

Three-Ring Circus

SOME MAY DISAGREE, but I think the world of life insurance may actually (better yet, actuarially) be the "Greatest Show on Earth." I mean, where else can you use acronyms like AG, CARFRA, CSO, IAA, IAIA, IASB, LHATF, LPC, MAAA, NAIC, NALC, NCOIL, NCSL, RBC, SOA, and VAGLBs? There really is a world of opportunity out there for a practicing life actuary or, in my case, a senior life policy analyst.

It sometimes amazes me that the American Academy of Actuaries can find the resources, the volunteers, and the time to stay so heavily involved in public policy issues on the state, federal, and international playing fields. And the Academy's Life Practice Council (LPC) doesn't just tackle these issues concurrently; it has many plates spinning at the same time. That's why I say that life in the LPC can be quite a circus.

Fortunately, the Academy is structured to properly balance this circus. Having six policy analysts to staff its practice councils, the Public Policy Department is well suited to handle any and all issues that may arise. The Financial Reporting Council is the coordinating body that tackles issues that cross practice lines, such as the recently enacted Sarbanes-Oxley Act of 2002. The Health Practice Council is broken into two entities, state and federal. The Pension Practice Council is primarily geared toward federal topics. Which brings us to the Life Practice Council (somewhat similar to the Casualty Practice Council), where state, federal, and international matters are all part of our operating plan.

State

The organization the LPC interfaces with most often is the National Association of Insurance Commissioners (NAIC). The LPC is always a major participant at each of the NAIC's quarterly national meetings. We have long had a strong relationship with the NAIC's Life and Health Actuarial Task Force, Life Risk-Based Capital (LRBC) Working Group, and Life Insurance and Annuities Committee. More recently, we've begun to monitor and work with other NAIC groups such as the Financial Services Modernization Task Force, the Accounting Principles and Procedures Task Force, and the Small Face-Amount Working

Group.

Lately, the LPC has completed some very important projects for the NAIC. One of them is the newly adopted 2001 Commissioners' Standard Ordinary (CSO) Mortality Table. For more than 20 years, life insurers have been using data that was col-

lected for the 1980 tables. During this time, many factors have had a dramatic effect on human mortality. Therefore, in order to keep up with medical advances, changes in lifestyle and diet, and evolving disease factors, the life insurance industry needed to change the basis for how policies were valued.



The NAIC asked the Society of Actuaries (SOA) and the Academy to determine what changes had affected mortality, and to statistically compute an entire new basis for dealing with these changes. After two-and-a-half years of continuous work (building on the SOA's Valuation Basic Table), the Academy's CSO Task Force com-

pleted a 310-page report and presented it to the NAIC, which in turn adopted the report and drafted a model regulation to implement the new tables.

The LPC has also been active on required capital standards initiatives within the NAIC. The Academy's Life Capital Adequacy Subcommittee presented 16 reports to the NAIC's LRBC Working Group in 2002 alone, the most important of which dealt with standards for the complex guarantees within many of today's variable products. Other ongoing projects include work in the areas of co-insurance, real estate loans, and operational risk.

After President Clinton signed into law the Gramm-Leach-Bliley Financial Services Modernization Act of 1999 (which allows banks, insurance companies, and securities firms to merge into financial holding companies), the NAIC created eight working groups to undertake the state-based implications of this act.

The Speed-to-Market Working Group was formed to try and shorten the amount of time needed to get an insurance product on the market. Generally, though banking products are made available within a matter of weeks, many insurance products can take months, sometimes even

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years, to become available to consumers. The Coordinated Advertising Rate and Form Review Authority (CARFRA) was a system put into place by the NAIC to help resolve this time gap. Through CARFRA, the LPC advocated getting many important actuarial issues addressed. The most significant of these was supporting the recognition of membership in the Academy in all standards approved for actuaries. The LPC is also actively involved with the NAIC in helping to create Actuarial Guidelines (AG). The Academy's Variable Annuities with Guaranteed Living Benefits (VAGLBs) Work Group recently drafted what has now been adopted as AG XXXIX—Reserving for VAGLBs. The Work Group also completed a practice note to help actuaries understand the application of the AG.

Although a large part of the LPC's initiatives are aimed at the NAIC, we deal with many other state organizations as well. One such organization is the National Conference of Insurance Legislators (NCOIL). At their 2002 summer meeting, the LPC submitted written testimony on genetic testing. The testimony was presented at a hearing on NCOIL's Proposed Genetic Discrimination Model Act. The LPC is also forming relationships with the National Conference of State Legislatures. We were recently asked by a state representative to analyze some legislation from an actuarial viewpoint.

Federal

On the federal side, the LPC has a long tradition of being involved in working with the U.S. Congress and other federal government agencies. In 2001, at the start of the 107th Congress, the U.S. House of Representatives created the Financial Services Committee. A new subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises was also created. In its two-plus years of existence there have been numerous endeavors, at both the committee and subcommittee

levels, that the LPC has monitored.

Perhaps most important to the insurance industry and the actuarial community have been activities involving the regulation of insurance. Many hearings have taken place on modernizing the way insurance is regulated, including topics such as uniformity and the creation of an optional federal charter. The U.S. Senate's Banking, Housing, and Urban Development Committee has also been involved in these issues, and the Academy staff has fostered numerous relationships with congressional offices.

The LPC conducts yearly visits to Capitol Hill. These generally occur at the beginning of a congressional session. Their purpose is twofold: First, to promote the actuarial profession and educate congressional staff on how the Academy functions. Second, to try and gain a solid understanding of what the various committees will be expecting in the coming year.

Many members of the LPC have participated in visits and have been able to help maintain the relationships we've made, as well as build new ones. The LPC has also been involved in briefing congressional staff on relevant topics of interest. In the summer of 2001, the LPC jointly sponsored a Hill briefing on genetic testing with the Health Practice Council. Members of both practice councils presented information to an audience of more than 100 congressional staff, media, and association representatives.

This past December, the LPC cosponsored an educational trip to New York City. A group of seven congressional aides, Academy members, and staff participated in a full day of activities, including presentations on the structure of the Academy, insurance regulation, and the effect of terrorism on group life and health insurance.

The LPC has also developed relationships with other federal agencies. When President Bush signed into law the Terrorism Risk Insurance Act of 2002

(TRIA), the U.S. Department of the Treasury was given the challenge of implementing the many aspects of this complicated law. TRIA included a mandate for Treasury to conduct a study of the impact of the threat of terrorism on the availability of group life insurance. Treasury solicited the LPC to help in this effort. By coordinating our efforts with members of the Health Practice Council's Terrorism/Extreme Events Work Group, we were able to offer Treasury a wide range of actuarial information.

International Issues

Standard setters and regulatory bodies (both within the United States and throughout the world) have stated the importance for a consistent, uniform standard to respond to the dizzying pace of globalization. The Academy has made substantial efforts to participate in the crucial areas that have had, and will continue to have, a large impact on the insurance world and the actuarial profession.

As a member of the International Actuarial Association (IAA), the Academy participates in a worldwide group of actuarial organizations that maintain dialogues with groups such as the International Accounting Standards Board (IASB) and the International Association of Insurance Supervisors (IAIS). Whether the topic is an insurance accounting standard or a proposal for effective solvency requirements, the LPC role has included members who aid in the initial drafting of the actuarial positions, as well as those who review and approve (or reject) the draft positions of the IAA.

But this isn't an exhaustive list of the issues and organizations the LPC deals with. There are many more acronyms, papers, meetings, and projects that could have been mentioned, but I've tried to spare you the additional details of walking a tightrope, juggling rings of fire, or taming a lion. Instead, I invite you to become part of our circus act. ●