

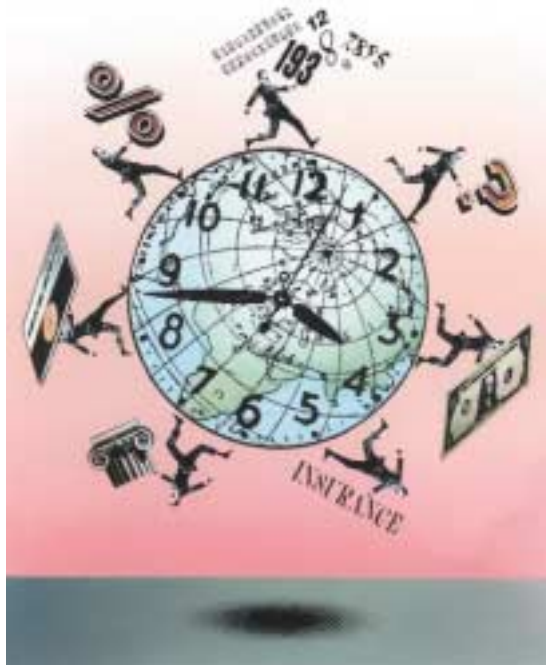
The Times They Are A-Changing

THE FINANCIAL SERVICES INDUSTRY THESE DAYS IS A LITTLE LIKE THAT OLD joke about air travel—the one where the pilot comes out to talk to the passengers in the middle of a flight.

“Well, folks,” she says, “I have bad news and I have good news.

“The bad news is, that thunderstorm we just flew through messed up our instruments. We don’t have our compass and I’m not sure which direction we’re flying in. The altimeter is out so I don’t know how high we are, and the radar is shot so I can’t tell what’s around us.

“But, the good news is our engines still work. So wherever the heck we’re going, we’re getting there at 200 miles an hour.”



JOHN PACK

The financial services industry faces a similar situation. Everyone recognizes that change is happening at a rapid pace, and no one can say for sure where it will all end up. But how it will eventually work out is of critical importance to the actuarial profession.

Some of the changes come from a recognition that the legal and regulatory barriers between banks, in-

TOM WILDER IS THE DIRECTOR OF PUBLIC POLICY FOR THE AMERICAN ACADEMY OF ACTUARIES IN WASHINGTON, DC

surers, and securities firms no longer make sense in today’s business environment. Last fall, Congress passed the Fi-

ancial Services Modernization Act—also known as Gramm-Leach-Bliley after sponsors, Sen. Phil Gramm (R-Texas), and Representatives Jim Leach (R-Iowa) and Tom Bliley (R-Va.).

The new law allows closer ties among banks, securities brokers, and insurance companies. Banking regulators and state insurance departments are still figuring out the regulatory structure for these new arrangements. But I can visualize a time when consumers will be able to go into their local bank and open a checking account, get a home loan, buy car insurance, and trade securities.

We can already see this blending of business operations on the Internet. Right now you can buy and sell stocks, search for the best insurance deal, find a loan, or set up a bank account, all from your computer. You no longer need a physical presence for financial services business operations, and this trend will only accelerate.

The financial services industry is also becoming more international in scope; many companies operate worldwide. Large European, American, and Asian companies are seeking business partners or acquisitions that will give them market presence outside their country of origin. This trend is putting pressure on regulators to make it easier for the financial services industry to cross state and national boundaries.

Earlier this year, for example, representatives of European Union insurance companies came to the United States for discussions with our trade representatives. One participant expressed frustration with state regulation of insurance in this country. As he noted, an insurer licensed in one European Union member state can operate and sell products in all other member countries. “Why,” he asked, “should insurance companies have to comply with 50 separate sets of state laws to do business in America?” It’s an important question that needs to be answered—sooner rather than later.

Regulators are trying to address the issues raised by the changing financial services landscape. The National Association of Insurance Commissioners (NAIC) recently formed nine task forces to consider a range of questions—from a national regulatory framework for insurance companies and their products to dual bank

and insurance regulation of financial services holding companies that were created by Gramm-Leach-Bliley. The NAIC has put these efforts on a “fast track” partially in recognition that if it doesn’t act, Congress may take more interest in regulating the insurance marketplace.

Some of the more interesting discussions among regulators and insurers involve the possibility of a “national charter” for insurance companies, similar to the federal license now held by some banks. Under this format, insurers would choose either state or federal regulation of their operations. It’s true Congress probably won’t enact federal licensing of insurers anytime soon. However, it’s also clear they’ll face increasing pressure to act if states don’t provide insurance companies with more flexibility to operate across state lines.

What does this mean for actuaries? For a start, the profession needs to be part of the discussion about these changes. The American Academy of Actuaries is following the efforts of the various NAIC

task forces to respond to Gramm-Leach-Bliley. We’re also holding meetings with federal banking regulators to talk about how they plan to oversee the new bank and insurance affiliations. In addition, the Academy is becoming increasingly more active in its dealings with international regulatory and standard-setting bodies.

A very important part of this process is explaining what insurance risk means and the value of actuaries in pricing products and maintaining insurer solvency. The Academy, in its discussions with outside groups about financial services modernization, is stressing that bank, insurance, and securities products present different benefits—and risks—that must be recognized. The Academy is also providing these audiences with a better understanding of how actuaries help protect the interests of business, regulators, and consumers in the insurance marketplace.

In addition to the Academy’s efforts, however, actuaries need to consider seriously what the changing financial services

environment means for the future of the profession. What will the role of actuaries be in these new bank-insurance-securities business combinations? How will the actuarial profession operate in the new international regulatory environment? What value will actuaries bring to the process that can’t be obtained elsewhere?

I would suggest the actuarial profession needs to be careful that it’s not left behind as these changes are occurring. Actuaries should be concerned that they don’t become blacksmiths in a world of automobiles. The profession should look at new ways of using their expertise to help financial services companies operate in the changing environment.

It’s not just a discussion of how actuaries follow the new rules. The real issue facing the profession is deciding what relevance actuaries have in the future direction of the financial services industry.

It matters less what direction the airplane is going or how fast, as long as actuaries are still among the passengers. ●