To: Rich Piazza (LA), Chair, Casualty Actuarial and Statistical (C) Task Force

From: Susan Donegan (VT), Chair, Corporate Governance (E) Working Group

Re: Qualification of the Appointed Actuary

Date: April 7, 2013

The Corporate Governance (E) Working Group (CGWG) has been charged with outlining high-level corporate governance principles and determining the appropriate methodology to evaluate adherence to such principles. During discussions related to this charge, the Working Group discussed existing corporate governance requirements relating to reserving. During these discussions, the Working Group reviewed the requirements that have been put in place to ensure that the appointed actuary meets certain qualifications. The Working Group noted that an appointed actuary must meet minimum qualifications outlined in statute, including that the actuary is credentialed and in good standing with their actuarial association.

Although the actuarial associations appear to have robust codes of conduct and procedures to discipline those who do not meet minimum standards, the Working Group raised some concerns over whether regulators have sufficient authority in determining whether an appointed actuary is qualified to fulfill his or her duties. In reviewing qualification standards for life insurance entities, it appears that additional authority is available to the commissioner in determining whether an appointed actuary is qualified to fill his or her role. Language included in the NAIC’s Actuarial Opinion and Memorandum Regulation (Model #822) gives the commissioner the authority to deem an appointed actuary unqualified for various reasons including incompetency, lack of cooperation or untrustworthiness as demonstrated through a notice and hearing process. However, there does not appear to be such authority included in the NAIC’s corresponding Property and Casualty Actuarial Opinion Model Law (Model #745).

During the Working Group’s discussions on this topic, it was informed that your Task Force has formed a subgroup to study and address this issue. Therefore, based on our charge to review corporate governance principles in place in the U.S. system, we would like to encourage your Task Force to strongly consider changes to the property/casualty actuarial process to allow the commissioner a similar level of authority to deem an appointed actuary unsuitable as provided for life insurance entities under Model #822.

We are hopeful that this recommendation will allow for an increased focus on corporate governance matters within the current reserving process. We thank you for your consideration of this request and encourage you to contact us with any questions and report back to the Solvency Modernization Initiative regarding actions taken in this area.