Actuarial UPDATE
THE NEWSMONTHLY OF THE AMERICAN ACADEMY OF ACTUARIES

# Congress Calls on Academy for ACA Testimony

ACADEMY SENIOR Health Fellow Cori Uccello appeared before Congress on June 18 to testify on the risk-sharing programs incorporated in the Affordable Care Act (ACA). Uccello explained the structure of the three programs—risk adjustment, reinsurance, and risk corridors—and answered questions from both sides of the aisle.

Uccello was a member of a four-person panel convened by the House Committee on Oversight and Government Reform, Subcommittee on Economic Growth, Job Creation, and Regulatory Affairs. It was one of three panels participating in a hearing the committee titled "Poised to Profit: How Obamacare Helps Insurance Companies Even if It Fails Patients."

Uccello explained the ACA's provisions for spreading risk among insurers, noting that "the law poses some financial risks for insurers, which could limit competition and plan choice for consumers." The law's architects sought to address these concerns, Uccello explained, with three programs:

- Risk Adjustment—under which "insurers with larger shares of low-cost enrollees will contribute to a fund that will make payments to insurers with larger shares of high-cost enrollees";
- Reinsurance—a temporary program in which funds will be collected from health plans, then used to pay plans in the individual market for a portion of an individual's claims exceeding $45,000. The reinsurance program currently peaks at $10 billion for the 2014 plan year, and phases out over three years, "to address the likelihood that the earliest enrollees will be those with higher costs";
- And Risk Corridors—a temporary provision, running through 2016, which limits insurer gains and losses. If actual claims are within 3 percent of expected, insurers "either keep the gains or bear the losses." A portion of gains exceeding that threshold are paid to the federal government, and a portion of losses exceeding the threshold is reimbursed to the insurer by the federal government. Insurers have some, but not full, protection against losses.

Uccello also provided a more detailed written statement.

Other panelists included University of Houston Law Professor Seth Chandler, Heritage Foundation Senior Research Fellow Edmund Haislmaier, and National Center for Policy Analysis Senior Fellow John Graham.

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Academy Senior Health Fellow Cori Uccello is sworn in before Congress.

## Putting 2015 Insurance Premiums Into Context

**MAKING HER SECOND** appearance on Capitol Hill in two weeks, Academy Senior Health Fellow Cori Uccello spoke before policymakers and members of the press June 27 at a briefing sponsored by the Alliance for Health Reform and the Commonwealth Fund.

The session, titled "Rates of Change: Putting 2015 Health Insurance Premiums Into Context," was televised by CSPAN, and a recording is available on its website. Uccello, as part of a panel of experts, spoke on the drivers affecting health insurance premiums for the 2015 plan year.

The topic has been a recent focus for the Academy, and is the subject of a new issue brief released this month (see story, Page 6).

She took questions from congressional staffers and representatives of stakeholders in the health insurance market, including Consumers Union, the National Association of Health Underwriters, and the Congressional Research Service.

## JULY

**10-13** NCOIL summer meeting, Boston

**14** Academy Summer Summit, Washington

## AUGUST

**7** Executive Committee meeting, Washington

**16-19** NAIC summer meeting, Louisville, Ky.

## SEPTEMBER

**15–16** Casualty Loss Reserve Seminar, San Diego

## OCTOBER

**7-8** Academy Board of Directors meeting, Washington

## NOVEMBER

**10-13** 2014 Life and Health Qualifications Seminar, Arlington, Va.

**13-14** Academy Annual Meeting, Washington

**16-20** NAIC fall meeting, Washington

**20-23** NCOIL annual meeting, San Francisco

## DECEMBER

**4** Executive Committee meeting, Washington

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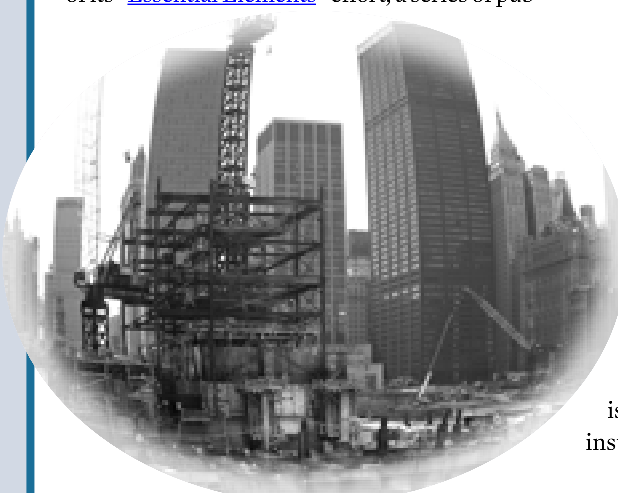
# Essential Elements: The Terrorism Risk Insurance Act

THE TERRORIST ATTACKS OF Sept. 11, 2001, profoundly affected the United States in many ways including forcing insurers to account for a relatively new source of risk. The attacks produced the most expensive round of claims ever paid by American insurance companies to date. This led to the large-scale introduction of a type of insurance that had been comparatively obscure before then—terrorism risk insurance—and federal efforts to regulate and support it.

The issue has been in the news recently, with bills to extend the 2002 Terrorism Risk Insurance Act (TRIA) currently making their way through both the U.S. House and Senate. With this in mind, the Academy has published a paper on TRIA, and the issues surrounding it, as part of its "Essential Elements" effort, a series of publications designed to make actuarial analyses of public policy issues more accessible to widespread audiences.



TRIA, the paper explains, provides a federal backstop for losses resulting from terrorist attacks once claims exceed a specific threshold. Though the backstop helped to make terrorism risk insurance a realistic solution for commercial properties, constantly changing risks make it an evolving market.

This "Essential Elements" paper discusses:

- How terrorism insurance differs from other insurance markets, and why it is difficult for insurers to measure risks and price products appropriately;
- Difficulties in measuring the frequency of claims;
- Range in severity of claims (e.g., amount of loss), which depend on the location and type of attack;
- Challenges posed by the traditional insurance model because losses are not random; and
- Limited ability of property owners to reduce their risks.

TRIA will expire at the end of 2014 unless Congress takes action. Both the House and Senate are currently considering bills that would extend the law, but there are important differences in the legislation, and the future of the terrorism risk insurance program is not yet certain.

## IN THE NEWS

AN ACADEMY subgroup's projection of the cost of claims from a hypothetical large-scale terrorist attack on New York was mentioned in a June 2 posting on *The Hill*'s Congress blog titled "Why we must reauthorize TRIA." On June 3, the Senate Banking Committee approved legislation that would reauthorize the Terrorism Risk Insurance Act (TRIA) for seven years.

The Academy's Social Security Game was mentioned in a Bloomberg View column as a tool demonstrating that it's "surprisingly easy to numerically make Social Security very solvent...It's the politics that are so challenging," wrote the columnist, who was examining options for ensuring Social Security's long-term solvency.

A Forbes column cited Academy statistics on cost savings from consumer-directed plans. The statistics are from the report, *The Emerging Data on Consumer-Driven Health Plans*.

Senior Health Fellow Cori Uccello's testimony before the U.S. House Committee on Oversight and Government Reform's Subcommittee on Economic Growth, Job Creation, and Regulatory Affairs on the ACA's risk-sharing mechanisms received extensive media coverage. Uccello's testimony helped describe the programs to members of Congress "in plain English," according to a *LifeHealthPro* story. A second *LifeHealthPro* story cited Uccello's response to a question about the performance of the risk corridor program.

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Other outlets that covered the testimony included The Daily Signal, InsuranceNewsNet, and the BenefitsLink Health & Welfare Plans Newsletter.

Additionally, Uccello highlighted several points of interest for readers of a (subscriber-only) *Health Plan Week* article on the Center for Medicare & Medicaid Services' (CMS) May 16 final rule on Affordable Care Act (ACA) risk corridor and reinsurance programs. Uccello was quoted by the following media outlets regarding the uncertainty insurers face in 2015 rate filings:

- *The Miami Herald*
- *The Charlotte Observer*
- *The Redding (Calif.) Record Searchlight*
- LimaOhio.com

Academy Senior Pension Fellow Donald Fuerst explained in *Governing* magazine's recent "The 7 Deadly Sins of Public Finance" article that public-employee pension plans that are overly optimistic about investment returns are taking on excessive risk. "That means they're targeting a pension funding level that's lower than what most people might consider prudent," he told the magazine, which is producing a series of articles on financial risk aimed at public officials. The article was reprinted in *InsuranceNewsNet*.

Fuerst also provided pointers for understanding the required annual funding notices that pension plan participants receive in a column that ran in the following media outlets:

- *The Detroit News*
- *The Tampa Bay Times*
- *The Lexington (Ky.) Herald-Leader*
- *The Albany Times Union*
- *The (Medford, Ore.) Mail Tribune*

The Academy's warning that an 80 percent funded ratio does not provide a sufficient measure of the financial health of a pension plan was highlighted in an Economic Policy Institute blog posting on "Understanding Cuts to Public Pensions," and in a (subscriber-only) *Modern Healthcare* story on health-care system pension funds.

The Code of Professional Conduct was cited as an example of an ethical code developed by a profession in an article published in *Fortune* magazine and JDSupra, that argues for the value of developing such codes. The code identifies the professional and ethical standards required of actuaries who belong to the Academy; sets forth what it means for an actuary to act as a professional; and identifies the responsibilities that actuaries have to their clients, employers, the actuarial profession, and the public.

An editorial in *Barron's magazine* noted the Academy's concerns over congressional proposals to use pension provisions as revenue offsets. In an April 17 letter addressed to the bipartisan, bicameral congressional leadership, the Pension Practice Council urged that proposed changes to pension funding rules and insurance premiums be evaluated "based primarily on their effect on the private-sector pension system and its stakeholders (participants, sponsors, and the PBGC), rather than primarily as a means to offset spending for other purposes."


The Academy's issue brief, *Drivers of 2015 Health Insurance Premium Changes*, was praised as "a helpful explainer of 2015 premium rate drivers" in the Georgetown University Health Policy Institute's Center on Health Insurance Reforms blog. The brief, which provides an overview of the factors underlying general premium rate setting and highlights the major drivers behind why 2015 premiums could differ from those in 2014 under the Affordable Care Act, was also reported on by Insurance & Financial Advisor, Health Policy News Stand, and by other media outlets.

Health Care Costs Work Group Chairperson Audrey Halvorson's explanation of risk pools was carried by *The Yuma Sun*. Arizona leads the nation in the percentage of children who enrolled through the federal marketplace, but had fewer enrollees than average in every other age group.

The Academy's analysis of state decisions regarding renewals of non-Affordable Care Act (ACA)-compliant health plans was featured in a Commonwealth Fund blog posting reviewing the transitional policy.

The Academy's work on the risks of public pension plan funding was cited in a *Journal-Star* (Lincoln, Neb.) story. Visit the Public Pension Plans Actuarial E-Guide to view the Academy's work on the funded status of state and local government-sponsored pension plans.

Academy analysis of life expectancy was used to illustrate the risks of early claiming of Social Security retirement benefits in a Bankrate.com Retirement Blog posting. The Academy's Social Security resources are available in the "Pensions" section under the "Public Policy" tab at www.actuary.org.

The Pension Committee's concerns over the quality of data used to produce the RP-2014 mortality table in the Society of Actuaries' Retirement Plans Experience Committee's RP-2014 and MP-2014 exposure drafts were highlighted in the BenefitsLink Retirement Plans Newsletter. The newsletter also highlighted an article from the May/June issue of *Contingencies*, "Drilling Down: Demographic and Geographic Differences in Retirement Plan Participation."

The Social Security Committee's updated issue brief, *Quantitative Measures for Evaluating Social Security Reform Proposals*, was highlighted in a blog posting. The measurement tools described in the brief provide policymakers and the public with important information needed to fairly evaluate reform proposals.

# Professionalism Webinar: "Disclosure in the Real World: ASOP No. 41 Case Studies"

"THE FACT IS CONFUSION still exists out there about what an actuarial communication is, and there are certainly gray areas to consider," said Al Beer, former Actuarial Standards Board (ASB) chairperson and panelist during the June 26 professionalism webinar "Disclosure in the Real World: ASOP No. 41 Case Studies." This webinar provided 4,900 attendees with an overview of actuarial communications rules, standards, and regulations, and, more important, focused on practical case studies and delicate situations that may call into question an actuary's responsibilities and ethics.

Panelists made clear during the webinar to never underestimate the value of reviewing applicable standards and precepts from the Code of Professional Conduct to consider the implications of actuarial communications and ethical obligations in daily practice. The panelists also stressed that such regulations are an actuary's friend and assist an actuary in avoiding future issues due to lack of adequate disclosures or unclear opinions.

"The evolution of actuarial disclosures today is to assume a broader responsibility for our reports," Beer said, noting, "As an actuary you have a responsibility to your profession and your communications that takes you beyond being a glorified spreadsheet."

The panelists discussed with attendees various example case scenarios including pressure from one's principal to limit necessary disclosures and when or whether an actuary's informal conduct potentially triggers application of actuarial communication standards. As stated by Patricia Matson, the current ASB chairperson, one of the goals of the scenarios is to illustrate that professionalism dilemmas on actuarial communications and similar matters are not black and white but usually require professional judgment.

"The case study questions were designed to not have correct answers," she explained. "In professionalism there isn't a right and wrong answer – there's the best answer under your specific circumstances."

Beer reminded attendees that they can get help with their complex professionalism issues by contacting the Actuarial Board of Counseling and Discipline (ABCD) and remembering to "focus on the C (counseling) instead of the D (discipline) when doing so."

## PROFESSIONALISM BRIEFS

➡ On June 5, **Allan Ryan**, member of the Actuarial Board for Counseling and Discipline (ABCD), spoke at the Prudential Annual Actuarial Ethics Seminar in Newark, N.J. Ryan presented on professionalism and ethics, and the role of the ABCD in the framework of actuarial professionalism.

➡ On June 6, **Chris Carlson**, liaison to the Casualty Committee of the Actuarial Standards Board (ASB), gave a presentation on professionalism at the Southwest Actuarial Forum in Houston, TX. Carlson demonstrated real-life case studies regarding adherence to Actuarial Standards of Practice (ASOPs).

➡ On June 18, **D. Joeff Williams**, vice chairperson of the Council on Professionalism, spoke on actuarial qualification standards during the Spring Meeting of the Southeastern Actuaries Conference in Clearwater Beach, Fla. **Lloyd Spencer**, chairperson of the Committee on Professional Responsibility, also presented during the conference on the professionalism landscape in the U.S. and the *Code of Professional Conduct* as its centerpiece.

➡ On June 20, **Tom Snook**, member of the General Committee of the ASB, spoke at the Actuaries Club of the Southwest Spring Meeting in San Antonio, TX. Snook's presentation featured background information about the ASB, and discussion regarding last year's changes to ASOP No. 1: *Introductory Actuarial Standard of Practice*.

## ACA Testimony, continued from Page 1

Though members of Congress questioned all four panelists, Uccello fielded more questions than any other speaker. Several members of Congress expressed particular appreciation for her presence. Ranking Member Matt Cartwright (D-Pa). opened his questions with, "Thank you for coming and explaining the world of actuarial science to us mere mortals." Rep. Cynthia Lummis (R-Wyo.) offered, "Actuaries are the most underappreciated and unknown group of people who make things tick in this environment," and related her own experience working with actuaries as a state legislator.

Many of the questions centered on whether the risk-sharing provisions, in the words of Committee Chairman Jim Jordan, (R-Ohio), "constitute a taxpayer bailout of insurance companies." Uccello noted that it is too soon and there is too much uncertainty to determine whether the risk corridor program will be revenue-neutral, but stressed to questioners from both parties that "these mechanisms are risk-sharing programs," that "encourage plan choice and competition and reduce the incentives for insurers to avoid high-cost enrollees."

Responding to questions about the government's experience with risk corridors as part of the Medicare Part D program, she noted that "under Part D, there was a fear that there wouldn't be many plans that would want to participate," and "now, consumers have a variety of plan choices, so I think that suggests that the risk corridors did encourage participation."

## PROFESSIONALISM COUNTS

### *What Does "Professionalism Topics" mean under the U.S. Qualification Standards?*

IF YOU'RE A CREDENTIALED actuary issuing Statements of Actuarial Opinion in the United States, you must comply with the U.S. Qualification Standards (USQS), regardless of which U.S.-based actuarial organization has credentialed you. The requirements include completion of at least 30 hours of continuing education (CE) annually, of which at least three hours must be on "professionalism topics."

But many actuaries have asked: what exactly constitutes a professionalism topic? Is it cultivating clients? Learning how to improve presentation skills? Dressing more professionally? Or something more specific??

The answer may surprise you. Under the USQS, and as the Committee on Qualifications has stated, professionalism requirements mean topics surrounding the profession's Code of Professional Conduct (code), which includes the USQS under Precept 2 and actuarial standards of practice (ASOPs) under Precept 3, and business ethics in daily actuarial practice. The term "professional topics" is not intended to cover items such as presentation skills, or client development, which items may still count toward your CE but are considered "general business skills," which are capped annually at three CE hours.

"Professionalism topics" includes activities, seminars, or webinars that focus on the actuarial profession's 14 precepts of the code (which contain many business ethics matters) and similar codes applicable to your practice and conduct. The committee has suggested that every credentialed actuary spend time at least once a year reviewing the code, and remember, professionalism does not have to be from an "organized activity."

This leaves a wide range of professionalism CE possibilities available to actuaries, including review of relevant ASOPs (and exposure drafts of ASOPs) that apply to your practice (see the Applicability Guidelines published on the Academy website), serving on professionalism committees in actuarial organizations, reviewing professionalism papers (see the professionalism discussion papers listed on the Academy website) and professionalism articles written in actuarial publications such as "Up to Code" published in *Contingencies* magazine and written by members of the Actuarial Board for Counseling and Discipline.

Finally, the Academy maintains a robust collection of professionalism webinars available for free to Academy members that constitute professionalism topics to satisfy the USQS.

# Work Group Comments on ACA Risk Accounting

THE ACADEMY'S Health Practice Financial Reporting Committee provided a comment letter to the Statutory Accounting Principles Working Group of the National Association of Insurance Commissioners (NAIC) regarding the working group's new accounting proposal for the risk-sharing provisions of the Affordable Care Act (ACA).

The committee suggested that "the treatment of the risk-adjustment and risk-corridor assets would fall under the normal scope of the Health Actuarial Opinion (commonly referred to as the NAIC 'orange blank') and that they meet the definition of 'health insurance asset' in Actuarial Standard of Practice (ASOP) No. 28, *Statements of Actuarial Opinion Regarding Health Insurance Liabilities and Assets*."

The committee noted that estimating the receivables for risk adjustment will improve over the next few years, and the much of the uncertainty related to settlement estimation will be resolved. They further noted that "the proposal to record a risk-adjustment payable and not admit a receivable disadvantages companies that have enrolled less healthy individuals.

The ACA's risk corridor program, the committee suggests, is a different matter. "The question of estimation accuracy for risk corridors is not the same as for risk adjustment, so the non-admission requirement may not be the best way to address estimation uncertainty," the letter notes.

## Issue Brief: What Will Drive 2015 Health Insurance Premium Changes

ON JUNE 4, the Academy's Health Practice Council released an updated version of an issue brief that reviews the factors underlying premium rate setting for 2015. The brief provides an overview of the factors underlying premium rate setting, and highlights the major drivers behind why 2015 premiums could differ from those in 2014. The brief was recently updated to reflect new information included in the final rule for exchange and insurance market standards for 2015 regarding the reinsurance and risk corridor programs.

# Recommendation: No Changes to Risk Factors for Medicare Part D

IN A REPORT for the National Association of Insurance Commissioners (NAIC), the Academy's Medicare Part D Risk-Based Capital (RBC) Subgroup recommended that no change be made at this time to the risk factors for Medicare Part D coverage.

This is just the group's most recent analysis on updates to the factors, but marks the first time the group has recommended no change. The subgroup has been involved in the issue since the NAIC's Capital Adequacy Task Force first asked the Academy to recommend an appropriate RBC treatment for Medicare Part D coverage in 2005.

The subgroup notes, "There is much value in continuing to seek updated data through additional surveys to verify the need for potential changes in the Medicare Part D RBC factors," and recommends changes to future surveys submitted to plans that participate in the Medicare Part D market, to further inform future recommendations.

# Medical Professional Liability Exposures

THE MEDICAL Professional Liability Insurance Committee has released a fact sheet on medical professional liability (MPL) exposures, intended to educate both actuaries and the general public.

The fact sheet discusses the exposure to MPL claims faced by individual practitioners and small group practices, hospitals and nursing homes, mid-level and allied health care providers, and managed care organizations, and the tools typically used by each to manage its exposure to claims.

It explains that each segment of the health care industry "faces its own unique claim exposures, which are often managed by commercial insurance products and other risk management and risk financing tools." The fact sheet explores the solutions that are appropriate to each provider.

Past committee fact sheets have covered topics including types of MPL insurance policies and suggested reforms for the MPL industry.

## HEALTH BRIEFS

- **Tracy Sudak**, associate actuary for Allianz Life Insurance Co. of North America in Minneapolis, has joined the Long-Term Care Terminations Work Group.
- **Stephen Strommen**, owner of Blufftop LLC in Glendale, Wis., has joined the State Long-Term Care Principle-Based Work Group.
- **Ashlee Borcan**, consulting actuary for Milliman Inc. in Tampa, Fla., has joined the Cancer Claim Cost Tables Work Group.

# PBGC: Protecting Pensions and the Role of the Actuary

THE PENSION BENEFIT Guaranty Corp. (PBGC) protects the retirement incomes of more than 44 million Americans, overseeing some 26,000 private-sector benefit pension plans. It is also one of the federal government's largest employers of actuaries, with 28 credentialed actuaries and 10 more employees pursuing actuarial designations.

Attendees of a June 30 Academy webinar, *PBGC: Protecting Pensions & the Role of the Actuary*, heard details of how the agency works. The event was part of the Academy's Capitol Forum: Meet the Experts webinar series.

Two of the PBGC's highest-ranking actuaries presented at the session. Neela Ranade is the agency's chief negotiating actuary, and heads its Corporate Finance and Restructuring Department. C. David Gustafson is the PBGC's chief policy actuary, and leads its Policy, Research and Analysis Department.

Ranade's team is responsible for much of the day-to-day monitoring of pension plans, she explained. "We are the federal agency that insures most qualified defined benefit plans," and as such, "we monitor existing plans for potential hazards." The Corporate Finance and Restructuring Department maintains an early-warning system for single-employer plans, which "monitors the government's largest exposures, and identifies transactions that pose an increased risk" to the solvency of the agency.

The PBGC maintains what Ranade called "a nuclear option," giving it the right to terminate a plan, but, she cautioned, "since its inception, we've had over 100 settlements, but just three plan terminations." There is no comparable system for multiemployer plans, but Ranade agreed with an attendee that the agency "would love to have that."

Her team, she said, employs 13 credentialed actuaries, "and if I may give a plug here, we are about to begin a search for two more." She expects the vacancies to be posted to federal job search sites within two weeks.

"Many of the actuaries that work with us came to the PBGC from the private sector," she noted.

She encouraged actuaries interacting with the PBGC to be as transparent as possible. Corporate transactions, she acknowledged, typically have very tight deadlines. "Usually everyone is under the gun," so anticipating the agency's data needs will facilitate quicker interactions. "We encourage dialogue between PBGC actuaries and plan actuaries," she concluded.

Gustafson explained that his Policy Research and Analysis Department is focused on advising Congress and the public on the impacts of pension policy changes. The department, he said, "is required to provide a report to Congress giving an actuarial evaluation" of the state of the pension system.

Employing both economists and actuaries, it also reviews the actuarial content of policy changes, and researches topics that affect pension policy. For instance, Gustafson noted, the department will soon be publishing a study of what, historically, has triggered mass withdrawal from multiemployer plans. Gustafson praised Academy work on policy issues, particularly an issue brief on PBGC premium structure.

# Work Group Comments on Stress Testing Proposal

THE ACADEMY'S Stress Testing Work Group this month sent a comment letter to the National Association of Insurance Commissioners' (NAIC) Life Risk-Based Capital Working Group on its recent stress testing proposal.

Recognizing what it called "the potential game-changing impact of the use of stress testing in U.S. statutory reporting," the work group cautioned that the NAIC's current timetable for the proposal "is a very aggressive schedule to design, implement, and analyze stress testing," which might be "particularly burdensome for smaller companies, especially those insurers not expected to be subjected to" own risk and solvency (ORSA) guidelines.

The work group noted that "a practical issue for the Academy's Life Practice Council is how best to utilize our volunteer resources," and requested clarification on the NAIC's time frame for feedback and approval of the proposal.

## *PBA Perspectives*, a New Academy Newsletter

THIS MONTH, the Academy published the first edition of *PBA Perspectives*, a new quarterly newsletter devoted to news about implementation of the principle-based approach (PBA) for life insurance. The newsletter will provide updates on state legislative adoption of the methodology, Academy activities to support members in implementing the approach, and upcoming events of note.

# Economic Scenario Generator Updated

THE JOINT ECONOMIC Scenario Generator Project Oversight Group has released an updated version of its Economic Scenario Generator, and an accompanying FAQ.

The tool, originally launched in 2008, has been through seven iterations. The latest version includes updates to make the tool more user-friendly, to allow users to output results in new file formats, and to adopt a new formula for generating yield curves.

## LIFE BRIEFS

- **Laura Gray**, managing director for KPMG LLP in Atlanta has joined the Life Financial Reporting Committee.
- **Laura Alden VanderMolen**, associate actuary for Allianz Life Insurance Co. of North America in Minneapolis has joined the Life Illustrations Work Group.
- **Elizabeth K. Brill**, vice president for New York Life Insurance Co. in New York has joined the Principle-Based Reserves Strategy Subgroup.
- **John Miller**, chief actuary for American Equity Investment Life Holding Company in West Des Moines, Iowa has joined the Life Valuation Subcommittee.

CASUALTY NEWS

# Advising on Availability and Affordability of Auto Insurance

THE FEDERAL INSURANCE Office (FIO) has begun a study on the availability and affordability of personal automobile insurance. Under authority granted by the Dodd-Frank Wall Street Reform and Consumer Protection Act, the office explained, it is charged with "monitoring the extent to which traditionally underserved communities and consumers, minorities, and low- and moderate-income persons have access to affordable insurance products regarding all lines of insurance, except health insurance." The office has begun its study by asking the industry to help it define affordability and study the metrics that might help monitor it.

The Academy's Automobile Insurance Committee responded this month, in the form of a comment letter. The committee offered that "auto insurance pricing should be based on the Ratemaking Principle set forth in the Casualty Actuarial Society's (CAS) Statement of Principles on Ratemaking and embodied in the Actuarial Standards of Practice. If these cost-based pricing principles are not utilized, it would create the need for arbitrary cross-subsidization mechanisms."

The committee also suggested that the FIO should clarify whether the research is to be "conducted on a macro or micro level. The choice between researching at a macro or micro level will also necessarily affect the data sources to be utilized."

The letter did not attempt to address the question of which metrics might be appropriate to the study at this point, but offered to consult with the FIO on reviewing them.

Actuarial Update

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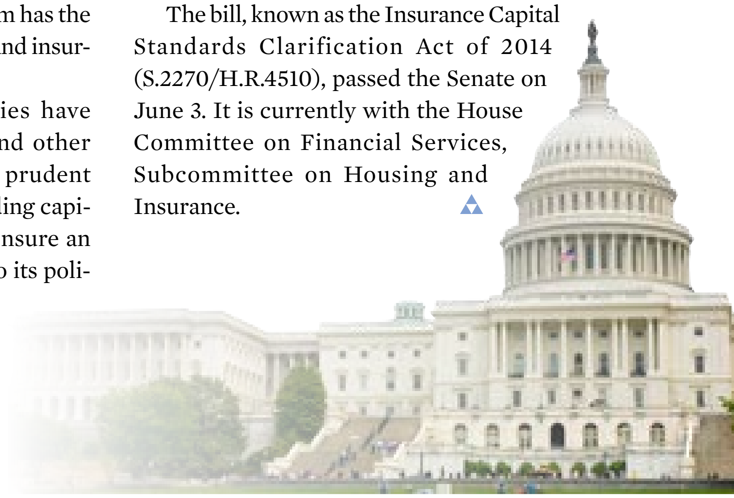
# Committee Supports Capital Requirements Legislation

IN A LETTER TO MEMBERS of the House of Representatives this month, the Academy's Risk Management and Financial Reporting Council's Solvency Committee expressed support for legislation that would clarify that the board of governors of the Federal Reserve System has the authority to differentiate between banks and insurers in terms of capital requirements.

The letter explained that "actuaries have worked for decades with insurance and other financial sector regulators to develop prudent rules addressing insurer solvency, including capital requirements. These requirements ensure an insurer's ability to fulfill its obligations to its policyholders. Capital requirements for insurers must recognize that the business of insurance is distinct from other financial services."

Among other problems, the letter notes, applying the same capital standards to insurers and to banks could understate certain risks insurers face, such as changes in the interest rate environment that are of particular concern to insurers, given the longer duration of their liabilities.

The bill, known as the Insurance Capital Standards Clarification Act of 2014 (S.2270/H.R.4510), passed the Senate on June 3. It is currently with the House Committee on Financial Services, Subcommittee on Housing and Insurance.



# Top Priorities in International Insurance Legislation

THE ACADEMY'S RISK Management and Financial Reporting Council this month answered a request from the National Conference of Insurance Legislators (NCOIL), identifying the top three priorities the council believes NCOIL should pursue for 2014 in a comment letter.

The council recommended that the development of international capital standards be NCOIL's top priority in the near future. "The various capital proposals under development at the International Association of Insurance Supervisors (IAIS) are moving quickly and could have a profound impact on U.S. insurance regulation and the U.S. insurance market."

The council explained that, should the IAIS develop a framework that differs significantly from what is typical of the American market, regulators could face pressure to "change the U.S. structure to be more like the IAIS. As such, it is important for industry stakeholders, including NCOIL, to engage with the IAIS so that the standards developed… allow for the continued and effective distribution of products that fit the needs of the U.S. market."

The council also asked NCOIL to complete its analysis of group supervision issues and international solvency and capital standards before the end of 2014. The council noted, "While a group solvency standard, as contemplated by the IAIS, may have a place in insurance regulation, it is crucial that U.S. regulators not lose sight of policyholder protection and the importance of entity-level capital and solvency requirements."

Finally, the council recommended that NCOIL and state legislators "make their voices heard" on the use of captive reinsurance for financing statutory reserves. The letter urged, "It is imperative that the issues around life captives be addressed in 2014, and we recommend that NCOIL and state legislators prioritize the resolution of concerns related to life captives in 2014."

## RISK MANAGEMENT BRIEFS

**Darin Zimmerman**, vice president, change management office for Transamerica in Cedar Rapids, Iowa has joined the Financial Reporting Committee.