerin
Warren A. Klawitter
Gilbert M. Korthals
Paul W. Lavrey
John J. Limpert
Paul R. Livingstone
Cassandra M. McGill
Robert L. Miller
Donald D. Palmer
Karen L. Pehrson
Tom A. Smolen
Beth M. Wolfe

Back to School?

As a student preparing for a career as an actuary, someone may have advised you to take as many math courses as possible—perhaps even to earn an undergraduate degree in mathematics.

The CAS and Society of Actuaries recently published a new and improved career booklet that offers slightly different advice to CAS candidates considering a career in property/casualty actuarial science. The career booklet advises students to “aim for a broad-based education that concentrates on business and mathematics....but don’t rule out other subjects like economics, liberal arts or finance.”

The CAS membership has increased about 41 percent in the last 10 years. Though most of the CAS members hold bachelor’s degrees in math, many candidates are entering the society with very different educational backgrounds.

Here is a partial list of the different undergraduate educational backgrounds CAS members hold:

Physics, Classics, Greek, Economics, Creative Writing, English, Finance, Fine Arts, General Studies, Geophysical Science, Government, History, Liberal Arts, Astronomy, Music, Genetics, Psychology, Religious Studies, Engineering, Meteorology, Management, Physics, Political Science, Probability and Statistics, Quantitative Analysis, Science, Social Psychology, and Anthropology.

Entry-level property/casualty actuaries whose educational backgrounds fall under a category other than mathematics, actuarial science, or statistics may consider a master’s program in property/casualty actuarial science to provide es-

sential assistance in passing the CAS examinations.

“A person who majored in an area other than mathematics or actuarial science would benefit from a master’s degree program in actuarial science because it allows them more time to pass the exams,” said Stephen P. D’Arcy, FCAS and associate professor in the Department of Finance at the University of Illinois. D’Arcy added that the master’s program allows these students an opportunity to take courses they may not have had in their undergraduate program. D’Arcy also said that such a person would be “a more well-rounded actuary than a person with just a straight technical background of studies in mathematics or actuarial science.”

Glenn G. Meyers, FCAS, is an assistant vice president and actuary for the Insurance Services Office, Inc., in New York City. Prior to his work with ISO,

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CAS Admits New Associates

Pictured at right are CAS President Irene K. Bass and the 149 Associates who were recognized at the CAS Spring Meeting in May. They are:

Mark A. Addiego, Elise M. Ahearn, Timothy P. Aman, Michael J. Andring, William M. Atkinson, Lewis V. Augustine, Robert S. Ballmer II, Jack Barnett, Rose D. Barrett, Martin J. Beaulieu, Brian P. Beckman, Richard Belleau, Cynthia A. Bentley, LaVerne J. Biskner III, Suzanne E. Black, Michael G. Blake, Gina L. Blakeney-Smith, Erik R. Bouvin, Robert E. Brancel, Christopher G. Brunetti, Mark E. Burgess, Mark W. Callahan, Robert N. Campbell, Daniel G. Carr, Julia C. Causbie, Maureen A. Cavanaugh, Francis D. Cerasoli, Julie S. Chadowski, Daoguang E. Chen, John S. Chittenden, Kuei-Hsia R. Chu, Rita E. Ciccariello, Laura R. Claude, J. Paul Cochran, Frank S. Conde, Pamela A. Conlin, Francis L. Decker IV, Kurt S. Dickmann, Andrew J. Doll, John P. Doucette, Robert G. Downs, Bernard Dupont, David M. Elkins, Martin A. Epstein, Dianne L. Estrada, Michael A. Falcone, Karen M. Fenrich, Stephen A. Finch, Daniel B. Finn, Brian C. Fischer, Douglas E. Franklin, Kirsten A. Frantom, Cynthia J. Friess, Nathalie Gamache, Christine A. Gennett, Joyce G. Hallaway, William D. Hansen, Steven T. Harr, Lise A. Hasegawa, Amy J. Himmelberger, Thomas A. Huberty, Sandra L. Hunt, Fong-Yee J. Jao, June V. Jarvis, Charles N. Kasmer, Mark J. Kaufman, Louis K. Korth, Mary D. Kroggel, Cheung S. Kwan, Mylene J. Labelle, Bertrand J. LaChance, Blair W. Laddusaw, Elaine Lajeunesse, Lewis Y. Lee, Julie Lemieux-Roy, Paul B. LeSturgeon, Kenneth A. Levine, Aaron S. Levine, Frank K. Ling, Andrew M. Lloyd, Ronald P. Lowe Jr., Robert G. Lowery, Christopher J. Luker, Barbara S. Mahoney, Robert G. Mallison Jr., Gabriel O. Maravankin, Robert F. Maton, Emma Macasieb McCaffrey, Charles L. McGuire III, David W. McLaughry, Kathleen A. McMonigle, Robert F. Megens, Daniel J. Merk, Timothy Messier, Stephen J. Mildenhall, Scott M. Miller, Gregory A. Moore, Robert J. Moser, Mark A. O'Brien, Denise R. Olson, John E. Pannell, Wende A. Pemrick, Robert L. Penick, Beverly L. Phillips, Mark A. Piske, Gregory J. Poirier, Tracey S. Powers, Mark Priven, Arlie J. Proctor, Donald A. Riggins, Douglas S. Rivenburgh, Paul J. Rogness, David A. Russell, Sean W. Russell, Stephen P. Russell, Linda M. K. Saunders, Gerson Smith, Louis B. Spore, Douglas W. Stang, Laurence H. Stauffer, Judith L. Stolle, Ilene G. Stone, Collin J. Suttie, Jeanne E. Swanson, John P. Thorrick, Tony King Gwan Tio, Dom M. Tobey, Glenn A. Tobleman, Theresa A. Turnacioglu, Robert C. Turner Jr., Ching-Hom Rick Tzeng, Robert W. Van Epps, Jeffrey A. Van Kley, Mark D. van Zanden, Trent R. Vaughn, Robert J. Vogel, W. Olivia Wacker, Joseph W. Wallen, Lisa Marie Walsh, Alice M. Wang, Gregory S. Wanner, Michelle M. Wass, Geoffrey T. Werner, Tad E. Womack, Robert S. Yenke, Benny S. Yuen, George H. Zanjani, Joshua A. Zirin, Rita M. Zona.



Discipline Committee Explains Member Expulsion

Continued from page 1

- Specifically, Portermain was found to have siphoned money from Bercanus under false pretenses by causing and/or approving payments to South Rock Ltd., which acted as Bercanus's managing agent. The fees paid were held to be excessive in relation to the actual services performed.
- In addition, Portermain was found by the court to have taken money under false pretenses, perpetrated a fraud and breached fiduciary duties to Bercanus in arranging and controlling reinsurance transactions to a group of reinsurance companies, collectively known as the Avis Companies, which were found not to be *bona fide* reinsurance companies. The court found that the Portermain misappropriated assets of the Avis Companies by means of a sham in order to perpetrate a fraud on Bercanus and/or to avoid the personal liability they had on notes due to the Avis Companies.

- The court found these actions willful and malicious and awarded Bercanus over \$7 million in damages.

The ABCD and the CAS Discipline Committee have found that, based on the foregoing, Portermain's conduct violated the Guide to Professional Conduct of the American Academy of Actuaries and the CAS which were in effect at the time of the acts underlying the court's decision. This guide requires a member of the CAS to "act in a manner to uphold the dignity of the actuarial profession and to fulfill the profession's responsibility to the public." Portermain's conduct violated the requirements of ethical professional conduct required by the Code of Professional Conduct and thereby injured the dignity and reputation of the actuarial profession.

The CAS Discipline Committee, upon due consideration of these facts, decided upon an order of expulsion from the CAS. There was no appeal to the Board of Directors.

Editor's Note: Michael Fusco, FCAS, is chairperson of the CAS Discipline Committee. Staff of the AR have tried to contact Portermain for comment but have been unsuccessful. □

Editorial

Continued from page 2

featured speaker, a well-known television personality, was obtained through the facilities of a speaker's bureau.

As to subjects under discussion—we only show a sample. In 1969, the topics included: loss reserve problems (of course), operation of individual FAIR plans, insurance investments and capital markets, and current thoughts on ratemaking techniques. In 1994, the topics included: catastrophe exposure and ratemaking, asset risk and return, shareholder value, environmental liability exposure, actuarial standard on rate-of-return, and regression techniques.

A lot of water has passed under the bridge during the past 25 years. And we believe the attendant evolution has been good—responsive to the much tougher needs of a much larger CAS as well as the demands of a much broader scope of the casualty actuarial community.

We wonder what the next 25 years will bring. We wonder just how our 2019 Spring Meeting will compare with our 1994 Spring Meeting. Hmmm. □

Brainstorms

Continued from page 8

Looking at total limits trend versus basic limits trend doesn't answer the question. Total limits trend is expected to exceed basic limits trend (assuming a fixed basic limit) even if trend affects all claim sizes equally.

A better approach is to use an indexed basic limit, where the basic limit is increased by the amount of inflation. While this would appear to beg the question, an iterative solution is relatively straightforward with today's computing power. (Sheldon Rosenberg suggested this method in his 1981 discussion paper.) Once the indexed limit is calculated, the trend of losses below and above this limit can be examined.

Unfortunately, in the particular data set I was examining, the presence or ab-

sence of a few extremely large claims in any particular year distorted the trend calculations. It appeared that the large claims had a larger trend than small claims, but the results were too volatile to select a trend factor with confidence, or to determine whether the trend was increasing or decreasing.

Rosenberg also suggested (in his 1977 Review of Miccolis' paper on Increased Limits) that one could fit a lognormal to each year and look at how the θ^2 parameter changes over time. While this suggestion makes theoretical sense, the volatility of the actual data created more noise than signal.

Following a suggestion made by Joseph A. Boor, FCAS, we looked at various percentiles of the empirical losses. Tracking the 95th and 96th percentiles allowed us to look at the "upper end" of the distribution without the distortion of the very largest claims. We later tried

looking at the average of a few claims clustered around a particular percentile.

The specific project added other refinements (such as incorporating the concept outlined by Butsic where payment year and policy year effects are measured).

I would be interested in readers' reactions to several questions.

- Have you observed different inflation rates for different sizes of claims?
- Have you used any of the methods outlined here, or do you have better methods to calculate the trend rates?
- Is a percentile-based method valid, or are there better measures for large claims?

Stephen W. Philbrick, FCAS, is a consulting actuary for Tillinghast/Towers Perrin in Weatogue, Connecticut. □

Bylaws Change

Continued from page 11

by mutual *written* agreement of the parties, of the 45-day limit for notification for the convening of the CAS Discipline Committee to consider a public disciplinary action recommendation and the addition of a requirement that the CAS Discipline Committee provide notice to the member of action taken within two business days after a decision is made.

In section 3 of Article V, the amendment prohibits board members who also serve on the CAS Discipline Committee from participating and voting in the deliberations of the board on an appeal by a member disciplined by the CAS Discipline Committee.

The bylaws amendment includes several revisions for dues administration.

In section 2, a provision was added to give the Board of Directors discretionary authority to waive termination of a member who fails to pay dues (for example, as in the case of a member pending a disciplinary review).

Next, sections 3 and 4 were combined into one section 3 covering *Exemption, Deferral or Waiver* of dues. This new section states that the board has discretionary authority to establish all dues policies. The specification of age levels for dues exemption was removed from the bylaws.

These bylaws amendments will be incorporated into the *1995 CAS Yearbook*. For more information on new CAS dues policies see the article "Board Approves New Dues Policy" on page 10 in this issue. □

Missing Member

Evelyn M. Davis
FCAS 1927

If you have any information about this missing member, please contact Carla Anderson at the CAS office, (703) 276-3100.

Changes in Auto Insurance Require Industry-Wide Attention

Continued from page 3

pain and suffering, loss of income provisions capped at \$25,000, and elimination of duplication of benefits making auto coverage secondary.

"If the first four provisions of Tobias's plan were implemented, it's difficult to see why there would be a problem with uninsured motorists," Woll said.

The problem of uninsured motorists comes from the need to receive compensation through the liability system for the damages they inflict on others.

He did not agree that pay-at-the-pump would solve the uninsured motorist problem and significantly reduce claim expenses.

Woll also opposed insurance companies getting their customers through an auction process each year. "This would take away the right of people to choose

Superfund Bill Could Make Insurers Financially Responsible

Continued from page 8

sible parties, insurers and environmentalists as "extensive and heated," but they produced, in his opinion, "a reasonable and acceptable solution" to many of the problems associated with the Superfund program.

Smith urged CAS members to support the passage of the new Superfund legislation, despite the unsuccessful attempt to eliminate certain objectionable elements of the previous law, such as the retroactive liability provisions.

"We would like to eliminate retroactive liability too," Smith said. "We need to recognize that it is through compromise, taking centrist positions by environmentalists, potentially responsible parties and insurers, that we'll eventually get some active relief."

their own insurance companies and agents and would limit the motivation for insurers to provide quality service."

Tobias argued that his plan is a private enterprise that will enable companies to compete on price and quality and less on marketing, with no one company having more than 30 percent of the market. He added that under this plan, bids will be adjusted based on customer satisfaction.

Woll disputed Tobias's claim that the difference between high and low cost areas in a particular state is not very important because the highest frequency of accidents in high cost areas is offset by lower severity of accidents. He noted the difference between these areas as very material because the severity of accidents in metropolitan areas is higher than in rural areas.

Tobias emphasized the importance of changing the status quo. "It's our responsibility to make significant reforms to auto insurance in the next three to four years to prevent further suppression of rates and damage to the free market system." □

Lloyd S. Dixon, economist for the Institute for Civil Justice, RAND Corporation, argued that Superfund had failed in its mission of cleaning up toxic waste sites while generating substantial transaction costs.

"Superfund cleanups are too slow and too costly—the cleanup cost per site is \$25 to \$35 million," Dixon said. "The liability-based system is unfair and generates transaction costs that are too high."

Smith stressed that substantial progress had been made in core issues, including the selection of cleanup levels for polluted sites by establishing a set of national standards for site selection and evaluation contingent on the future use of the site. "This is a very significant compromise affecting the cost of cleanup," Smith said.

Other changes would reduce transaction costs for both potentially responsible parties and insurers and clarify uncertainties about liability exposure, he said. □

Regional Affiliates

Continued from page 10

how Lloyd's operated in the past and how they operate today. Peter Demerle, an attorney with Leboeuf Lamb, described how the reserve runoff plan is expected to work.

John J. Kollar, vice president at Insurance Services Office, Inc., presented an overview of dynamic solvency testing and the appointed actuary. John brought us up-to-date on the work of the committee responsible for this topic.

Finally, Bill Russell of Coopers & Lybrand and Jan Edelstein of AIG discussed the current Superfund legislation and the expected results of the reauthorization effort.

Elections of officers for 1994-95 were also held at the meeting. Orin Linden, outgoing president of CAGNY became the immediate past president, Frank Taylor was elected president, Regina Berens was elected president-elect, Brian Hughes was elected vice president, Vincent Sonia was elected secretary-treasurer, and Steven Visner was elected education chairman.

The next meeting of CAGNY is tentatively scheduled for September 1994.

Ontario Conference of Casualty Actuaries

The OCCA spring meeting featured presentations on reinsurance and Canadian Loss Experience Automobile Rating (CLEAR). Don Callahan, a reinsurance broker with Sedgwick Paine, discussed the 1994 renewal season and introduced the students to some reinsurance terms. The topic was Bill 164, the January 1, 1994, change in the Ontario automobile policy. The bill's enhanced accident benefits significantly increased the probable maximum loss per claimant and per occurrence. The higher cost and the uncertainty of a new product created initial availability problems. Capacity was eventually provided by "carve out" treaties where life insurers provided per claimant XOL coverage, permitting casualty reinsurers to provide "normal" occurrence coverage.

Back to School?

Continued from page 12

Meyers enhanced the actuarial program at the University of Iowa by starting casualty actuarial courses at the graduate level. These courses assist CAS candidates traveling through the CAS exams from part 1 to parts 3 and 4. The program also offers graduate courses in statistics, time series and regression analysis (for part 3A), numerical analysis (for part 3C), credibility, loss distributions and risk theory, life contingencies, and demographics.

Meyers agreed that a master's program in property/casualty actuarial science can help a CAS candidate become familiar with the field *before* taking his or her first actuarial job. "A [graduate] actuarial degree should be thought of as a means to get through the exams," Meyers said.

For an actuary who has been employed in the property/casualty field for several years, D'Arcy suggested that a master's degree in the area of finance "gives an actuary an opportunity to have an understanding of areas other than just actuarial science." Meyers agreed that a master's degree in finance, business administration, or a Ph.D. in mathematics

Roach Lacroix briefly updated the VICC's current activities before introducing Dr. Alala Bar, their chief statistician, who discussed the technical aspects of the CLEAR system. The critical component of CLEAR is a multiple regression model that predicts a vehicle's loss cost based on wheel base and power in addition to the traditional variables of price and age. The lively question and answer period that followed was a credit to the skills Dr. Barr learned as a professor and to the audience's understanding.

During the brief business section, 22 new subscribers were admitted, almost a 20 percent increase in OCCA's membership. Shawn Doherty reported on the successful Part 6 seminar organized by

would be better suited for an experienced actuary interested in expanding his or her educational background.

For the experienced actuary looking to advance his or her research skills, City University in London offers a post-graduate program in actuarial science available to experienced actuaries who have obtained fellowship in one of the actuarial societies of the U.K., U.S., Canada, or Australia. This program is research-based and allows qualified actuaries to pursue a master's degree though full- or part-time research. The educational objectives are to develop research skills within an actuarial science context, to further knowledge in a specific area, to increase the awareness of the importance of research within the actuarial profession, to increase the expertise and value of the graduate within his or her employment, and to encourage further research, either within the profession or through higher degrees.

To obtain a list of about 30 graduate schools offering advanced degrees in actuarial science (life and/or property/casualty) and a person to contact for further information, or to obtain a copy of the career booklet, contact the CAS at (703) 276-3100, or write to: Casualty Actuarial Society, 1100 North Glebe Road, Suite 600, Arlington, Virginia, 22201. □

education committee chairperson Jean Marc Leville. The membership approved the appointment of new chairs for the university relations and CIA liaison committees, respectively Andre Perez and Dan Davis.

Finally, OCCA thanks Tillinghast for the use of their excellent facilities.

Southwest Actuarial Forum

SWAF's next meeting will be held September 16 in Austin, Texas. The featured speaker will be J. Robert Hunter, Commissioner of Insurance for Texas.

William J. VonSeggern, FCAS, is the chief actuary for AAA Michigan in Livonia, Michigan. □

Random Sampler

Continued from page 11

4. Regulatory attention has returned to redlining and sales practices and away from solvency.
5. Insurer management has not been convinced of the need for the opinions, and a National Association of Insurance Commissioners (NAIC) requirement would likely generate strong opposition. In fact, at the June NAIC meeting, the American Council of Life Insurers presented a position in opposition to the AAA proposal.
6. The actuarial community intended that the reports be available only to management and the central committee of actuaries. This degree of confidentiality is unlikely to be achieved, and management and actuaries are concerned about public use of appointed actuary reports. For example, the proposed California regulation of life insurance valuation actuary opinions does not permit the actuarial opinion to include the usual disclaimers regarding future uncertainties.

A CAS View

The CAS Board of Director's view of appointed actuary developments is:

1. The analysis of future financial condition intended by the appointed actuary process is valuable to management regardless of regulatory requirements.
2. There are two immediate problems in bringing that value to our employers' clients:
 - a. we do not yet have all the required tools, and
 - b. the value to our employers/clients has not been demonstrated.

Assuming we develop the tools, but assuming there is no regulatory requirement for an "appointed actuary" report on a company's future financial condition, we envision a scene along the following lines.

1. The CAS research program (described below) progresses.
2. Forward-thinking management in a few companies adopts some of the procedures for analysis of future financial condition and develops a report for internal use.
3. The tools and reports used by those forward-thinking companies are shown to rating agencies and regulators to demonstrate how the company handles business risks.
4. Rating agencies and regulators ask for similar reports from other companies. The rating agencies are looking for further proof of good risk management. The regulators may be looking for proof that unfavorable financial implications, for example, a marginal risk-based capital rating or IRIS tests, are not indicative of further problems.

Obviously, the scenario described above assumes we have a good "product."

In some respects, this program is analogous to the development of the loss reserve opinion requirement which was not adopted until the use of an actuarial analysis in reserve setting had become relatively standard.

The CAS Education and Research Program

The research program has two fronts: assets and all other.

The asset program should be viewed separately from the rest of the research program for two reasons. First, there is a strong need to increase the ability of casualty actuaries to deal with the asset issues regardless of the appointed actuary effort. Second, the focus of the asset program is on the education of casualty actuaries regarding existing tools and the adaptation of tools from other disciplines, rather than on the development of new tools.

CAS Continuing Education and Admissions Committees are increasing the number and types of CAS education pro-

grams related to assets. This includes adding asset tracks to the existing seminars, introducing small group education courses, developing reading lists for those who prefer self-study, and working with other actuarial organizations—SOA, AFIR, etc. While there have been and will be changes in the *CAS Syllabus of Examinations*, the greater focus is on education for the current fellows, rather than candidates.

For the rest of the research program, the focus is on research first and education second. The highest priorities have been assigned to the following research projects.

1. Develop a model "appointed actuary" report. While it sounds backwards to develop the report before we know what we are doing, the purpose of the model report is to more precisely define what we know and where we need to further our research. Preliminary work in this area was presented at the CAS Spring Meeting held in May.
2. Survey and report on the types of financial models that are currently in use by casualty actuaries. This project is aiming to produce a paper for the summer edition of the *1994 CAS Forum*.
3. Analyze historical variability in critical insurer financial items such as loss reserves, loss ratios, asset values, expenses, and surplus. This aims to provide a "fact base" for projection of future financial condition. A special research task force is working on this project. Other important projects include the identification of the most important reinsurance issues for the "appointed actuary" report and furthering the development of financial models that incorporate more of the elements for a proper analysis of a company's future financial condition.

Allan M. Kaufman, FCAS, is the CAS President-Elect. He is a principal with Milliman & Robertson, Inc., in West Paterson, New Jersey. □

Insurers Must Manage Exposures Better

Continued from page 1

earthquake losses equal to nearly 40 percent of its surplus, jeopardizing its A rating from A.M. Best Company and possibly its ability to write homeowners insurance. "Exposure is the key to understanding this business," he said.

According to Kramer, Allstate has said it would like to reduce its windstorm exposure to \$1 billion in its various accumulation zones. To reduce this exposure, insurers must buy massive amounts of catastrophe reinsurance, Kramer said, and alternatively must de-market—or actively reduce—their market share.

The current limits of catastrophe reinsurance cover are from \$300 to \$350 million, Kramer said, adding that "no one's ever bought \$1 billion before, but I think that will happen."



"Understand your exposures," Kramer told CAS members.

There is latent demand for catastrophe reinsurance, Kramer explained, and with a slight decrease in rates will come a dramatic increase in demand, particularly at the very high end. "The lesson is for everybody," he said. "You've got to understand your exposure and manage it."

Kramer noted that state catastrophe plans such as those developed in California and Florida in theory want to merge their specific exposures to earthquake and wind with other much less vulnerable states. "You can't do that, but that's what everybody would like to do," Kramer said.

Herb F. Clark discussed the Florida cat fund. He serves as the chief of staff at the Office of the Florida Treasurer, Insurance Commissioner and Fire Marshall. Clark stated that government will step in "any time you folks can't deliver on your promises." Clark explained this warning by stating that after Andrew, ten Florida companies became insolvent and the state guaranty fund ran out of money. Clark said insurance companies did not answer the call to support a bond issue needed to pay the claims of the insolvent insurers. From a financial and regulatory perspective, "we are not prepared for the next mega-catastrophe," Clark said.

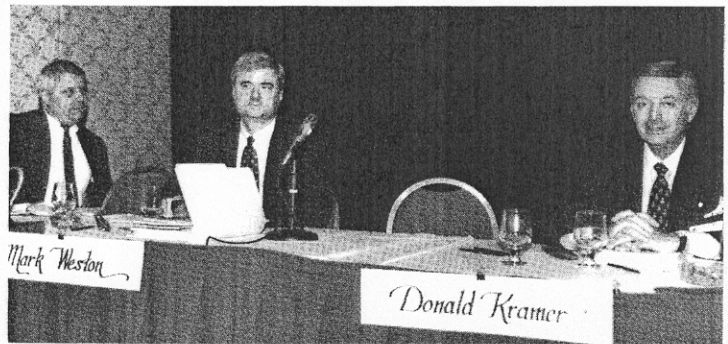
A federal solution now before Congress, the Natural Disaster Protection Act, would create a private sector-funded national reinsurance facility that would provide reinsurance and charge a premium to be set by the Federal Emergency Management Agency (FEMA), he said.

Reimbursement by the reinsurance facility would be triggered should insured losses from a catastrophe or series of catastrophes exceed 15 percent of worldwide surplus, or about \$24 billion, according to Clark.

"This is the real solution to our problem of funding mega-catastrophes, and not a state solution," Clark said. "The Florida solution was only created in case Congress did not act."

Mark Weston, national director of International Insurance for Ernst & Young, reviewed changes in tax, accounting, and regulations that will impact insurance and catastrophes.

The Financial Accounting and Standards Board issued FAS 113 that affected the accounting and reporting of reinsurance of short and long duration time tracks. Weston said that members of the FASB issued FAS 113 because they



Clark, Weston, and Kramer discuss Catastrophe Insurance.

thought that the reinsurance accounting was inconsistent with some of the other standards they had in place, and because of the diversity and complexity of reinsurance transactions.

Weston summarized four changes in FAS 113 to the traditional reporting and accounting for reinsurance contracts. FAS 113:

1. eliminates the long-standing practice of reporting liabilities net of reinsurance;
2. precludes immediate recognition of gains from ceded reinsurance transactions;
3. establishes the conditions for reinsurance contracts to meet the transfer of risk criteria; and
4. expands disclosures.

Furthermore, FAS 113 defines insurance risk as the risk of uncertainties about both the underwriting risk and the timing risk, Weston said.

"In the past, many people looked at timing risk as being sufficient to have the insurance risk qualify for reinsurance accounting," Weston said, adding that "FAS 113 changes all of that."

Weston mentioned another measure, FAS 5, that deals with loss contingencies and requires that certain tests be met to set up contingency reserves. As a result, many catastrophe reserves that insurers have established to meet future losses don't necessarily meet those tests, Weston explained.

"Just remember that the rules have changed and they have become more complex," Weston said. □

Health Care Reform Changes Workers' Compensation Systems

Continued from page 3

Whether or not President Clinton's proposal to integrate workers' compensation medical care into a larger delivery and financing system is adopted, Victor said, "workers' comp could be significantly and adversely affected unless some important counter measures are taken."

The cost consequences of proposed Title X, the Health Security Act, will impact workers' comp at both the state and federal levels, he said. Title X: creates alliances to pool risk; preempts state law on choice of provider; maintains employer liability for medical and income benefits under state law; and retains workers' comp on a fee-for-service basis with the fee schedule set by alliances.

If the fee schedule were adopted under Title X and were equivalent to the medicare fee schedule, workers' comp medical costs would fall by an estimated \$3.9 billion. However, if workers' comp remains fee-for-service, workers' comp costs could increase \$13.5 billion.

"The conventional wisdom about HMOs is that they have a more cost effective practice style," Victor said. "If they spill over into workers' comp, medical costs could be reduced by at most \$1-3 billion, while increasing costs on the income benefit side."

According to Edmund Kelly of Liberty Mutual Insurance Company, "effective state level workers' comp systems still serve society very well. These systems ensure work place safety, quality occupational medical care, rehabilitation and wage replacement and, most importantly, a focus on an early return to productive employment.

"In several states, we've seen significant reductions in costs of workers' compensation," Kelly said, adding that workers' comp costs in Oregon have decreased 45 percent over the past four years.

"The underlying theme in all of these proposals to reform the health care system is massive federal government intervention—the belief that the federal government knows better and can do better than the states and private sector," Kelly said. "Yet, we see a very active effort on the part of the private sector to come to grips with the problems of workers' comp."

"The federal approach is wrong because the incentive for a quick return to work would be muddled and incentives for over-treatment would be left to providers and lead to runaway costs," Edmund Kelly said.

The private sector is responding to the medical cost problem, in terms of alliances and mechanisms of control, to ensure the better delivery of high quality medical care geared toward a quick return to work.

"The federal approach is wrong because the incentive for a quick return to work would be muddled and incentives for over-treatment would be left to providers and lead to runaway costs," Kelly said. Consequently, all proposed cost savings would be eliminated and fraud would increase.

Debra T. Ballen of the AIA presented an alternative to Title X that AIA has developed in conjunction with unions and employers in the construction industry.

AIA's proposal recommends: incorporating a carve-out from state-based workers' comp systems for collective bargaining agreements in the building and construction trades; prohibiting cost shifting through price discrimination for workers' comp versus other types of claims and other practices to hide price discrimination, thereby allowing insurers to offer managed care to their policy-

holders; and retaining state law with limited preemption of workers' comp and auto insurance.

She added that "the fate of workers' comp remains very much tied to the overall outlook for the broader health care reform bill."

Michael Pritula of McKinsey & Company said, "Never before has there been so great a debate engaged with so few

facts to inform." He explained that so many workers' comp carriers are focusing on the medical cost containment challenge because of the upward cost pressure, which is due to cost shifting and the enormous "value creation potential."

However, the medical cost containment challenge is not the only item on the agenda for workers' comp business. Pritula mentioned other challenges, including: reducing the underlying loss costs by improving risk selection and segmentation; implementing very aggressive claims operations and loss control programs; applying medical cost containment or risk sharing to reduce fees and prevent cost shifting; improving administrative efficiency; and preparing for a potential 24-hour coverage environment.

"Medical cost containment and preparing for potential 24-hour coverage are those factors on the agenda that are driving workers' compensation carriers to consider integration or alliances with other health care players," Pritula said. □

It's A Puzzlement

by John P. Robertson

Insurance

Between them, Rick Campbell and LeRoy Simon found 167 words of four or more letters that can be made from the word "insurance" and meet the conditions given in the last issue. Some words are clearly related to the insurance business, such as cause, earn, incur, insure, and suer. Others I hope are not direct descriptions of this business, such as ennui, inane, insane, nuisance, and ruin. Rick and LeRoy each found most of the following: acinus, acne, acre, anes, anise, anuric, anus, arcus, arise, arisen, arse, arsenic, ar-sine, asci, aune, auric, aurin, cairn, cane, caner, canine, canner, cannie, cannier, care, carer, caries, carnies, carnin, carmine, carse, case, casein, casern, cause, causer, cens, ceras, cerasin, ceria, cerin, cesura, cire, cran, crane, crannies, crena, cries, cris, cruise, crus, cruse, cuer, cure, curia, curiae, curie, curn, curse, earn, ecru, encina, ennui, eria, eric, eruca, icer, inane, incarn, incase, incur, incus, inne, inner, insane, insnare, insue, in-sure, inure, inum, nacre, narc, nare, nares, naris, near, neuric, neurin, nice, nicer, nine, nuance, nuisance, nurse, race, rain, raise, rani, ranine, rannies, rase, rein, reina, reis, rena, renin, resin, rice, rine, rinse, rise, risen, ruin, rune, runic, ruse, rusine, sacre, saic, sain, sane, saner, sari, sauce, saucer, saucier, saur, scan, scanner, scar, scare, scan, scrine, scunner, sear, senna, sera, serac, serin, sice, sienna, since, sine, sinner, sire, siren, snar, snare, sone, sucre, suer, sunn, sunnier, sura, sure, surm, uncia, unnear, uran, uranic, uranin, urea, ureic, uric, urine, ursine, user.

Two Envelopes

You are asked to select one of two envelopes and told that one of the envelopes contains twice as much money as the other. You find \$100 in the envelope you select. You are offered the opportunity to select the other envelope, but then you must keep only the money in the second envelope. (You would be offered this opportunity regardless of the envelope you selected.) Is it better to switch or stand? On the surface, it would seem advantageous to switch. There is a 50-50 chance the other envelope contains \$50 and a 50-50 chance the other envelope contains \$200. Thus the expected value of switching is \$125, \$25 more than the amount in the envelope you selected first. Is this reasoning correct? If so, how can switching increase the "take" by 25%, on the average? If the reasoning is not correct, why not? What do you think?

Have you heard of variations on this puzzle? What are they? What do you think of any solutions you may have seen?

John P. Robertson, FCAS, is assistant vice president and actuary for CIGNA Property & Casualty in Philadelphia, Pennsylvania. □

Quarterly Review

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often seem to focus on the person. The "reprimands" discussed by Blanchard and Spencer, in contrast, deal with specific behavior, not with the person. In fact, the worker's abilities should be ac-

knowledged, even when ineffective or poor performance is criticized.

One cannot quarrel with the over-burdened actuary's dismissal of extended management retreats and jargon-laden business journal articles. But productive results stem from secure, motivated and willing workers, not from students castigated solely for failed exams and subtle

Exam Committee Dialogue

Continued from page 9

2. ask for better questions from the committee, or write the questions himself/herself, or
3. edit questions from previous exams.

Sometimes the part committee is unable to develop good questions on particular topics in time to meet the deadlines. Also, it can be difficult to pose questions on some current events topics.

Finally, current events is more delicate than most syllabus topics. As students frequently point out to us, we must write the current events list by January. We do not finalize the exam until several months later. Sometimes a topic loses interest between the time we publish the list and the time we finalize the exam.

Glenn M. Walker, FCAS, who serves on the CAS Examination Committee, is a consulting actuary in Bowie, Maryland. □

In Memory Of

Henry F. Rood
(ACAS 1962)

June 11, 1994

errors in their projects. Get of copy of *The One Minute Manager*. Recommend it to those who work for you and, on the sly, read it yourself.

Sholom Feldblum, FCAS, is assistant vice president and associate actuary for Liberty Mutual Insurance Company in Boston, Massachusetts. □