

# THE NEWS

TOP STORIES OF THE WEEK

■ BEHIND THE NUMBERS

## Hunter, Actuaries Spar Over Disclosure

Disputes over TRIA, malpractice issues are backdrop to wider transparency battle

BY SUSANNE SCLAFANE

**I**N THE DAYS AND MONTHS leading up to the extension of the Terrorism Risk Insurance Act, a behind-the-scenes battle simmered between a consumer representative and an actuarial group that supported extending the federal reinsurance backstop.

While the two groups held different views regarding TRIA's extension, the real battle was over the issue of disclosure and the question of whether members of the American Academy of Actuaries, when delivering reports to Congress on issues like TRIA, truly are—as they purport to be—independent and objective messengers.

Consumer Federation of America President J. Robert Hunter—who for nearly a year has been urging members of the Academy to disclose their individual employment affiliations in reports to lawmakers—believes the objectivity of Academy subgroups on TRIA, medical malpractice and other issues is questionable.

Mr. Hunter—himself a member of the Academy—said current boilerplate wording contained in Academy reports describ-

THE SKINNY

### Point/Counterpoint On Disclosure

► **CHALLENGES THE OBJECTIVITY** of American Academy of Actuaries subgroups on TRIA, medical malpractice and other issues.

► **CONTENDS BOILERPLATE WORDING** in Academy reports describing the Academy's function as "non-partisan" is "deceptive."

► **WANTS THE ACADEMY TO MORE CLEARLY IDENTIFY** the employers of contributing actuaries in all reports to alert lawmakers of any potential bias by those working in or for the insurance industry.



**Bob Hunter**  
Consumer Federation of America President



**Ken Kent**  
Vice Chair for the Academy's Council on Professionalism

► **INSISTS THAT WHEN ACTUARIES VOLUNTEER** to work on behalf of the Academy, they leave their employers' interests at the door.

► **EMPHASIZES THAT ACADEMY ANALYSES** and recommendations represent a consensus view following a committee process.

► **SAYS MEMBERS ADHERE TO THE ACADEMY'S** conflict-of-interest policy, and "may back off" or even leave the room over an issue that directly involves an employer or client.

ing the Academy's function is "deceptive." The description—which says the Academy is a "nonpartisan" group that "assists the public policy process through the presentation of clear and objective actuarial analysis"—gives no hint of potential biases of individual members.

Such biases might exist because Academy members work for employers and clients with interests in how some issues

the group reports on play out, he contends.

Kenneth Kent, vice chair for the Academy's Council on Professionalism and a former chair of the joint committee on the Code of Professional Conduct, disagrees.

When actuaries volunteer to work on behalf of the Academy, they leave their employers' interests at the door—putting the interests of the Academy first, and

► continued on page 24

■ FACE-OFF

## TRIA Analysis Sparks Feud

BY SUSANNE SCLAFANE

**I**N HIS LETTER TO CONGRESS on Dec. 13, J. Robert Hunter, president of the Consumer Federation of America, told lawmakers that the American Academy of Actuaries TRIA Subgroup "is not independent" from the insurance industry because of member business affiliations.

In addition, he attacked some of the particulars of the analysis itself, contending that the actuaries' report:

► **Ignored the availability** of a 35 percent federal tax write-off for a \$170 billion terrorism event referenced in the study.

► **Didn't "objectively discuss"** the incredibly small probability of such large terrorism events or the greater likelihood of small

attacks easily handled by the insurance industry.

### ACTUARIES RESPOND

In a written response to *NU*, members of the Casualty Practice Council and the TRIA Subgroup of the Academy said the "primary message" of the Dec. 1 report by the TRIA Subgroup "was that terrorism poses a threat to our nation's insurance reparations system that is significant and unlikely to be eliminated in the foreseeable future," therefore requiring "some federal framework to deal with the problem."

Given the TRIA Subgroup's focus on the possibility of extremely large losses, "and the fact that we proposed no specific solutions

to the terrorism insurance issue, there was no need...to spend the limited time available to it...addressing tax issues," they added.

Taking on two of Mr. Hunter's specific criticisms in turn, they also said:

► **"One should not assume** the federal government would automatically pay 35 percent of such losses through reductions in tax collections from insurers"—noting an insurer rendered insolvent by large terrorism events gets no value from the carry-forward of its remaining terrorism claim tax deductions.

For survivors, they added, it might take years before deductions from an event can be used, and some may expire unused.

► **"The probabilities associated** with the occurrence of a terrorist attack remain judgmental and a key source of uncertainty," they

► continued on page 24

## TRIA ANALYSIS

continued from page 10

added, repeating a statement contained in the Dec. 1 public report.

With a representative of terrorism modeling firm AIR Worldwide participating in the subgroup, they said, the group focused its modeling exercises on severity estimates because of the difficulty in developing reliable frequency or probability estimates.

Mr. Hunter, in his letter to lawmakers, referenced "hundreds of terrorist events" cited in FBI reports before 2001 that were small and "have been covered by private insurance with ease."

While the Academy respondents agreed, they added that since "few, if any," of these would ultimately be borne by the government, "there was no need to use the FBI database in this analysis."

Finally, they drew a parallel to natural catastrophes. "There are large numbers of windstorm 'events' such as thunderstorms causing losses, and only a tiny fraction...are of the magnitude of Katrina. Nonetheless, the financial implications of even one event can be enormous," they said. ■

## ACTUARIES

continued from page 10

building Academy analyses and recommendations around a consensus view, he said, explaining why the Academy won't change the wording or disclose member business affiliations.

"We work on a committee basis and a consensus basis," he said, adding that when the Academy puts forth a position, it is approved by committee, not by any single individual.

Beyond that, he said members take their obligations to adhere to the Academy's conflict-of-interest policy seriously. In fact, he reported there are times when a committee member "may back off" or even leave the room if the committee is working on an issue that directly involves the member's employer or client.

Coaxed to share examples based on his own committee experiences, Mr. Kent, a pension actuary who has served as vice president of the Academy Pension Practice Council, said that when the Academy is called upon to provide clarification of news events, such as those related to pension is-

sues at United Airlines, actuaries having client relationships with United excuse themselves.

Likewise, there are members of the Academy who are actuaries at the Pension Guaranty Benefit Corp., he said, noting that when the Academy is asked to report on PGBC reports, it does so, although "certain care and approaches [are taken to] make sure that we're not in conflict."

### ON THE WEB

Mr. Kent also said that all information about business affiliations is available to anyone seeking it. "We publish committee members in our yearbook and on our Web site," he noted, adding that exceptions might be ad hoc task forces that sometimes don't make it into the yearbook because they don't last more than a year.

The Web site also has a directory allowing visitors to identify members' employers. "Nothing is intended to be hidden or avoided," said Mr. Kent, who is listed as a pension actuary for Cheiron, a McLean, Va.-based consultancy.

But a list of members wasn't available for a TRIA subgroup that issued a Dec. 1

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