



The Role of the Actuary in Insurance Regulation

Presentation to
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Disclaimer

- Dennis Yu will present his personal views as an individual member of the actuarial profession; he will not discuss specific Maryland Insurance Administration policies.

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To Be Discussed

- What does a regulator do?
- What does a regulatory actuary do?
- What does an actuary do?
- How does a regulatory actuary's role differ from a 'regular' actuary's role?
- Considerations in regulating insurance companies.
- Regulator interactions with company representatives and Professional Standards
- Impact of recent developments in health insurance regulation.

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What Does an Insurance Regulator Do?

- Protect consumers by regulating the state's insurance companies and producers.
- Enforce the applicable laws and regulations of the state.

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What Does a Regulatory Actuary Do?

- ???

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What Does an Actuary Do?

- from "Actuary" on Wikipedia.com
"Actuaries mathematically evaluate the likelihood of events and quantify the contingent outcomes in order to minimize losses, both emotional and financial, associated with uncertain undesirable events."
<http://en.wikipedia.org/wiki/Actuary>
- from "What does an actuary do?" on Answers.com
"Actuaries solve problems in the business world by analyzing and managing risk."
http://wiki.answers.com/Q/What_does_an_actuary_do

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What Does an Actuary Do?

- Quantify and measure risk
- Assess assumptions
- Model potential outcomes

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So ... What Does a Regulatory Actuary Do?

- Quantify and measure risk
- Assess assumptions
- Model potential outcomes

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How Does a Regulatory Actuary's Role Differ from a 'Regular' Actuary's Role?

- Both perform similar tasks...

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How Does a Regulatory Actuary's Role Differ from a 'Regular' Actuary's Role?

- What does an insurance company do?
- What does a regulatory body do?

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How Does a Regulatory Actuary's Role Differ from a 'Regular' Actuary's Role?

- Difference in objectives leads to a fundamentally different perspective on risk.
- Insurance Company – primarily considers the risk that premiums are too low in relation to benefits and expenses.
- Regulatory Body – primarily considers the risk that premiums are too high (or too low) in relation to the benefits.

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Considerations In the Regulation of Insurance Companies

- Regulation of health insurance premium rates: ensure that premium rates are adequate, not excessive, and not unfairly discriminatory
- Note other regulatory fields:
 - Forms / contracts
 - Examination and auditing
 - Company licensing
 - Producer licensing

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Regulator Interactions with Insurer Representatives and Professional Standards

- “The work of science is to substitute facts for appearances and demonstrations for impressions” – John Ruskin
- ... “trust, but verify” ...

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Regulator Interactions with Insurer Representatives and Professional Standards

- Code of Professional Conduct
 - Precept 3
 - Precept 4

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Regulator Interactions with Insurer Representatives and Professional Standards

- Actuarial Standards of Practice
 - ASOP 8 Regulatory Filings for Health Plan Entities
 - ASOP 18 Long-Term Care Insurance
 - ASOP 23 Data Quality
 - ASOP 25 Credibility Procedures Applicable to Accident and Health, Group Term Life, and Property/Casualty Coverages
 - ASOP 26 Compliance with Statutory and Regulatory Requirements for the Actuarial Certification of Small Employer Health Benefit Plans
 - ASOP 41 Actuarial Communications

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Impact of Recent Developments in Health Insurance Regulation

- Long Term Care Insurance – Interstate Insurance Product Regulation Commissions

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Impact of Recent Developments in Health Insurance Regulation

- Health Insurance – Patient Protection and Affordable Care Act
 - Rebates / Supplemental Healthcare Exhibit / Medical Loss Ratio
 - Review of “unreasonable” rate increase requests.
 - Exchange
 - HHS grants to states

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Questions?

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Reception!

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